# THE IMPACT OF ECONOMIC PARTNERSHIP AGREEMENTS (EPAs) IN ZAMBIA

**COMMISSIONED BY**
**THE AFRICA EUROPEAN FAITH AND JUSTICE NETWORK (AEFJN)**
**AND**
**THE JESUIT CENTRE FOR THEOLOGICAL REFLECTION (JCTR)**

Jesuit Centre for Theological Reflection - JCTR
"Promoting Faith and Justice

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## 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 10$^{th}$ 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 10$^{th}$ 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.

**WHY THESE STUDIES ON THE IMPACT OF EPAs?**

Since its birth in 1988, the Africa-Europe Faith and Justice Network has been keeping a keen eye on trade relations between the European Union and the countries of Africa. AEFJN's secretariat closely followed the negotiations that culminated in the Cotonou Agreement and then those concerning the Economic Partnership Agreements (EPAs) between the EU and six regions of the ACP (Africa, Caribbean, Pacific) – of which four are African. The Network has been very active in working for EPAs that are more *pro*-development.

AEFJN analyses the trade agreements with a focus on the impact they will have on the poor, and especially on small farmers and urban dwellers in Africa. It finds the current format of the EPAs very disturbing.

AEFJN's members, whether in Africa or in Europe, are particularly vigilant about anything that can affect the life of the poorest African peoples. While living in Africa they have witnessed the negative impact of the liberalisation promoted by the Structural Adjustment Programmes in the '80s and the '90s. Following this partial liberalisation, imports of cheaper clothes, shoes, creams, etc undermined the local industries that were producing or beginning to produce these products. Food produce such as rice, wheat and milk were also dumped, with grave consequences for the farmers.

During the EPA discussions, negotiators from Africa, as well as civil society on both continents, challenged the liberalisation that the EPAs imposed on the ACP regions and countries. In recent years, a movement rejecting the agreements - as promoted by the European Commission (EC) - has grown, boosted by the arrival of numerous African groups from a variety of sectors.

ACP negotiators and civil society have often seen the EC as bossy and lacking flexibility. They expressed their discouragement at the EC's refusal to take into account their request for EPAs that favour development and regional integration. The inclusion in the EPAs of services and intellectual property rights as well as the 'Singapore topics' (investment, competition, public procurement and trade facilitation) which had been rejected at the WTO by the developing countries created a further controversy between the negotiators of the two continents.

Part of the difficulty in the negotiations can be put down to different interpretations of the terms 'development' and 'regional integration'. Whereas the EU thinks development will come through liberalisation, the regions of Africa tend to see the negative socio-economic impact of liberalisation in their homeland and would like these agreements to promote development *first*. This is also the view of the respondents to the AEFJN questionnaire. Whereas for Africans 'regional integration' implies regional cooperation in matters of production and infrastructure, such as the harmonisation of trade policies, for the EU the concept is primarily one of the liberalisation of regional trade.

Several African churches and Christian organisations expressed their concern at the way the EPA negotiations were going, and from AEFJN's contacts with small farmers in Africa it was obvious that these farmers saw the EPAs as a threat hanging over producers. The Network decided to ask two of its partner organisations working at the grassroots (with farmers' associations, rural and urban populations) and who also have expertise in economic and trade issues, to study two different aspects of EPAs.

Begoña Iñarra
AEFJN Secretariat

# THE AFRICA-EUROPE FAITH AND JUSTICE NETWORK (AEFJN)

The Africa-Europe Faith and Justice Network (AEFJN), a non-profit-making NGO, is made up of European and African missionaries who have lived in Africa for a long time. They have first-hand knowledge of the reality of life there and, having witnessed some of the great injustices that the people of this continent suffer, are interested in developing more equitable relations between Africa and Europe. Their Christian faith nourishes a deep respect for each and every human being and their wish for all to share creation's resources.

AEFJN wants to promote *economic* justice between the European Union and Africa so that the African peoples may be assured of a better future. Convinced of the links between social injustice and the economy, AEFJN works mainly to establish more just economic relations. This is its way of combating poverty.

To ensure that the interests of Africa, especially its poorest and most vulnerable, are served, AEFJN carries out advocacy on economic and trade policy between the two continents at the European Institutions and also in the EU member states. The international secretariat in Brussels does research, provides information and suggests possible action – campaigning and advocacy – for all Christians (lay groups, missionaries, religious …) so that they may influence the thinking of decision-makers and the public at large. The Network is also alert to crisis situations and recommends ways of helping.

AEFJN has eleven national groups in various European countries and several partners in Africa.

Currently, AEFJN's major themes are:

1. Climate Change, with a special focus on its implications for **Food Sovereignty** for Africa, including the livelihoods of 'small' farmers and the potential harmful effects on food sovereignty of certain public and private policies.
2. Trade and Transnational Corporations, with a special focus on **Economic Partnership Agreements** (EPAs) but also including **intellectual property rights** and **patents** insofar as they affect access to medicines and seeds in Africa, corporate social responsibility and the regulation of transnational corporations and ethical investment.

We are also working on the questions of small arms trade control, tax justice and debt.

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## The Jesuit Centre for Theological Reflection (JCTR)

The Jesuit Centre for Theological Reflection is a research, education and advocacy team that promotes study and action on issues linking Christian Faith and social justice in Zambia and Malawi. The JCTR began in 1988 as a project of the Zambia-Malawi Province of the Society of Jesus.

The JCTR fosters from a faith-inspired perspective a critical understanding of current issues. Guided by the Church's Social Teaching that emphasizes dignity in community, their mission is to generate activities for the promotion of the fullness of human life through research, education, advocacy and consultation. Their international linkage to other similar Jesuit centres and their wide cooperation with other groups having the same special concern for the poor strengthen their efforts. Their aim is to promote an inculturated faith, gender equality and empowerment of local communities in the work of justice and peace and the integrity of creation.

The Centre engages in research on key social issues like cost of living, social implications of debt servicing, accessibility of healthcare and education, and integrity of local democracy. They put forward their findings in publications, workshops and conferences, and media presentations. They join in advocacy campaigns by mobilising the public through local-based teams around Zambia and by cooperating with other civil society groups to improve the situations in Zambia and Malawi by "promoting faith and justice". Their current programmes include:

***Meeting Basic Needs:*** A monthly survey of prices of basic family necessities (e.g. food housing, etc.) in Lusaka comparing the findings with take-home wages.

***Cancelling Zambia's Debt:*** The JCTR hosts Jubilee-Zambia,- which aims at securing total debt cancellation and a just international trade system in order to facilitate poverty reduction. With significant debt cancellation for Zambia, their focus is now on ensuring use of freed resources for equitable poverty eradication. The campaign has strong links and networks at community, national and international levels, including a very active provincial outreach programme.

***Promoting Churches' Social Teaching:*** Through publications and educational programmes, the JCTR builds awareness and more effective utilization of the riches of the social teaching of the church linking faith and justice.

***Partnering for Change:*** The JCTR manages two task forces that involve interested individuals beyond their staff. The first addresses issues on inculturation, and the second deals with the integrity of creation/environmental issues.

Building Awareness: The JCTR presents its research and educational materials through a quarterly Bulletin, a quarterly Policy Brief, special reports, a regular updated website http://www.jctr.org.zm , wide spread media coverage in local newspapers, radio and television and articles in popular and scholarly publications.

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## Foreword

Nearly five years since the official commencement of Economic Partnership Agreements (EPAs) negotiations, many African, Caribbean and Pacific (ACP) countries are not yet content with what singing a full EPA will have in store for them. Zambia, a member of the Eastern and Southern Africa configuration recently signed an Interim EPA on market access. Peter Mandelson, the former EU Trade Commissioner, welcomed the move and said in his statement "the market access offer will provide Zambia with a new development tool among other things". What needs to be noted is that although Zambia has been given full access to the EU market under the EPA market access offer, the country already has had duty free and quota free access to the EU market under the Everything But Arms (EBA) Agreement but with multiple challenges to trade, it has been difficult for the country to exploit this offer.

In efforts to ensure that a lasting agreement is signed, the final quarter of 2007 saw a period of intense political and technical discussions concerning governments of the ACP countries, Civil Society Organisations and the EU on principles, scope, timeframes and context of EPAs. On one hand, the EU argued in favour EPAs based on theoretical benefits of free trade saying it will increase trade and investment as there will be freer movement of vital factors of production such as capital and labour. On the other hand, Zambia and other opponents foresee negative implications of EPAs based on past experiences on economic liberalization and reforms. The liquidation of over 100 textiles around the country, in Zambia in the past decade and the impact that this experience has had on the livelihood of many people serves as an indelible reminder of how cheap imports and unjust competition can push fragile indigenous producers out of the market and eventually off production. For this reason, as countries continue with negotiations, promotion of just trade and not merely free trade among countries should preside over these EPA negotiations.

In line with the above, the aim of this publication is to make people as well as politicians from Africa and Europe aware of the negative impact EPAs could pose on our livelihoods, among other things.

There are presently 35 countries in the ACP region including Zambia that have initialled an Interim EPAs, an agreement which will eventually be graduated into a full indefinite agreement during negotiations in the coming months. With the current rush to conclude the negotiations, it is a worrying situation in Zambia that issues on safeguard measures are still outstanding and neither Civil Society groups nor worse still government are sure on what strategies will have to be employed to ensure that the country derives optimal benefits from the agreement. It is clear that EPAs in Zambia like other countries in the ACP region still remains a broad challenge for trade justice.

The current development cooperation architecture reflects much of the systematic imbalances in current international economic relations. In the case of Zambia, no one is certain as to whether the market access offer or EPAs in general will significantly address the trade performance of the Zambian economy but more especially the Agriculture Sector. According to national statistics the leading employing sectors are agriculture, forestry and fisheries with 92% in the rural areas and 20% in the urban areas collectively. This makes these sectors strategic to the development of the country.

The EU and ACP states negotiating the EPAs should take caution of adverse impacts of the indefinite agreement by drawing up a feasible roadmap and sources of sustained resources for development if the EPA is to become a tool for balanced development as stated by Peter Mandelson. Without this strategy, and in the event that a full EPA is signed, Zambia and I believe other ACP countries alike, will continue to face supply-side capacity constraints and the impact of EPAs on agro production, employment, incomes and general livelihoods would be grave.

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The errors and omissions are, however, my responsibility.

Stephen L. Muyakwa

Trade and Development Consultant

24th September 2008

# Acronyms

| | |
|---|---|
| ACP | African, Caribbean and Pacific |
| AEFJN | Africa-Europe Faith and Justice Network |
| AfDB | African Development Bank |
| AfT | Aid for Trade |
| AGOA | African Growth and Opportunities Act |
| AU | African Union |
| CAP | Common Agricultural Policy |
| CAZ | Cotton Association of Zambia |
| CDT | Cotton Development Trust |
| CET | Common External Tariff |
| COMESA | Common Market for Eastern and Southern Africa |
| CSTNZ | Civil Society Trade Network of Zambia |
| CSO | Central Statistical Office |
| CSOs | Civil Society Organisations |
| DAT | Debt, Aid and Trade |
| DRC | Democratic Republic of Congo |
| EBA | Everything But Arms |
| EBZ | Export Board of Zambia |
| EDF | European Development Fund |
| EPA | Economic Partnership Agreement |
| ESA | Eastern and Southern Africa |
| EAC | East African Community |
| EU | European Union |
| FDI | Foreign Direct Investment |
| FNDP | Fifth National Development Plan |
| GATS | General Agreement on Trade in Services |
| GDP | Gross Domestic Product |
| IMF | International Monetary Fund |
| ITC | International Trade Centre |
| JASZ | Joint Assistance Strategy for Zambia |
| JCTR | Jesuit Centre for Theological Reflection |
| LDC | Least Developed Countries |
| MMD | Movement for Multiparty Democracy |
| NTEs | Non Traditional Exports |
| PSRP | Public Sector Reform Programme |
| PTA | Preferential Trade Area |
| RECs | Regional Economic Communities |
| SACU | Southern Africa Customs Union |
| SADC | Southern African Development Community |
| SAP | Structural Adjustment Programme |
| SPS | Sanitary and Phytosanitary Standard |
| TBTs | Technical Barriers to Trade |
| UNCTAD | United Nations Conference on Trade and Development |
| UNECA | United Nations Economic Commission for Africa |
| UNECA- SA | United Nations Economic Commission for Africa- Southern Africa |
| UNIDO | United Nations Industrial Development Organisation |
| UNDP | United Nations Development Programme |
| VAT | Value Added Tax |
| WTO | World Trade Organisation |

## 1.0 Brief Study Background

Economic Partnership Agreements (EPA) are Free Trade Agreements which are currently under negotiation between the European Union (EU) and Africa, Caribbean & Pacific Countries (ACP) and were to be finalised by December 31, 2007. The EPA negotiations have been extended to be finalised by 2008. Trade between the EU and the ACP countries has all along been framed on preferential terms under various trade agreements and currently, they are enshrined in the Cotonou Partnership Agreement (CPA). The preferences allow ACP countries to export products into the EU market on favourable and non-reciprocal terms.

When the Cotonou Partnership Agreement was signed in 2000 in Cotonou the capital of Benin, a provision was made that the preferences which the EU was extending to ACP countries should be phased out and replaced by EPAs. The EPAs would be in conformity with the rules of the World Trade Organization (WTO) Article xxiv. With the introduction of the EPA, all preferences that ACP countries are enjoying would be phased out and replaced with free trade between the EU and ACP countries. In essence, the Free Trade Agreement aims to progressively have goods from the EU to ACP Countries and vice versa move freely with no trade barriers and tariffs over a given period of time. .

For easy negotiation, six negotiating configurations were formed and Zambia chose to be under the Eastern and Southern Africa (ESA) group. The ESA group comprises 16 countries namely; Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Uganda, Zambia and Zimbabwe. One country, the Congo DR is now negotiating an EPA under the Central African configuration. Five countries, namely Uganda, Kenya, Burundi, Tanzania and Rwanda are now negotiating an EPA under the East African Community (EAC) configuration. It is important to mention that despite this development, these five countries still attend the ESA EPA meetings[1]. The EAC signed an Interim EPA (IEPA). The level of ambition, i.e. pace of liberalization of trade was dictated by Kenya a non LDC and this is likely to set a precedent for other LDCs.

The latest position is that an EPA senior officials meeting was held in Madagascar in August 2008. At this meeting, a number of issues were agreed upon including the need to ensure that the development dimension of the EPA is made prominent in the final EPA and also to ensure that technicians and not lay people (politicians) take the lead in the negotiations. The politicians should, however, be constantly updated and their political leadership sought in areas proving to be difficult in the negotiations. The issues being discussed include i) trade related issues, ii) market access and agriculture, iii) services, iv) development, v) dispute settlement, vi) draft full EPA text and vii) negotiation tactics as indicated above. The negotiations were difficult partly because the ESA group was split between those that signed the entire interim EPA, those that signed some parts of the interim EPA, like Zambia and finally those that did not sign at all[2].

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[1] Out of the five countries, only Uganda has formerly informed the ESA EPA configuration that it is now negotiating the EPA under the EAC configuration.
[2] For details see EAS Senior Officials Meeting 25th to 26th August 2008, Madagascar.

One of the objectives of the CPA, which replaces the Lomé Convention, is that ACP member States enter into Economic Partnership Agreements (EPAs) with the European Union, either individually or collectively. Although EPAs include a free trade component, they are intended to be more than just free trade arrangements. The EPAs are also supposed to deal with trade-related issues as well as market access. One of the reasons for phasing out of the Lomé Convention and the negotiation of the CPA was that the Lomé market access arrangements had not benefited most ACP countries as the countries did not have the productive systems to take advantage of improved market access. EPAs are, therefore, an attempt to assist ACP countries to enter the global market economy, making use of the existing regional integration organisations already in existence.

Hypothetically, it is envisaged that EPAs will negatively affect farmers and other entrepreneurs in cities. Whatever the outcome of the negotiations, farmers will be faced with greater competition in the domestic or regional markets from agricultural products (whether primary or processed) originating from the EU. As an example, Zambian cheese processed from milk supplied by small scale farmers, say in Monze, would have to compete with cheese from the EU and hope to compete favourably.

An anticipated threat of the EPA is Zambia may remain an exporter of unprocessed agricultural products into the EU which are of low value. This is because the EU has the unfair advantage of an industrial base which is already developed. Trade could, further, be undermined due to the unequal level of development between the EU and ACP countries[3].

It is on this premise that the Africa European Faith and Justice Network (AEFJN) in collaboration with the Debt, Aid and Trade Programme (DAT) of the Jesuit Centre for Theological Reflection (JCTR) have commissioned this investigation on the impact of an EPA on Zambia's capacity to produce and compete.

## 1.1 Study Objectives

The broad objective of this study is to show the impact of implementing an EPA with increased trade liberalization between the EU and Zambia. It will investigate the perceived impacts of an EPA on small scale producers, farmers and traders with respect to non-technical barriers such as Sanitary and Phytosanitary (SPS) and other challenges facing farmers and consequently city dwellers.

The specific objectives are to;

a) Investigate the extent to which the production and marketing of maize, cotton, sugar and other commodities will be affected.

[3] During the Madagascar Senior ESA Officials meeting in August 2008, delegates noted with concern that the EU often takes a long time to respond to proposals from the ESA group but when they (the EU) want information, they make instant demands regardless of whether the ESA group is ready or not. It was felt that this was intimidation negotiation tactic from a big power to small countries.

b) Forecast the export trends of sugar, cotton and other products into the EU when an EPA comes into effect.

c) Determine how implementation of the EPA will impact on household incomes and the purchasing power in view of the envisaged revenue and job losses and the contraction in the national revenue base.

d) Provide concrete statistics on the likely impact of an EPA on production capacity and propensity to compete with traders in the region and the EU.

e) Assess the impact of the EPAs on trade and economic policies for Zambia.

### 1.2 Key Tasks Performed

i) Come up with a synthesis on the impact of EPAs on the performance of key sectors of the economy, e.g. agriculture in terms of household food production food-security, manufacturing and trade.

ii) Highlight the strengths and weaknesses of the current regional integration processes.

iii) Offer policy recommendations to the government and the civil society as regards the effect of an EPA on food security, production capacity building and trade.

### 1.3 Methodology

The study relied on two research methods. The first was the literature review. This consisted of a thorough analysis of pertinent literature on Economic Partnership Agreements and Zambia's external trade data. The literature list is attached to this report.

The second study methodology was the key informant interview. This methodology was meant to complement the literature review. Key informants in Government, private sector, farmers and civil society were interviewed. The list of those interviewed is in annex 4 to this report.

### 1.4 Study Limitations

In interpreting the study findings of this report, attention should be paid to some limitations encountered. The first limitation was time. It was not possible, within the given time, to carry out primary data collection on the possible impact of an EPA on the different sectors of the Zambian economy. Recourse was thus made to secondary data. The second limitation was that the different Zambian economic sectors do not appear to have carried out their own sector specific studies on the possible impacts of EPAs. Recourse was thus made to general EPA impact studies.

## 1.5 Report design

The study report is designed in accordance with the broad terms of reference and has nine sections. There is this introductory part as section one. This is followed by the analysis of the general economic and trade environment as section two. Section three looks at the export trade data for selected products that are significant to the Zambian economy especially agriculture. This leads on to a discussion of the trade pattern between Zambia and the European Union as section four. Section five looks at the income and employment trends in Zambia. The next is section six which looks at Zambia's regional integration experiences. Section seven looks at some of the outcomes of EPAs impact studies carried out so far. Section eight examines the impacts of food safety and animal health regulations (sanitary and phytosanitary measures) on export trade. The last is section nine which makes conclusions and recommendations.

## 2.0 Context for Trade Policy in Zambia

Zambia is a landlocked country surrounded by Mozambique and Malawi in the East, Tanzania in the North-East, Democratic Republic of Congo (DRC) in the North, Angola in the West, Botswana, Namibia and Zimbabwe in the South. The country covers a land area of 752,612 square kilometres. For administrative purposes, the country is divided into 9 provinces and 72 districts.

Zambia is richly endowed with mineral resources. Copper, cobalt and coal are mined on a large-scale. The country also boasts of deposits of gold, diamonds, zinc, uranium and a variety of gemstones that include emeralds, amethyst, and aquamarine among others. The mining sector, particularly copper mining, has been the prime mover of economic development in Zambia since independence. From 1965 to 1975, copper was responsible for 95 percent of Zambia's export earnings and 45 percent of government revenues.[4] As Lungu et al (2007 page 35) put it, "*From 1975 Zambia's economy underwent a world record breaking decline. Between the periods 1970-1975, 1976-1990 and 1991-1999, per capita GDP fell by -0.8, -3.1 and -7.2% respectively. A large share of the blame for this disaster can be put at the feet of the collapse of the world price of copper. Mining's contribution to national GDP fell from 16.5% in 1994 to 11.8% in 1997, the year privatisation started. In the next five years it fell further, to just 7.9% in 2002.*" The figure for 2006 is 5.3%[5].

The decline in Zambia's terms of trade brought about by the fall in world copper prices, which coincided with the increase in world oil prices, was not the only reason behind the dire straits in which the economy found itself for the most part of the 1980s and 1990s. It is widely acknowledged that an inappropriate policy regime played a role in aggravating Zambia's economic crisis[6]. With regard to the mining sector, output declined due to a host of reasons, including lack of re-investment in existing mines, political influence in economic decision making and no exploration for new mines.

A decision was made to privatize the giant Zambia Consolidated Copper Mines (ZCCM) as a way of injecting a new lease of life in the country's economic kingpin. Privatisation of ZCCM commenced in 1997 and was completed in 2000. The latest statistics indicate that the new mine owners have pumped in an approximate US$1.4 billion in the sector by way of purchase of new machinery and equipment and rehabilitation of infrastructure.[7] These investments include the opening of new mines, some of which are yet to begin production.

There has been a noticeable increase in copper production which has also coincided with record-high copper prices on the world market. Copper output has increased from 257,000 tons in 2000 to 446, 000 tons in 2005.[8] It is further projected that output will surpass the 1970s levels of 700,000 tons by 2010 when production in most of the new

[4] FNDP MoFNP Lusaka, Zambia
[5] Simumba T. and CSTNZ (2008)
[6] Mutesa F. and ODCMT (2008)
[7] See CSTNZ and Caritas Zambia and Fraser and Lungu 2006
[8] Mutesa F. and ODCMT Copper output increased by 1.5% to 523,435 metric tonnes in 2007 from 515,618 metric tonnes in 2006. See the 2008 National Budget Speech,

mines will come on stream.[9] It can thus be said that a new day has dawned in Zambia's mining industry.

The improvements in the performance of the copper mining industry have taken place within the context of on-going efforts to bring about macroeconomic stability. Great strides have been made towards macroeconomic stabilization. A notable achievement has been government's effort to bring down the inflation rate, which in 1992 when the new Movement for Multiparty Democracy (MMD) administration was taking over was 168 percent.[10] The annual inflation rate had been brought down to a single digit of 8 percent by the end of 2006.[11] Equally impressive has been the resumption of positive rates of economic growth. Real GDP has grown from an annual rate of 3.6 percent in 2000 to 5.1 percent in 2005.[12] Table 1 below gives a contribution of various sectors to the national economy from 2002-2006.

**Table 1 Sector, Contribution of Various sectors to national economy to 2002-2006**
**Value Added by Kind of Economic Activity - Percentage Distribution (Shares of Value Added)**

| Year/ Sector | Agriculture, Forestry, fishing Hunting | Mining Manufacturing Utilities | Manufacturing | Construction | Wholesale, Retail trade, Restaurant and Hotels | Transport, storage and communication | Others |
|---|---|---|---|---|---|---|---|
| 2002 | 21 | 18 | 11 | 7 | 22 | 7 | 25 |
| 2003 | 22 | 17 | 11 | 8 | 22 | 5 | 25 |
| 2004 | 22 | 17 | 11 | 10 | 22 | 5 | 24 |
| 2005 | 22 | 17 | 11 | 12 | 22 | 4 | 23 |
| 2006 | 22 | 17 | 11 | 10 | 22 | 5 | 24 |

Source: UNStats

The Movement for Multiparty Democracy (MMD) government that took power in 1991 was keen to change the political and economic direction of the country from the socialist direction that had been in place since independence. This socialist orientation was perceived to have been responsible for the collapse of the economy. The main conditionality, supported by the International Monetary Fund (IMF) and the World Bank, for the 1992 structural adjustment programme (SAP) can be summarised as i) restructuring (downsizing) of the civil service; ii) privatisation of state enterprises; iii) liberalisation of the economy; iv) removal of subsidies, decontrol of prices and the introduction of cost sharing for social services such as education and health; v) macro-economic reforms; vi) monetary and fiscal reforms such as free exchange rate and interest rates, tightening money supply to curb inflation, creation of an autonomous revenue authority, etc.

In the trade sphere, Zambia abolished the cumbersome import- export permits regime. The Government further simplified the tariff structure. Zambia's *ad valorem* external tariffs are now structured into four bands: 0, 5, 15, and 25 per cent. The zero rated

[9] Ibid
[10] Ibid
[11] Ibid
[12] Ibid

products are for productive purposes while the 25 rated products are for finished goods such as agricultural goods.

## 2.1 Zambia's International Trade Policy

In terms of trade negotiations, Zambia today participates in international trade negotiations at various levels. These are as follows:

The first is the multilateral level which consists mainly of the World Trade Organisation (WTO).

The second is the regional level, consisting mainly of the Common Market for Eastern and Southern Africa (COMESA) Free Trade Area (FTA), the Southern African Development Community (SADC) Free Trade Area (FTA) as well as the African Caribbean and Pacific (ACP) - European Union (EU) Cotonou Partnership Agreement (CPA) and the Economic Partnership Agreement (EPA) arising from that.

The third is the bilateral level. Zambia recognises the important role that bilateral trade arrangements can play in the enhancement of exports. In this regard, Zambia is currently negotiating bilateral trade arrangements with the Democratic Republic of Congo (DRC), Mozambique, Nigeria, Tanzania and Zimbabwe.

In addition to the above, Zambia participates and benefits from various preferential trade arrangements offered by the developed countries of the north. The various preferential trade arrangements include the "Everything-but-Arms initiative" (EBA) from the EU, the Africa Growth and Opportunity Act (AGOA) from the US, the 'Canadian Initiative', and the Japanese Initiative.

Zambia's trade policy vision is to become an export-driven and competitive middle-income economy by 2015; and to formalize, monitor and regulate domestic trade activities with a view to promoting a vibrant domestic trading sector[13].

## 2.2 The Trade Policy and Poverty Reduction Interface

The rationale for Zambia's trade policy is that trade is widely viewed as an important tool for economic growth, which in turn is, a pre-requisite for long-term poverty-reduction. With a small domestic market, Zambia must use its trade policies to take advantage of external market opportunities and ensure its successful economic diversification from single commodity dependence. The limited domestic market size and low domestic purchasing power imply that sustained economic growth must be export-led. Active participation in multilateral trade will enable Zambia to take advantage of opportunities in foreign markets, while improving domestic competitiveness. Regional markets also provide additional outlets for Zambian goods. In particular, the geographic proximity of regional markets makes them attractive export destinations for products from small and medium enterprises, as well as smallholder farmers. Increased agricultural output from

[13] See MCTI (2006) Commerce, Trade and Industrial Policy. Lusaka, Zambia.

smallholder farmers which is directed at regional market for Zambian goods and services (e.g. in COMESA and SADC) can assist in national poverty-reduction efforts.[14]

There is, however, considerable debate as to how trade policy affects poverty reduction. Minch (2005 page 27) cites McCullogh et al (2001 page 21) who say that trade policy affects poverty reduction in three broad ways. The first is through companies who either make profits or losses as a result of trade policy changes. These profitability effects can then affect employment levels and wages as workers are laid off when losses are made or workers hired when profits are made. The second channel through which trade policy can affect poverty is through the distribution or transmission of border price changes into actual prices ordinary people pay in the shop. Increased prices of imported goods will help producers of those goods while hurting the consumers of those goods. The opposite is also true with reductions in border prices of goods. The third channel through which trade policy affects poverty is via Government revenue. Reductions in government tariff revenues (taxes collected by the government at the border) may affect governments' ability to finance pro- poor programmes and thus impact negatively on poverty reduction. In this report, efforts will be made to "test" the potential impacts of the EPA against all the above three channels through which trade policy may affect poverty reduction.

### 2.3 Trade Policy Objectives

In the multilateral trade negotiations, Zambia seeks to achieve the following objectives:

- To improve export opportunities for Zambian producers by negotiating for global reduction in tariffs, and the elimination of non-tariff barriers, for Zambian goods.
- To secure duty-free and quota-free market access for Zambian goods into developed country markets within the multilateral framework.
- To seek reduction in export subsidies and domestic market support in developed country markets, particularly in cases where such subsidized products compete with Zambian products.

In the EPA negotiations, Zambia hopes to achieve the following objectives:

- In negotiating EPAs with the EU, to ensure that Zambia maintains and expands existing preferential market access into EU markets.
- To ensure that any reciprocal trading arrangement with the EU minimizes any adverse impact on Zambia's tariff revenue, and domestic industry.

In the bilateral negotiations, Zambia hopes to achieve the following:

- To enhance Zambia's participation in regional trading arrangements with countries in the eastern and southern African region.
- To enable Zambian products to compete freely in regional markets.

The above analysis suggests that the Ministry of Commerce Trade and Industry is confronted with a multiplicity of trade negotiation platforms. This has to be seen in the context of the Public Sector Reform Programme (PSRP) whose thrust is to reduce the

[14] ibid

size of the pubic service while at the same time enhancing the effectiveness of public service delivery. This constitutes a serious challenge to the Ministry of Commerce Trade and Industry.

### 2.4 CSOs concerns over the EPA negotiations

Zambian and indeed civil society organisations in the ACP as well as the EU have voiced concern over the EPAs negotiations. The reasons advanced by CSOs against the EPAs are many and varied. The main reasons can, however, be summarised as follows[15]:

- The proposed free trade agreements will exacerbate the current agricultural crisis that farmers already face and increase poverty levels.
- Most of the countries in the region are grappling with the challenges of redressing poverty, inequality, unemployment of youth, weak governance systems and structures. Most of these are outcomes of underdevelopment partly arising from distortions caused by colonialism, but increasingly as products of unfair and undemocratic trade practices.
- Lack of participation of other stakeholders such as trade unions, civil society and farmer representatives in such negotiations. This ultimately makes the negotiations a government – EU process in which other stakeholders are seen as second rate participants.
- EPAs in their current form are divisive where each EPA sub region, (ESA, SADC7, Communaute Economique et Monetaire de l' Afrique Centrale (CEMAC), and Economic Community Of West African States (ECOWAS), carryout their own negotiations with the EU ultimately. In contrast, the EU teams that participate in these negotiations represent a powerful and rich block often with already agreed positions.
- An EPA discussion is often carried out with hastily limiting time for representatives of governments to assimilate the overall implications and impacts of the agreements that are made. This is often at the expense of carrying out thorough impact analysis and allowing for the growth of national capacities and ownership.
- An EPA negotiation is compromised by a lack of national capacities as a result of the limited use of technical expertise at national and regional levels.

In view of these concerns, CSOs internationally have come together to campaign on a "STOP EPAs" platform. The thrust of the campaign is to either slow down or completely change the form, content and direction of the EPAs negotiations to ensure that the EPAs deliver on their development promise as enshrined in the CPA. In the analysis that follows, an attempt will be made to assess the statistical basis for these fears and concerns with a view to strengthen the lobby and advocacy activities of CSOs on EPAs.

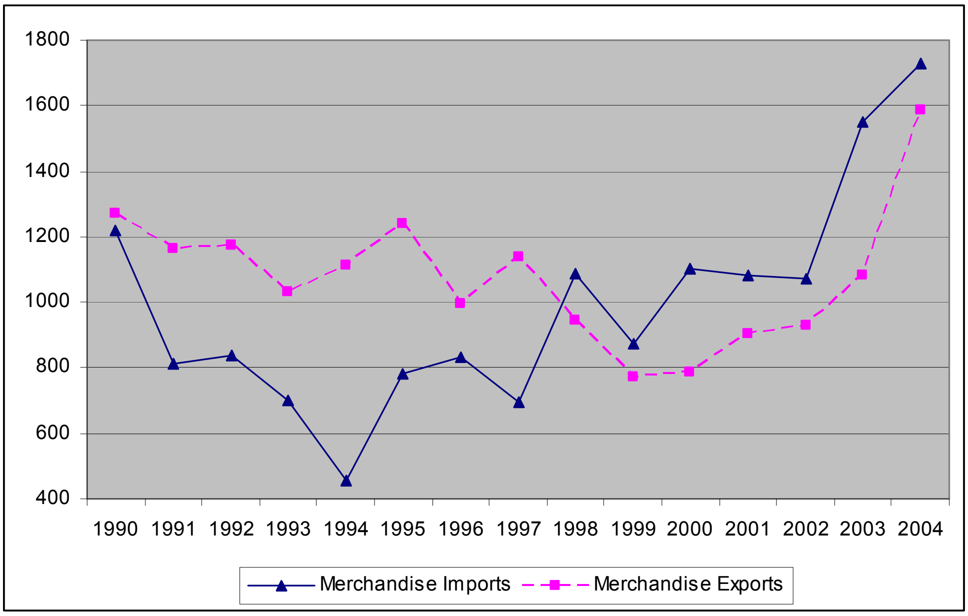
[15] For details see PELUM (no date): Stop the Economic Partnership Agreement- PELUM's View.. Lusaka, Zambia. See also Jesuit Centre for Theological Reflections (2007): Report of the JCTR/ CSTNZ Economic Partnership Agreements Information Session for Parliamentarians. Lusaka, Zambia and Jesuit Centre for Theological Reflection (2007): Report of the Civil Society National Consensus Building Conference on Economic Partnership Agreements (EPAs). Lusaka, Zambia. See also annex 3 for a diagram of the EPAs process.

## 3.0 Overview of Zambian Trade Performance

In this section, we examine Zambia's external trade relations in some detail. Zambia's exports fell less than the imports in the first half of the 1990s, and rose less after 1995 (Chart 1). The long-term disappointing performance of the export sector is mainly explained by the evolution of mining exports, and copper in particular, which accounted for over 70% of total export throughout the 1990s. Falling international copper prices over the period 1995-2002 caused a decrease in exports, partially offset by an increase in non-traditional exports (NTE). The recovery of international demand and prices for copper explains most of the export growth since 2002.

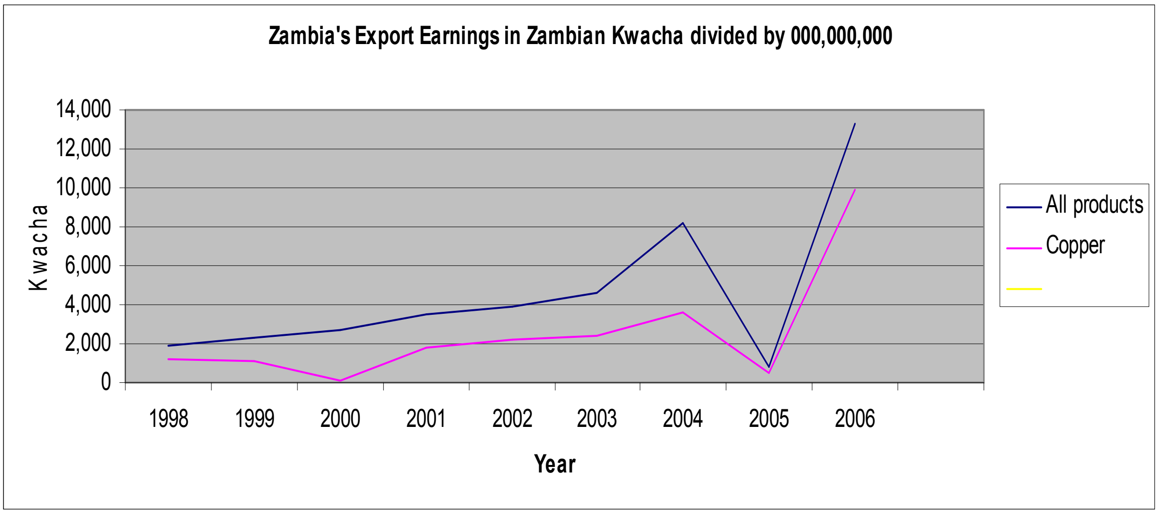
### 3.1 The trends in Zambia's trade

**Chart 1 Zambian Imports and exports 1990–2003 (current US $ million)**




*Source:* Overseas Development Institute and Ministry Of Commerce, Trade and Industry (2006). Economic Partnership Agreement Impact Assessment Study, Lusaka, Zambia.

**Chart 2: Trade Performance**

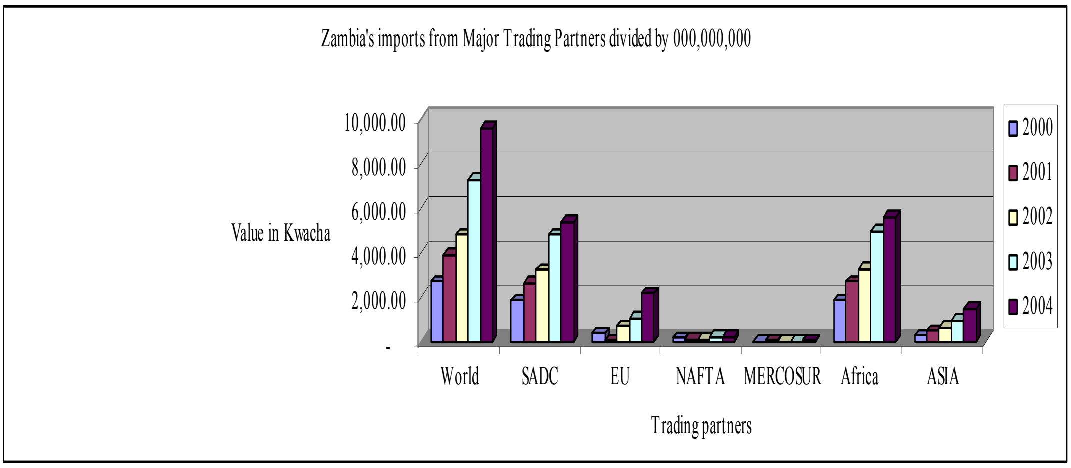



Source: TIPS Trade Database

Chart 2 above shows that Zambia's exports grew steadily over the period 1998 to 2004. From 2005 onwards, exports experienced a sharp rise. The jump reflected increases in copper earnings due to high global copper prices and an increase in non-metal exports (driven mainly by sugar and copper related products).

In terms of the direction of trade, chart 3 below shows that Zambia's imports have come mainly from SADC countries. Imports from the EU have also been rising but at a much slower rate than SADC levels of imports.

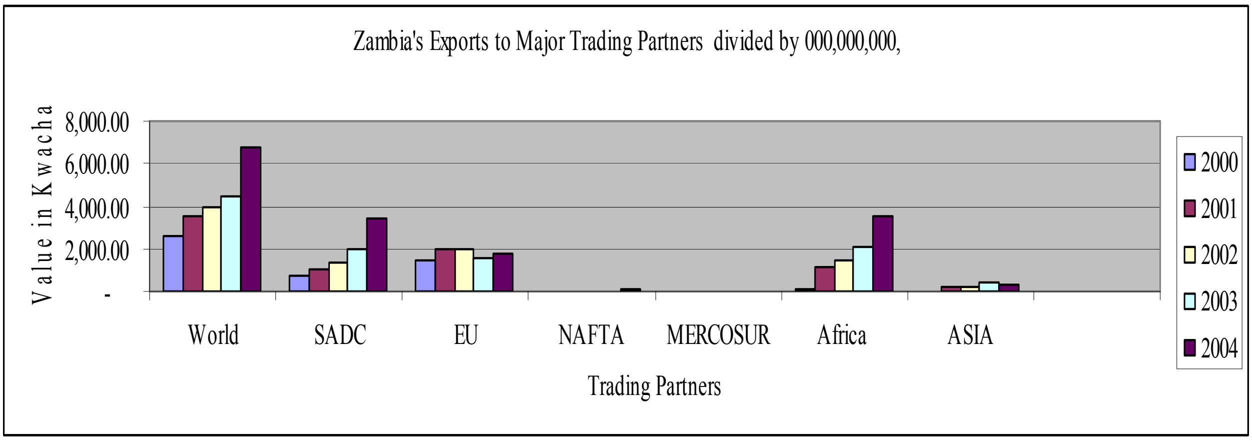
**Chart 3: Zambia's Imports from Major Trading Partners**




Source: TIPS Trade Database

In terms of exports, SADC is still showing a sharper rise than the EU as a destination for Zambian exports, see chart 4 below.

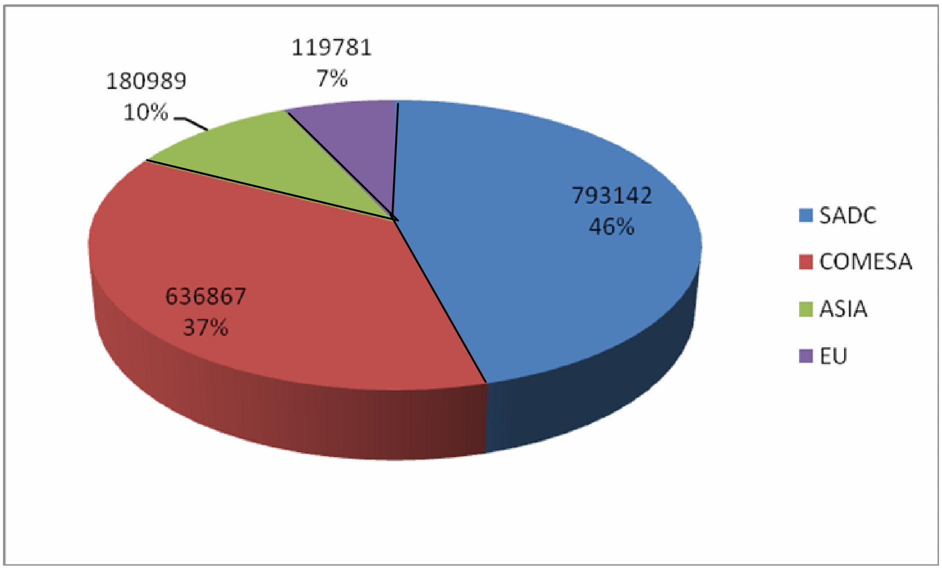
**Chart 4: Zambia's Exports to Major Trading Partners in Value**




Latest data from CSO (August 2008) shows that in terms of exports, the Southern African Development Community (SADC) was the largest market for Zambia's exports in July 2008. Within SADC, the dominant market in July 2008 was Congo (DR) followed by South Africa. The Common Market for Eastern and Southern Africa (COMESA) region was the second largest market for Zambia's exports in July 2008. Within COMESA, Congo (DR) was the dominant destination in July 2008. The second dominating country in July 2008 was Egypt. Other notable markets were Malawi, Mauritius, Kenya and Zimbabwe in July 2008. The Asian regional grouping was the third largest market for Zambia's exports in July 2008. Within the Asian region, the dominant market in July 2008 was China followed by Thailand. Other notable markets include Japan, Kuwait, and United Arab Emirates. The European Union (EU) was the fourth largest market for Zambia's exports in July 2008. Within the EU market, the Netherlands was the dominant market in July 2008. Other notable markets were Belgium, Denmark, Sweden, Germany, and Italy. See Pie Chart 1 for details.

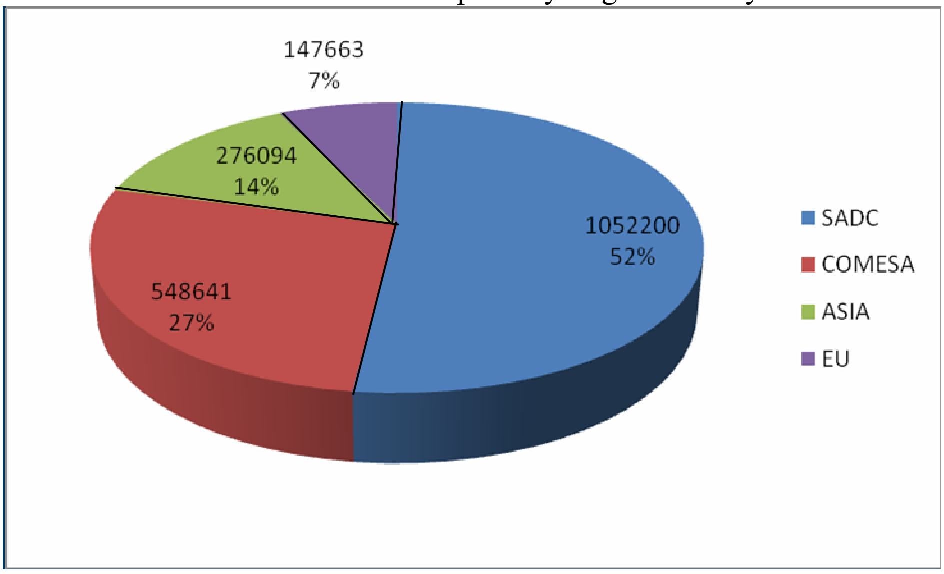
In terms of imports, again the Southern African Development Community (SADC) was the largest source of Zambia's imports in July 2008. Within the SADC region, South Africa was the major source of Zambia's imports in July 2008. In the case of imports, the Asian market was the second largest source of Zambia's imports in July 2008. Within Asia, Kuwait dominated in July 2008. Other key market sources were China, India, United Arab Emirates and Japan. The Common Market for Eastern and Southern Africa (COMESA) was the third largest source in July 2008. Within COMESA, Congo (DRC) dominated as the main source in July 2008. This was followed by Zimbabwe in the month of July 2008. Other notable sources were Egypt, Swaziland, Malawi, and Zimbabwe. The European Union (EU) was the fourth largest source of Zambia's imports in July 2008. Within the EU, the dominant source was the United Kingdom in July 2008. The other key markets were Sweden Germany, Netherlands, Belgium and Finland. See Pie Chart 2 for details.

Pie Chart 1: Zambia's Export Destination for July 2008 by Region in ZK Million.




Source: CSO Monthly Bulletin of Statistics August 2008 page 10

Pie- Chart 2: Zambia's Source of Imports by Region for July 2008 in ZK Million




Source: CSO Monthly Bulletin of Statistics August 2008 page 14

Zambia trade with the EU as at July 2008 consisted of exports (7%) and imports (7%). SADC on the other hand is the biggest trading partner for Zambia in terms of both exports and imports. Two observations arise from this. Firstly, it is important to ensure that EU goods do not come through the SADC FTA into Zambia via South Africa. The second observation is that the EU is clearly not a priority trading partner for Zambia. This then suggests that there must be other additional motives for the EU to push for the EPA with a country like Zambia with falling trade statistics. The most plausible explanation is that the EU is pursuing its' WTO interests by ensuring that Zambia agrees to the contentious issues such as the Singapore issues of competition policy, transparency in government procurement and trade facilitation within the EPA. Zambia and the ACP group of countries can be tied to these issues in the EPA and not refuse to accept them in the WTO negotiations. There is a danger of divide and rule tactic on the part of the EU with respect to the EPA.

The Oversees Development Institute, authors of the Economic Partnership Agreement Impact Assessment Study have the following to say about Zambian export performance prospects:

*"In order to develop sustainably, Zambia must diversify its exports and move from its dependence on a single mining product for which demand may fall in the future. Exports to examine include sugar and cotton, where changes in the EU and US preference regimes may create opportunities, and tourism, because of its recent good performance. Both the urban (and mining) nature of Zambia's population and the uncertain prospects for world agricultural reform suggest some caution about relying on agriculture."*

The International Trade Centre (2005) seem to agree with these broad assessments and show that among other things, Zambia's domestic barriers to trade effectively are high input costs of production poor infrastructure and lack of investment in technology.

An additional point to note is that the current high fuel prices may have serious repercussions on the agricultural sector as input costs may shot upwards beyond the reach of many small scale farmers. On the other hand, however, the current high food prices may be used to stimulate agricultural production in Zambia.

### 3.2 Trade Performance of Zambia's Agricultural Sector

The Agriculture sector has become an increasingly important contributor to Zambia's economy and exports. Agriculture accounted for an average share of 22 percent of GDP between 1993 and 2001, up from 16 percent between 1965 and 1992. Agriculture exports grew nearly 14 percent over the same period. Sales of agriculture products accounted for 19 percent of total earnings from merchandise exports in 1999, up from just 2 percent in 1990. Agro-processing industries account for about 84 percent of manufacturing output, and are more than five times larger than the next largest group, textiles and leather products (both of which rely on agricultural raw materials)[16].

The characteristics of Zambia's agricultural sector are as shown in table 3 below. The table shows that most farmers in Zambia (459,000) are still at subsistence level cultivating below 10 hectares. Only 40 farmers can be classified as large scale commercial farmers cultivating over 60 hectares. Emergent (119,200) and medium scale (25,230) farmers are somewhere in between.

[16] Government of the republic of Zambia ( 2006): Vision 2030

**Table 3. Characteristics of Zambian Agriculture**

| Characteristics | Small Scale | Emergent | Medium Scale | Large Scale |
|---|---|---|---|---|
| No. of farmers | 459,000 | 119,200 | 25,230 | Less than 40 |
| Area per holding (hectares) | 0.5-9.0 | 10-20 | 20-60 | Over 60 |
| Crops grown | Food crops | Food/ cash crops | Food/ cash crops | Cash crops |
| Production focus | Subsistence | Commercial/ subsistence | Commercial/ subsistence | Commercial |

Source: Muyakwa S. L. and Trocaire (2006): Special Safeguard Measures for Zambia. Lusaka, Zambia.

Table 4 below shows the poverty levels of selected social groups in Zambia. The table shows that rural small scale farmers are hardest hit by poverty at 82% followed by rural medium scale farmers at 70%. The proportion of large scale farmers affected by poverty is at 33%.

**Table 4: Poverty Status**

| **Stratum** | **Poverty Status** | | | |
|---|---|---|---|---|
| | **Total Poor** | **Extremely Poor** | **Moderately Poor** | **Non Poor** |
| **All Zambia** | **64** | **51** | **14** | **36** |
| Rural Small Scale | 82 | 68 | 14 | 18 |
| Rural Medium Scale | 70 | 52 | 18 | 30 |
| Rural Large Scale | 33 | 17 | 16 | 67 |

Source: CSO (2006): Living Conditions Monitoring Survey. Lusaka, Zambia.

Below, we examine individual agricultural products and product groups more closely.

### 3.2.1 Sugar

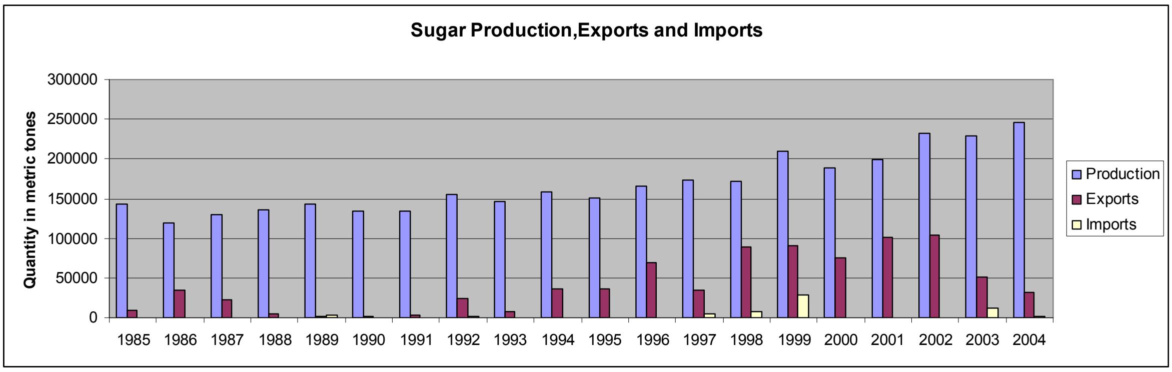
Zambia's sugar exports are amongst the highest of the entire agriculture sector and dominate the processed and refined food in Zambia representing 85% to 90% of Zambia agro-processing export[17]. Zambia exports its sugar to the European Union, Democratic Republic of Congo and Kenya. However sugar export growth in Zambia is limited by the quotas from the EU under Everything but Arms (EBA) and South Africa under the SADC trade protocol.[18] Exports of Zambian sugar to the EU precede under three channels namely a) the sugar protocol where Zambia has a zero quota b) through special and differential treatment and c) through Everything but Arms (EBA) initiative.

[17] See table 2 above.

[18] Joint Assistant Technical Assistant Programme ( 2005): Identification of priority sectors for export promotion in Zambia

Chart 5 below shows production, exports and imports of sugar from 1985 (before Zambia embarked on economic reforms) up to 2004. The chart shows that the country has steadily increased sugar production over the years. Some of this sugar has been exported. The chart further shows that the country has had more exports than imports of sugar. There are three major sugar producers and these are Zambia sugar, Kafue sugar and Kasama sugar[19]. It has to be noted that imports and exports figures in the table are aggregated figures and do not reflect the specific destination.

**Chart 5: Zambia's Sugar Production, Exports and Imports**




Source: FAOSTATS

There appears to be good potential for increased exports of sugar for Zambia to both the EU and SADC. This potential needs to be monitored properly as some small scale sugar out grower farmers may not fully benefit from it. In a study (Muyakwa S. L. And CSTNZ, 2007 page 30) out grower farmers stated that:

*"The method of paying according to the sugar content is too advanced for them to prove and argue their case. This is because most of them have no capacity to do so. This method has brought a lot of suspicions in the cane farming community. The farmers are not allowed to be part of the group measuring the sugar content as well as during the weighing of their cane."*

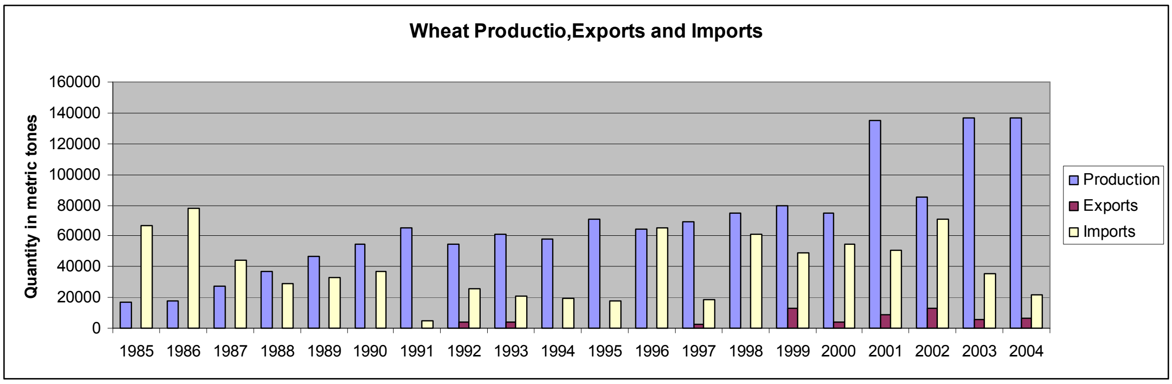
Other problems the cane out growers complained about included land insecurity as they do not hold title to their land and water supply which is controlled by Zambia Sugar.

### 3.2.2 Wheat

Wheat production in Zambia is by commercial farmers. This is due to the fact that wheat production requires irrigation and heavy equipment. Chart 6 below shows that wheat production in Zambia has been on the increase from the year 1985 to 2004. Wheat imports have been fluctuating while exports still account for smaller margins of the overall Zambian trade. The chart further shows that Zambia is a net importer of wheat.

[19] Bethel Nakaponda and Newton Lungu (2006): Socio-Economic impact of the EU's sugar reform on Zambian sugar sector

**Chart 6: Zambia's Wheat Production, Exports and Imports 1985 to 2004.**

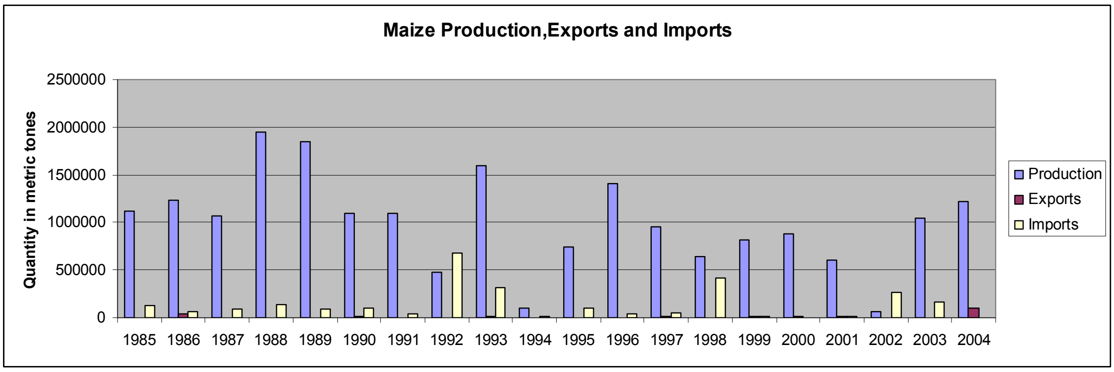



Source: FAOSTATS

### 3.2.3 Maize

Maize is Zambia's staple food and is grown by the commercial, emergent and small-scale farmers. Chart 7 below shows that Zambia has a poor maize export performance. Zambia's major export market for maize in the region includes countries like Congo DR, Malawi, Uganda, Angola, Lesotho, Botswana, Swaziland and Tanzania[20]. Maize, in most cases, is subject to export bans for food security reasons. This is evidenced in chart 7 below by the low levels of exports. Production of maize, on the other hand, has been fluctuating due to several factors such as changes in the weather pattern, use of low level technology by the small scale farmers leading to low productivity, underdeveloped marketing channels.

**Chart 7: Zambia's Maize Production, Exports and Imports**




Source: FAOSTATS

[20] Joint integrated technical assistance programme (2005): Identification of the priority export products.

The above chart 7 shows that Zambia imported substantial amounts of maize in 1992. In 1998 Zambia again recorded imports. In 2002 imports of maize also showed some increase.

A group of male small scale farmers in Eastern Province were interviewed on their views regarding agricultural liberalisation. They responded that (Minch 2005 page 79):

*"Farming was better in that prices for our products were better. They were the same as the price of fertiliser but now fertiliser is priced higher"*

Minch further interviewed a group of women small scale farmers (Minch 2005, page 79). They said:

*"As a result of liberalisation we have a situation where the big buyers have monopolised and are dictating the prices of agricultural products. Farmers in these instances have been left with no bargaining power"*. These sentiments were echoed by small scale female farmers interviewed for this study in Mapanza, Choma rural Southern Province.

### 3.2.4 Other Products

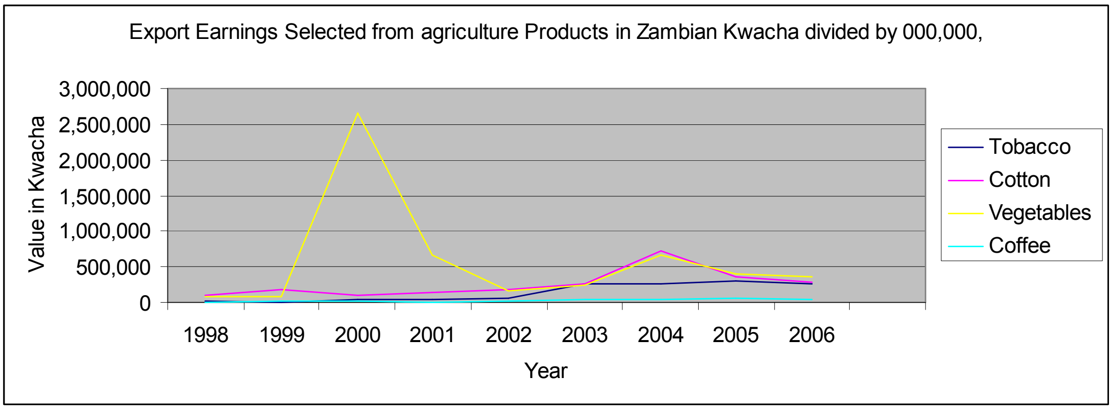
Below, we briefly examine the export performance of 4 key products[21] namely coffee, tobacco, vegetables and cotton. There is some marginal improvement in the export performance of the above products as depicted by chart 8. It should, however, be noted that while the dollar values of NTE's have been growing the volume of key NTE's has been declining. It is true that the agriculture sector is the major earner of NTE foreign exchange earnings. The sector has, however, continued to be affected by a number of negative developments that hinder the smooth growth of agriculture in Zambia. Some of the adverse factors include the following:

- High prices of inputs, fuel, freight, credit and electricity tariffs.
- Poor road and communications infrastructure that contributes to high cost of doing business thus eroding the competitiveness of the sector.
- Low productivity, especially in the small scale farmer category.
- Underdeveloped extension services, especially for livestock.
- Unfavourable marketing services.
- Lack of irrigation equipment, tractors and field equipment and technology.

This has resulted in crops like cotton and tobacco being gradually abandoned by farmers due to unattractive purchase prices offered by out-grower firms[22].

[21] The export performance of coffee, tobacco, cotton is closely linked to production as these products are essentially export crops.
[22] See Simumba T. and CSTNZ (2008).

**Chart 8: Value of exports for selected crops.**




*Source: TIPS Trade Database*

The Fifth National Development plan identifies developing a market-driven agricultural system as one of the most challenging policy priorities for Zambia. One of the key difficulties is that farmers find it difficult to keep their operating costs low while at the same time obtain guaranteed sales at pre-determined prices for selected products. This has given rise to problems of enforcement and side-selling to competing buyers.

*"There is need for key growth strategies in support of poverty alleviation to enhance rural incomes, especially through agriculture, and encouraging strong associations between agriculture and manufacturing through upstream linkages to agro-related processing"* stresses Simumba T and CSTNZ (2008) page ix.

CSTNZ and One World Action- Voices Influence and Action project based in Namibia developed a project to work with small scale dairy farmers in Monze District of Zambia. The aim of the project was to get farmers to influence the EPAs process and negotiations. The farmers were fearful that the EPAs would be a big blow to their already struggling industry. One farmer reported[23]:

*"Transportation to and accessibility of the collection points are problems, especially in the rain season when roads become almost impassable. The government should invest in feeder road rehabilitation, especially in areas that contribute to the country's income..... Can we not live without EU goods?"* Vernon Hangwamuna of Magoye Farmers' Cooperative asked.

*"If the EU trade negotiator visited us I would ask him to take our concerns into consideration and not put us out of business"* stated Mr. Mweemba, the vice Chairperson of the same Cooperative.

These concerns were also expressed by farmers operating under a contract system for cotton. Muyakwa S L. And CSTNZ (2007 page 26) interviewed a small group of small scale male and female contract farmers in Central Province who were producing cotton for sale to Dunavant and Zambia China Mulungushi Textiles. They were asked what type of problems they were facing in their work. They responded that:

*"We have no say in the price of the cotton as the buyer determines the price. The main challenges we face are a) difficulties with transport to take produce to the buyer, b) late*

[23] CSTNZ (2006).

*delivery of inputs, c) low prices for cotton, d) loans too expensive to repay and e) difficulties in handling the chemical sprays for cotton."*

In the same report (Muyakwa S. L. 2007, page 38), a representative of an Agro business responded to an interview that:

*"I can say we sometimes experience some challenges where farmers fail to pay back their loans, The issue of price negotiations is still not very clear because Cargill does not subscribe to the idea of announcing the guaranteed minimum prices because international cotton prices fluctuate and this also impacts on the local prices"* stated the representative of Cargill.

Clearly, the battle lines are drawn between big business and small scale farmers in a liberalised environment. International price setting, either through the EU common agricultural policy or the USA cotton subsidies plays a critical part in determining what a small scale farmer in Zambia gets at the end of the day.

Medium scale and the big farmers appear to be in a more favourable environment in a liberalised economy. A medium scale farmer in Magoye, Southern Province told researchers (Muyakwa S. L. 2007, page 40) that he had alternative buyers for his various crops and that he has some say on the pricing of his crop. He said that for maize, he can sell to the Food Reserve Agency (FRA) or to other local buyers, for cotton, he can sell to Cotton Development Trust (CDT), goats and beef cattle and dairy products are sold to individual traders. The medium scale farmer further told the above researchers that:

*"I receive some incentives such as loans for inputs. Further, I have power on the pricing of the products. For now, especially in the last year, I have had power to price my cotton. This is done through the Cotton Association of Zambia (CAZ) and I am part of the negotiating group of the Cotton Association of Zambia." (Muyakwa S.L. 2007, page 40).*

A representative of the private sector interviewed for this study had the following to say:

*"EPAs have both positive and negative aspects. The positive aspects include i) improved rules of origin, ii) additional quotas for products such as sugar and iii) duty free quota free. The negative aspect is the demand for reciprocity. My view is that the business community in ESA (particularly in Zambia) have challenges in terms of production capacity, it is common knowledge that a number of Zambian businesses have failed to take advantage of various market access initiatives such as that by the Canadians and the AGOA in the USA. In both these cases companies have failed to produce enough and maintain a certain level of standard to command a niche in those markets. I believe that this creates a problem under the EPA for Zambian companies to fully take advantage of the EC market especially after the moratorium period elapses unless supply constraints are dealt with. The challenges on the supply side facing businesses in Zambia include obsolete technology and poor infrastructure (e.g. roads. telecommunications, more recently power black outs) which in effect contributes to the cost of production making Zambian products uncompetitive, others include the high cost of borrowing, lack of value addition technology and facilities and high transport costs amongst others. On the other hand, there is a view that Zambian businesses should not face adverse effects from*

*competition from the EU considering the relative amount of imports. My view is that even with the availability of safeguard measures under the EPA which are WTO compatible; we need to be cautious as a number of local companies still need a level of infant industry protection.* Clive Saili; Zambia Chambers of Commerce and Industry

## 3.3 Summary Findings

The main conclusion from this section is that the Zambian Government implemented liberalisation measures in the early 1990s. These measures have lead to a noticeable revival of the economic indicators especially copper mining and exports. It is also evident that social indicators such as employment, poverty levels, health and educational standards are yet to show signs of recovery. Latest trade statistics point to the fact that Zambia is increasingly becoming more dependent on SADC for both exports and imports and South Africa is a key player in both cases. The EU is fourth after COMESA and Asia in both exports and imports. This trade situation should give the Zambian trade negotiators added ammunition to bargain for a better market access and financial support as the pressure to reach agreement with the EU is not so high. There are also indications that the EU is using the EPA to push for acceptance of contentious issues in the WTO negotiations.

Gains in agricultural performance have been in sectors of interest to large scale farmers such as sugar, wheat and horticulture. These gains are not solid as new threats such as high fuel prices, exchange rate fluctuations are pausing challenges to the business community generally and farmers in particular. The state of rural areas and small scale farmers in Zambia is particularly worrisome. The rural areas still represent the sorry site of failed development in Zambia. The rural areas are poorly serviced with social and economic services such as schools, health centres and markets for buying and selling agricultural commodities. Whereas urban areas and big commercial farmers may be seeing some benefit from the economic reforms in the form of revivals in opportunities, rural areas and small scale farmers are not so lucky. The EPA is unlikely to improve this situation, if anything, things may get worse as small scale farmers may not find markets in the EU for products of interest to them and may also loose markets locally to EU products. This issue will be pursued further in the next sections of this report.

## 4.0 Zambia's Trade with the European Union

### 4.1 Market Access

Historically, access to the EU market for Zambian products has been through a web of preferences provided by the EU based on Zambia's position as a Least Developed Country (LDC) such as the Everything But Arms (EBA) initiative. There is also the Generalized System of Preferences through which Zambia can access the EU market. Maintaining market access to the EU does not require Zambia to sign an EPA unless it offers benefits beyond those provided by the EBA Initiative[24]. For Zambia to derive any benefits from the EPA it must include;

- Improvements in the EBA and the rules of origin (RoO).
- Increased financial assistance to address the supply side bottlenecks and offset the revenue loss from lower tariffs on imports from the EU.
- Adequate flexibility in EPA design to accommodate differing levels of development among the countries in the ESA group.
- EU's technical support for reducing intra-regional barriers to trade and deepening regional integration.

The EPA provisions of reciprocity demand for the elimination of all tariffs on all imports from the EU and vice versa. There is provision for phased liberalisation of certain sensitive products over a time frame to be negotiated. The ultimate goal is to eventually eliminate substantially all tariffs. We now examine some selected agricultural products and assess the potential impacts of an EPA in Zambia.

### 4.2 Cotton

The EU is currently implementing some changes to the Common Agricultural Policy (CAP). One of the changes involves "decoupling" the EU farm subsidies from production to income. Decoupling means that priority is given to supporting the income of producers rather than what they produce. Producers receive the aid in return for respecting strict standards of environmental protection, animal welfare and food safety ('cross compliance') and are free to produce whatever they wish. To be eligible for coupled aid, cotton can be grown only on land authorized by the Member State, using authorized varieties of seed, and the cotton must be harvested under normal growing conditions. This coupled element has been kept to avoid abandonment of production.

The cotton sector has strong regional importance in the two main producing Member States of Greece and Spain. Around 76 % of the EU's total output (about 1.45 million

[24] Government trade negotiators say an EPA is superior to EBA because a) it (EPA) is a negotiated trade agreement and can not be changed unilaterally by the EU as is the case with EBA, b) EBA is for LDCs only and if Zambia ceases to be an LDC it will have to find a new trade arrangement with the EU, c) more importantly, however, an EPA is preferred by Government because of the European Development Fund (EDF) provision for financial support which is absent for EBA and d) the rules of origin are better for EPA than EBA.

tons of raw cotton) is grown in Greece. In 2005, 9.1 % of Greece's total agricultural output was cotton while in Spain, the other main EU producer, cotton contributed 1.3 %. A small amount of cotton is also grown in Bulgaria. Portugal no longer grows cotton.

#### 4.2.1 Implications of the EPAs on the Cotton Sub- Sector

The Cotton sub-sector will not be affected negatively in terms of flooding the Zambian market with the coming of the EPA and this is due to the fact that the EU still remains a net importer of cotton. Currently EU cotton production represents only 2% of the global output. In addition to this, the EU trade in cotton is completely free from import duties or quantitative restrictions and no refunds are paid on exports[25]. Currently the EU is working on the agricultural reform support to the cotton sector. This reform significantly reduces domestic support which has a distorting effect on trade (the so-called WTO yellow and blue boxes) and therefore changes the incentive to produce. Farmers will now make production decisions according to market forces and prices rather than on the production support available. With the coming of the EPAs an opportunity arises for cotton sub-sector to have a significant share of the EU market. This will, however, depend on how competitive the Zambian cotton sub- sector is compared to major producers like China, USA, India, Pakistan and Uzbekistan.

Cotton products like the textiles might find it difficult to access the EU market under the EPA if the rules of origin allowing cumulation will not be improved upon. This is due to the fact that the textile manufacturing industry in Zambia collapsed during the economic liberalisation carried out in 1992 (Muyakwa S. L. 2007a page 28). The sector cannot afford to process the cotton lint into clothing or reach the value addition up to 85% as required by the EPA rules of origin.

Zambia produced cotton in approximation of 180,000 tons in 2004/2005 agriculture seasons. And the foreign exchange earnings on cotton was recorded at 100 million US$ in 2004[26]. The bulk of Zambia's cotton is being exported with little value addition. An EPA may not bring about any changes to the trends of trade in terms of cotton with the EU because there is no quota or restrictions from exporting cotton to the EU. It therefore implies that Zambia's export of cotton to the EU is based on competitiveness against other exporters.

As an LDC, Zambia qualifies for duty free access of all its products to the EU market except arms and ammunitions. This therefore implies that in the event that other countries such as China and the United States of America (USA) begin to compete with Zambia, then EBA can provide Zambia with better preferential access to the EU market. However, in the event of the elimination of tariffs on EU cotton imports there would not be any significant impact to the Zambian cotton growers because the EU is not competitive in producing cotton.

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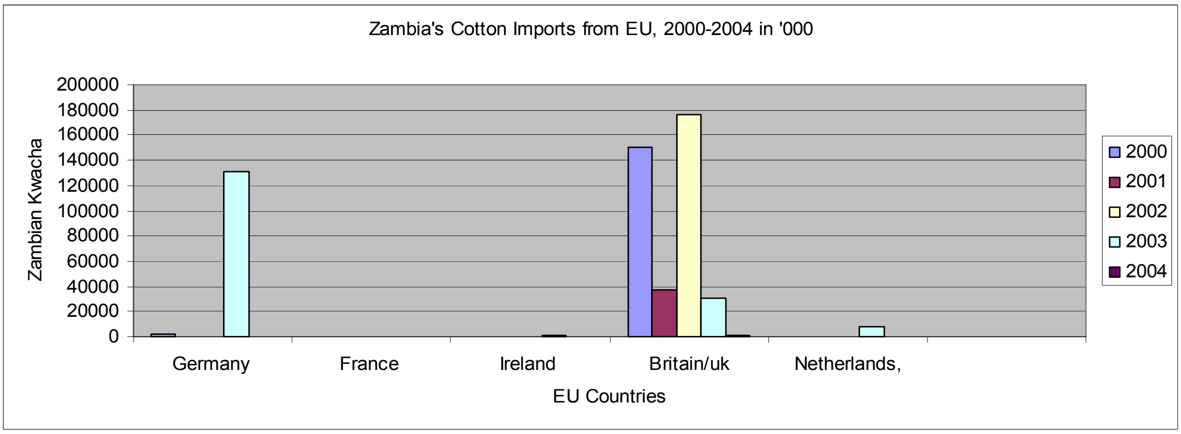
[25] Commission of the European Communities (2007): Establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers as regards the support scheme for cotton. Brussels, Belgium.

[26] Xinhua 04.08.2005

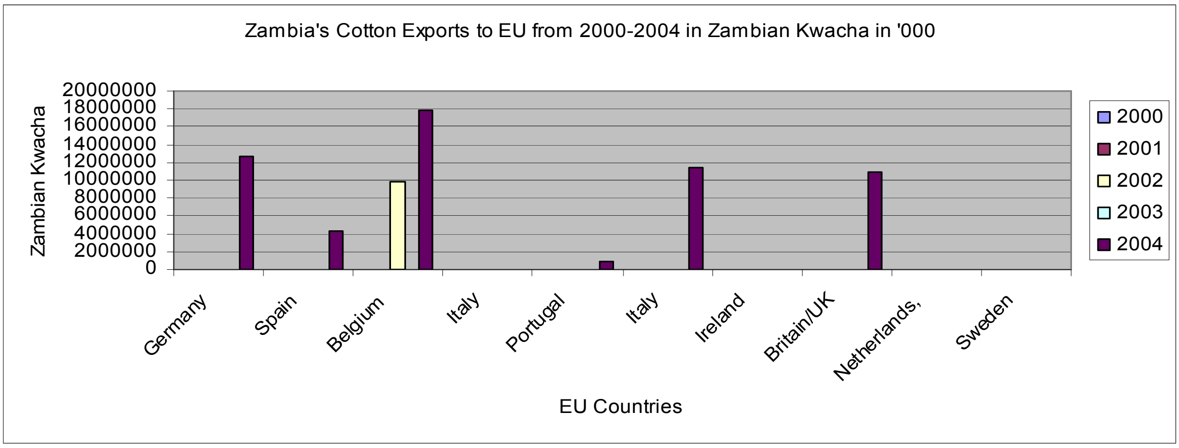
Chart 9 and 10 below show Zambia's cotton imports and exports respectively from and to the EU in Zambian Kwacha for 2000 to 2004.

**Chart 9: Zambian Cotton Imports from the EU by Country 2000 to 2004 in K'000.**




Source: TIPS Trade database

**Chart 10: Zambia's Cotton Exports to the EU from 2000 to 2004 in K'000**




Source: TIPS Trade database

Chart 9 shows that Zambia's main source of cotton imports from the EU are the UK and Germany. In terms of exports, Zambia's destinations to the EU, according to chart 10 are Belgium, Germany, Italy, the UK and Spain in that order of importance.

### 4.3 Maize

Maize is both a cash crop as well as a staple crop for Zambia. The economic and social nature of maize to the livelihood of millions of Zambians requires that any form of liberalisation should be well analyzed. Maize is a special as well as sensitive product.

Government has demonstrated interventions in the production of maize through the fertilizer support programme (FSP) and interventions in the export of maize[27].

Though Zambia is one of the most liberal economies in the world, it has designated some products as key to the survival of the population and therefore excluded them from liberalisation. Maize exports are the responsibility of the Government through the Food Reserve Agency (FRA), which exports surplus on behalf of government. According to the TRIPS Trade database, during the period 2000-2004, Zambia did not export or import any maize to the EU.

### 4.4 Sugar

The EU has an extremely regulated market system for sugar. The management of the market in sugar is a complex system of guaranteed prices, production quotas, export refunds and import levies. The quantity of production is limited by a complex quota system. The total quota, amounting to 17.4 million tons in 2006, is split among EU member states, which allocate their quotas to local factories and farmers. Creating even more complications, the entire quota is split into the basic quota, called the “A quota”, which corresponds roughly to (domestic) consumption and a second, smaller, quota, the “B quota”, which acts as a reserve to ensure supply at all times. Normally, B sugar is not used within the Community and is exported with export refunds that fill the gap between the (lower) world market and the (higher) EU prices. Any production above the combined A and B Quotas, called “C sugar”, receives no explicit support and has to be exported at world market prices. Within the allocated quotas, since 1993 EU sugar producers have been offered an internal intervention price for raw and white sugar, set at 523 euro and 631 euro per ton respectively. Both intervention prices are far above world market prices. In the period 1998 to 2004, average world market prices amounted to some 160 euro per ton for raw sugar and 190 euro per ton for white sugar. In addition to receiving a relatively high intervention price, EU producers are protected by high import barriers. Currently, import duties are 471 euro and 469 euro per ton for white and raw sugar respectively, thereby severely restricting sugar imports from countries that do not receive any trade preferences. The total (budgetary) cost of the system has been estimated by the European Commission at 1.7 billion euro in 2004, whereby 75 per cent of the budget is spent on export refunds.

Due to a combination of the high internal intervention prices and considerable export subsidies, the EU is a major trader in world sugar market. In 2004/05, the EU produced 21.5 million tons and exported some 5.5 million tons. The EU is the second largest exporter after Brazil (19.2 million tons) but before Australia (4.2 million tons) and Thailand (3.2 million tons).

The EU provides preferential access to its sugar market for different groups of countries, of which the African, Caribbean and Pacific (ACP) countries form the major group. Today, 21 out of a total of 77 ACP countries are signatory states of the Sugar Protocol, under which the EU guarantees to buy fixed quantities of cane sugar. The protocol

[27] Times of Zambia of 1.02.2008

countries receive the same high prices as the European Union's producers. The current total duty-free annual sugar protocol quota amounts to 1.3 million tons.

The changes under the EPA in fulfilment of the WTO commitments, will allow the EU to reduce both domestic production and exports noticeably, According to estimates by the European Commission, total EU Sugar production should fall to 12.2 million tons per year, which is equal to a decline of 43 per cent from the 2005 base year. According to the EU's sugar regime, the European Commission has set out a three phased transitional arrangement for sugar and this will result in the erosion of the sugar protocol as outlined below:

a) Phase 1 (January 2008-October 2009): a continuation of the sugar protocol, with a substantial improvement of LDC market access for marketing year 2008/09;
b) Phase 2 (October 2009 – October 2015: duty free and quota free access subject to safeguard arrangements;
c) Phase 3 (October 2015 onwards) full duty free and quota free access to the EU market will be granted[28].

Due to the cut in the intervention prices, inefficient EU producers, such as Greece, Ireland, Italy and Portugal, will have to shut down their production or at least reduce production significantly. Sugar production will be concentrated in the most competitive regions, that is, Germany, France, Poland and the United Kingdom, which are already the largest EU producers. They are expected to remain competitive even at reduced intervention prices. Total EU exports are expected to fall by 4 million tons. After the complete removal of all import restrictions for least-developed countries, imports from these countries are expected to increase to 2.2 million tons, whereas total imports may rise by 3.9 million tons. Table 5 below shows that Zambia produced 137, 400 tons and exported 37, 100 thousand tons to the EU representing a 27% share of sugar exports. Chart 11 shows that Finland is Zambia's main destination for sugar in the EU.

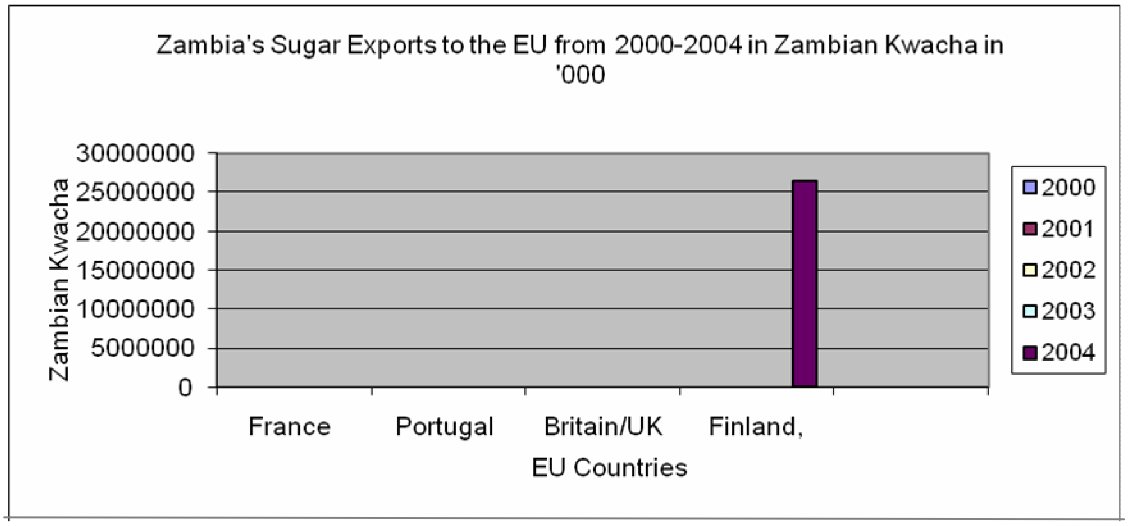
**Table 5: Production and Exports of Zambia Sugar, 2004 to 2005 in '000 of tonnes**

| | Quota | Production | Total Exports | Exports to the EU | % of total exports | %of GDP | |
|---|---|---|---|---|---|---|---|
| Zambia | 14.4 | 248 | 137.4 | 37.1 | 27.0 | 0.25 | |
| | | | | | | | |

Source: F.O Lichit International sugar and sweetener report

[28] Letter to the ESA Council of Ministers by the Peter Mendelson (2007)

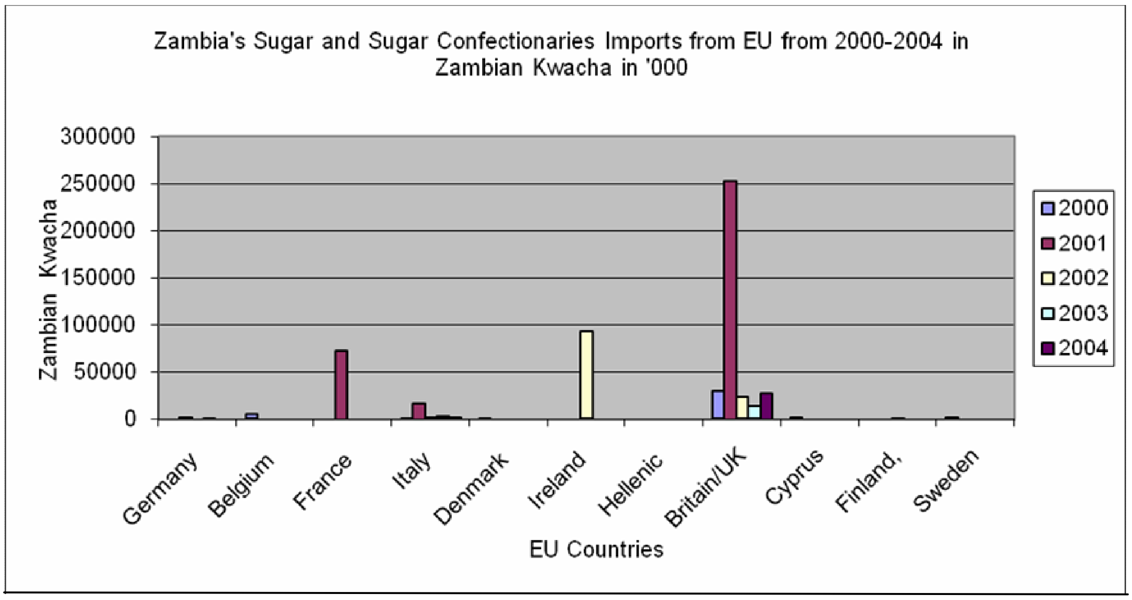
**Chart 11: Zambia's Sugar Exports to the EU 2000 to 2004 in ZKW.**




Source: TIPS Trade database

Chart 12 below shows that in terms of the EU, Zambia imports most of its sugar confectionaries from the UK and France and smaller amounts from Italy.

**Chart 12: Zambia's Sugar and Sugar confectionaries imports from the EU 2000 to 2004 in ZKW.**




Source: TIPS Trade database

#### 4.4.1 Implications of EU sugar regime for Zambia

Zambia is an important sugar producing country. However, in comparison to other sugar protocol countries, Zambia has a much lower quota and thus a lower dependency on EU markets. Countries such as Jamaica, Mauritius and Guyana have a large quota but high production costs. This, therefore, means it will be possible for Zambia to take away some quotas from some high sugar producing countries. In 2004/5 Zambia produced 248,000 tonnes of sugar and its quota to the EU was 14,400 tonnes. Zambia's total exports of sugar were 137,000 tonnes and its exports to the EU were 37,100 tonnes[29]. This is a demonstration that Zambia is not solely dependant on the EU for its sugar exports but the EU does account for a noticeable proportion.

The introduction of duty free-quota free access will create a situation not only of lower prices but of increased competition in the EU market amongst raw cane sugar suppliers. This competition could take place on the basis of price, quality, reliability of supply or some combination of these. Zambia will enjoy unlimited access to the EU market beyond 2015. This, however, does not mean that Zambia will be able to export unlimited quantities. The exporters will have to find markets for their sugar and serve these markets competitively. The EU has adopted a sugar policy regime that will see a reduction in the guaranteed price for white sugar fall by 36% over four years, beginning 2006/07 season.

Furthermore as a result of internal changes in EU patterns of consumption of food and agricultural products, Zambian exporters will face an increasingly differentiated EU sugar market. Certain “luxury purchase” sugar products will be attracting premium prices (e.g. fair trade sugar or organic sugar)[30]. Zambia may need to target these markets.

### 4.5 Wheat

The EU exports of raw wheat have been on the decrease. Most of the EU exports have been processed wheat products to African countries. The implication of the EPAs on the wheat sector can be looked at from the changes taking place in the EU with regard to the wheat sector. EU companies have been driven out of traditional markets in the Gulf and the Middle East by the establishment of local mills in the Gulf, which compete directly with EU’s milled products in these markets. This has meant that many Italian and French companies producing and exporting cereal based food products have been falling back on African markets.

Exports of “products of the milling industry” to ACP countries rose by 83% between 1996 and 2002, while exports of “preparations of cereals” rose by a staggering 163% in the same period. This saw the importance of the ACP market to EU exporters of these products increase from 12.6% to 20.6% of total exports in the case of “products of the milling industry” and from 4.9% to 10.6% in the case of “preparations of cereals”[31]

[29] AGRICULTURAL TRADE, Intereconomics, March/April 2006
[30] Goodson presentation at MCTI workshop in June 2007

[31] **Goodson presentation at the MCTI workshop in 2007**

Zambia's imports of wheat from the EU have been very minimal and irregular and should thus not be a source of great concern. Zambia's trade orientation, however, is towards South Africa for the transhipment of its imports. It is possible that EU's wheat and wheat products are entering South Africa because of the Trade Development Cooperation Agreement (TDCA); "lose" their EU identity and then enter the Zambian market as South African products. This is particularly likely for wheat products such as pasta, given the increasing South African influence of the retail sector in Zambia through outlets like Shoprite, Spars among others. Zambia needs to take a very keen interest in this issue.

## 4.6 Special and Sensitive Products

### Sensitive Products

Some products have been designated as being Sensitive and they will have to be excluded from the proposed liberalisation under the EPA. The criteria for the exclusion include the importance of these products on food security, livelihood security and rural development. The agriculture sector provides a livelihood for over 60 percent of Zambians. The agriculture sector is thus important to facilitating rural development and poverty reduction.

In the Zambian Commercial Trade and Industrial Policy, the Government has outlined its commitments to revamp the textiles sector which has collapsed. The sector supports cotton farmers in the country and therefore opening up the sector would defeat government's commitments to revamp the sector. For details of the sensitive list refer to the annex 1 of the report.

### Special Products

The Proposed liberalisation under an EPA threatens to expose local products to competition from EU products. However, under international trade law, certain products can be designated as special products. The criteria include the following:

- Those products negatively affected by imports.
- Products with very high tariffs.
- Industries employing large numbers of people.
- Where Zambia has comparative advantage in production.

The list of special products is in the annex of the report.

## 4.7 Summary Findings

From the study it is evident that the EU is becoming less important to Zambia in trade terms. South Africa and SADC are more important players in Zambia's trade. Zambia does not import many agricultural products from the EU. Some products may come from the EU, through South Africa, and change their original EU status. However, despite these conclusions EPA pose threats to Zambia. There is likely to be loss of tariff revenue through adjustment costs to accommodate the EPA. Poverty reduction, the infant industry sector and the agriculture sector where 60% of the population live will be at stake. There is also potential for increased imports of second hand clothes from the EU and cross border traders may lose their regional markets as the EPA will supply these markets with cheap EU products.

On the positive side, there is potential to increase Zambian exports of sugar to the EU. It is, however, important for measures to be taken by the Government to promote the welfare of out grower farmers for them to benefit from increased exports of sugar to the EU.

## 5.0 The EPA and employment in Zambia

Employment in Zambia can be grouped in two main categories, namely the formal and informal employment. The total formal employment in Zambia averaged about 497,364 between the years 2005 and 2006. In 2005 formal employment in Zambia stood at 495,784 while in 2006 it stood at 498,943, showing an increase of 3,159. There were about 23% or about 117,056 employees who were in the central government. The rest of the employees were in local government and Non-Governmental establishments.

Informal employment accounts for a significant proportion of total employment and incomes. In the year 2005, informal employment was estimated at 3,635,747, accounting for 88% of the total employment in the country (see table 6 below.)

**Table 6: Formal and informal sector employment by major industry groupings 2005**

| Industry | Sector of employment | | | | Total persons employed |
|---|---|---|---|---|---|
| | Formal sector | | Informal sector | | |
| | No. of persons | % | No. of persons | % | |
| **Zambia** | **495, 784** | **12** | **3,635, 747** | **88** | **4,131,531** |
| Agric, forestry and fisheries | 29,840 | 1 | 2,954, 128 | 99 | 2,983,968 |
| Mining and quarrying | 154, 513 | 93 | 11,630 | 7 | 166,143 |
| Manufacturing | 18,870 | 34 | 36,629 | 66 | 55,499 |
| Electricity, gas and water | 39,574 | 89 | 360,906 | 11 | 400,480 |
| Construction | 12,692 | 38 | 20,707 | 62 | 33,399 |
| Trade, wholesale and retail | 9,689 | 11 | 78,391 | 89 | 88,080 |
| Hotels and restaurants | 22,773 | 56 | 17,893 | 44 | 40,666 |
| Transport and communication | 158,422 | 55 | 129,618 | 45 | 288,040 |
| Finance, insurance and real estates | 38,797 | 69 | 17,430 | 31 | 56,227 |
| Community, Social and personal services | 10,616 | 62 | 6,506 | 38 | 17,122 |
| Not stated | - | 0 | 1,907 | 100 | 1,907 |

Source: CSO 2005

It is important to note from table 6 that the highest employment was in the agriculture, forestry and fisheries sector, accounting for 81% of the total informal employment. The non-agricultural informal sector is dominated by the trade sector accounting for 11% of the total informal employment. This is followed by the community, social and personal services and manufacturing, each accounting for 3%. The least proportion of the informal sector employees are in the financial intermediation, insurance, real estate and business services; hotels, restaurants and the utilities (electricity, gas and water) sectors. The three industrial sectors collectively account for only 1% of the total informal sector employment.

Table 7 below shows employment according to sectoral classification. The private sector accounts for the highest proportion, followed by central government, parastatal and lastly local government in that order.

**Table 7: Number and percent distribution of employees by sector 2006**

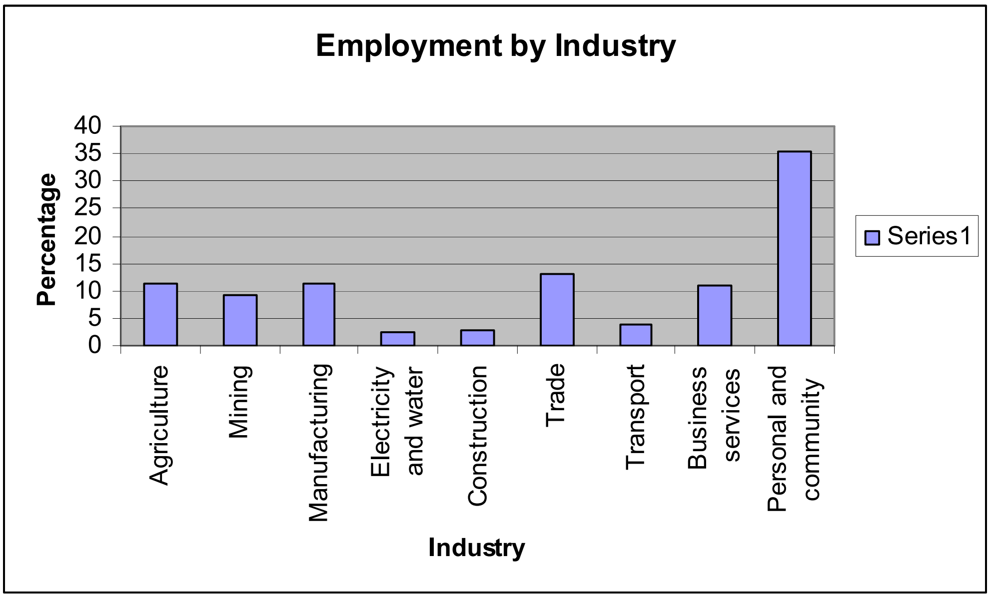
| **Industry** | **Percentage (%)** | **Total employees** |
|---|---:|---:|
| Central government | 23.5 | 117,056 |
| Local government | 1.6 | 7,771 |
| Parastatal | 9.8 | 49,085 |
| Private sector | 65.1 | 325,031 |
| **Grand total** | **100** | **498,943** |

Source: Central Statistical Office, 2006

It is important to note that there was an increase in formal employment levels from 495,784 in 2005 to 498,943 in 2006. Informal employment statistics usually fluctuate because the majority of the employees are employed on casual basis. This can also be explained by the fact that the agricultural sector, which is the major employer of informal employees usually, employs workers on seasonal basis.

According to the International Standard Industrial Classification, the personal and community services recorded the highest employment level of 176,110, followed by the Trading industry with 65,012 employees. The agriculture industry, that has often employed slightly more than trading, is now at third position with 56,139 employees. The shift can be explained by the effects of season as agriculture industry tends to attract more employees during harvest and cultivation periods. The energy (electricity and water) industry and construction have the lowest estimates- about 3% of the total formal employment estimate (See chart 13 below).

**Chart 11: Employment by Industry**




Source CSO (2006)

## 5.1 The Growth of the Informal Sector

In many developing countries like Zambia, people rely on the informal sector for a livelihood when opportunities for formal sector employment are scarce. It is often stated that informal sector activities account for a significant proportion of total employment and income generation. Despite its importance to both employment and output, definition and measurement of the sector is fraught with difficulties that we shall not delve into.

Table 8 below shows that there are more females in the informal sector than their male counterparts, accounting for over 53% of the total informal sector employment. The females are much more dominant in the rural areas than in the urban areas, accounting for about 54% in the rural areas and 49% in the urban areas. Informal employment in the urban areas is more or less equally distributed between males and females (See table 8 below)

**Table 8: Employment status in the informal sector**

| Sector | Male | | Female | | Total persons 15 yrs+ employed in informal sector |
|---|---|---|---|---|---|
| | No. of persons | % | No. of persons | % | |
| | | | | | |
| **Zambia** | 1,708 801 | 47 | 1,926 946 | 53 | 3,635,747 |
| Self employed | 1,128 318 | 58 | 817,058 | 42 | 1,945,375 |
| Employer | 8,265 | 42 | 11,413 | 58 | 19,677 |
| Paid employee | 104,354 | 61 | 66,718 | 39 | 171,072 |
| Unpaid family worker | 456,612 | 31 | 1,023 281 | 69 | 1,479,893 |
| Other status | 9,037 | 62 | 5,539 | 38 | 14,576 |
| Non stated | 2.216 | 43 | 2,937 | 57 | 5,153 |

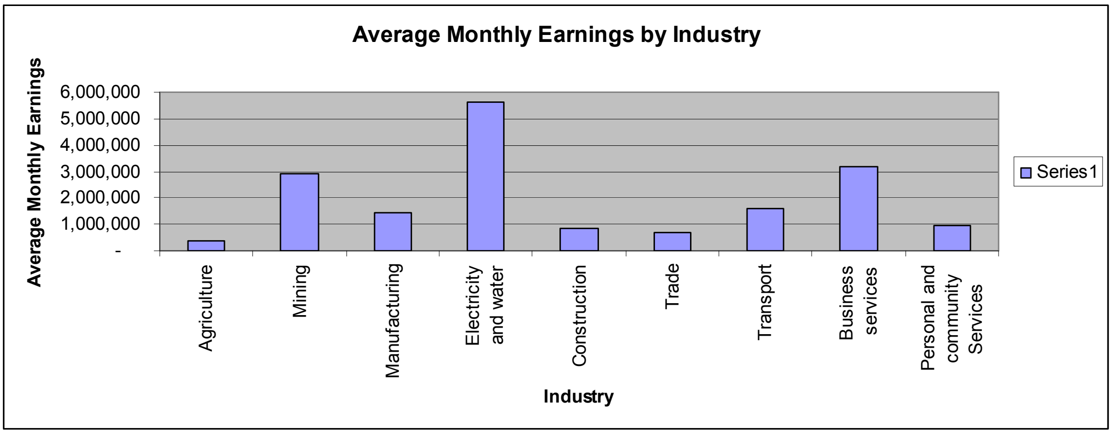
Source: CSO

CSO statistics showed that agriculture, trade, manufacturing and construction are dominated by the informal sector. 99% of agriculture employment is in the informal sector, 89% of trade employment, 66% of manufacturing employment and 62% of construction employment is in the informal sector. On the other hand mining, electricity and other utilities finance and business services are formal sector driven.

## 5.2 Employee Earnings

Employee earnings in formal employment are depicted in chart 12 below.

**Chart 12: Average Monthly Earnings for Employees by Sector in Kwacha in 2005.**




Source: CSO (2005)

Chart 12 above shows that on average, formal sector employees in Zambia earn about K1, 472,191 per month. The Energy (Electricity and water) industry recorded the highest average monthly remuneration (K5, 644,892) compared to any other industry. This may be due to the presence of the largest and highly paying establishments in the industry and are usually capital intensive in nature. The business services industry recorded relatively higher average monthly remuneration of about K3, 160,290 for it constitutes most of the macro-financial institutions characteristic of higher incomes

On the contrary the average monthly earnings in the agricultural industry were the lowest (K382, 473) probably due to the large bulk of the casual workers that it seasonally engages.

An informal sector worker earned a monthly average of K107, 524. The highest average monthly earnings were reported among paid employees who earned an average of K195, 710 per month. The self employed were the second highest earners followed by the employers, while the unpaid family workers reported the least earnings (K13, 832). These incomes are lower than the minimum wages required to sustain a family of six as stipulated buy the Jesuit Centre for Theological Reflection (JCTR) in their monthly minimum wages reports[32].

**Table 11: Average monthly earnings by employment status (ZMK) 2005**

| Employment status | Both | Male | Female | Number of persons employed in the informal sector |
|---|---|---|---|---|
| **All Zambia** | **107,529** | **153,937** | **62,048** | **3,635,747** |
| Self employed | 151,543 | 184,741 | 101,360 | 1,945,375 |
| Employer | 137,811 | 191,662 | 94,038 | 19,677 |
| Paid employee | 195,710 | 215,224 | 165,962 | 1,71,072 |
| Unpaid family worker | 13,832 | 18,436 | 11,963 | 1,479,893 |
| Other | 125,041 | 125,041 | 157,178 | 14,576 |
| Not stated | 113,462 | 130,403 | 100,767 | 5,153 |

There are significant disparities between males and females. Males earn almost 2 and half times as much as their female counterparts. A male informal sector employee earns K153, 937 compared to K62, 048 for a female employee. This is an important point as it shows that liberalisation processes like EPAs can affect women, who are already earning less than their male counterparts. This is particularly serious if women's jobs are lost a lot faster than men's jobs in the process of liberalisation.

In terms of average monthly earnings, employees in the finances, insurance, real estate and business services get the highest earnings, averaging K815,084 per month, followed by those in the community, social and personal services (K404,542) and Construction (K348,604). The least earners were in the agriculture sector where K56, 473 is the average, which is less than a tenth of those in finance, insurance, real estate and business services.

[32] See JCTR monthly minimum wages bulletins.

**Table 12: Average monthly earnings by industry 2005**

| Employment status by industry | Both | Male | Female | Persons employed in the informal sector |
|---|---|---|---|---|
| **Zambia** | **107,529** | **153,937** | **62,048** | **3,635,747** |
| Agric, forestry and fisheries | 56,473 | 82,544 | 32,635 | 12,954 128 |
| Mining and quarrying | 55,033 | 55,033 | - | 11,630 |
| Manufacturing | 220,109 | 279,747 | 145,364 | 36,629 |
| Electricity, gas and water | 126,758 | 126,758 | - | 360,906 |
| Construction | 348,604 | 499,057 | 201,157 | 20,707 |
| Trade, wholesale and retail | 214,574 | 258,848 | 167,870 | 78,391 |
| Hotels and restaurants | 177,630 | 220,989 | 120,791 | 17,893 |
| Transport and communication | 324,315 | 336,881 | 139,943 | 129,618 |
| Finance, insurance and real estates | 815,084 | 845406 | 541,575 | 17,430 |
| Community, Social and personal services | 404,542 | 795,186 | 153,464 | 6,506 |
| Not stated | - | - | - | 1,907 |

Source: CSO 2005

### 5.3 Government Revenue from Trade Taxes

In 2005, Zambia's trade taxes amounted to K1, 666.2 billion, which was below the targeted 4.7%. The below target performance was due to low collections in import and export tariffs. It is worth noting that during the year 2005, Zambia recorded total revenue of K7, 743.7 billion. The largest share of this amount came from taxes. Domestic revenues accounted for 72.9% of the total revenue while the remainder of 27.1% was in form of foreign grants (see table 15 below). Out of the major taxes, personal income tax, which includes contributions by employees through Pay As You Earn (PAYE) contributes the largest to the government revenue, recording 36% of the total tax share in 2005. Import Trade Tariffs play an important role as it contributes significantly to government revenue. In 2005, Import Tariffs contributed 12% of the total tax revenues, after Import VAT and unspecified taxes. (See table 13 below)

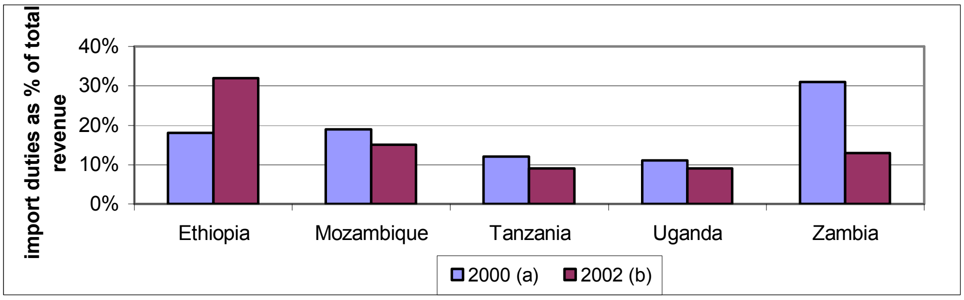
**Table 13: Share of major taxes in total revenues**

| Employment status | 2005 % |
|---|---|
| Personal taxes | 36 |
| Import VAT | 18 |
| **Import tariffs** | **12** |
| Domestic VAT | 11 |
| Company income tax | 8 |
| Others | 15 |

Source: Economic reports 2005 and 2006

In comparative terms, Zambia, like most African countries depend on revenue from trade taxes to finance public expenditure. Given the heavy reliance on import duties as a source of public revenue in Zambia and other developing countries, and particularly the poorer ones, the question thus is whether these countries are able to compensate the losses from trade taxes due to trade liberalization with revenues from other sources. Recent empirical evidence suggests that while tax revenues have continued to increase after trade liberalization in rich countries and have only been modestly affected in middle-income countries, they have significantly declined in low-income countries as the poorer countries have only managed to recover 30 per cent of the trade tax revenue lost as a result of trade liberalization through other taxes.[33] The chart 14 below shows that the five sample countries of Ethiopia, Mozambique, Tanzania, Uganda and Zambia have had their import taxes as a proportion of total revenue ranging from about 10% to over 30% between 2000 and 2002. This is quite a high proportion of tax revenue for any economy.

**Chart 13: Selected Countries' reliance on duties for revenue**




Source**:** Muyakwa S. L. and UNECA (2008)

Zambia, thus, faces a serious challenge of how to replace lost tariff revenue after the EPA. It is important at this point to mention two points. Firstly, Zambia has been able to increase company tax by changing the mining royalties act and is thus poised to receive substantial amounts from the mining companies. The second point is that increased tax revenue does not automatically translate into poverty reduction. The Government has to show real commitment to use those revenues to poverty reduction. Civil society can and must play an important role in these efforts.

## 5.4 Summary Findings

The labour force structure is very sensitive to changes in economic and trade policy changes. The liberalisation of the 1990s caused severe dislocations in terms of levels of employment, incomes, and created a large reservoir of informal sector operators (mostly in the agricultural sector) with low wages and limited skills. This liberalisation caused an increase in poverty. Further liberalisation with the EU through an EPA, requires that exclusion lists for sensitive and special products are instituted so as not to lead to similar if not worse results in terms of unemployment and loss of incomes. Women would be

[33] For details see Bilal S. and Roza V. (2006): On the Potential Fiscal Effects of an EPA on Irish Aid Programme Countries: Ethiopia, Mozambique, Tanzania, Uganda, Zambia (and Lesotho) European Centre for Development Policy Management (ECDPM)

particularly vulnerable as they play a very significant role in agriculture and the informal sector but receive relatively lower incomes compared to their male counterparts. The incomes in Zambia are low and not covering the minimum income required to meet basic needs.

It is very critical that the ACP countries generally and Zambia in particular negotiate an EPA that links to the other Cotonou Agreement component, especially financial cooperation. This would enable Zambia to assess the potential losses arising from the EPA in terms of employment, government revenue and social dislocations. The ACP and Zambia can then "demand" that the EU compensates for this loss. This can be in the form of funds for the retraining of employees who lose their jobs arising from company closures as a result of stiff competition from the EU, replacement of government revenue lost from tariff reductions and social safety nets. More importantly, the EU should assist in removing the supply side constraints such as road and communication infrastructure and trade facilitation.

## 6.0 Strengths and Weaknesses of Regional Integration Arrangements

As stated earlier, Zambia is a member of both SADC and COMESA. These two regional bodies are also engaged in trade liberalisation efforts that are running concurrently with the EPAs negotiations. In this section, we examine in some detail the intricacies of the regional integration arrangements and how these interact with the EPAs negotiations. We start with a short recap of what SADC and COMESA stand for[34].

### 6.1 Background to the Southern African Development Community (SADC)

The Southern African Development and Coordination Conference (SADCC) was formed in 1980. This was more a political tool to counter the political and military destabilization policies of apartheid South Africa. Following the cataclysmic international and regional events of the late 1980s and early 1990s that led to the liberation of Namibia and South Africa and the end of the war in Mozambique, the countries of Southern Africa recognised the opportunity to move from mere functional co-ordination/cooperation to a regional community. The Southern African Development Coordination Conference (SADCC) was transformed into the Southern African Development Community (SADC). The treaty that ushered in the Southern African Development Community was signed in August 1992.

Trade in SADC is governed by the SADC Trade Protocol that came into effect on September 1, 2000[35]. Angola, the Democratic Republic of Congo (DRC) and Seychelles are not yet party to the free trade process. SADC introduced a free trade area in August 2008. The main instrument of trade liberalisation is therefore the elimination of customs tariffs and non-tariff measures on substantially all intra-SADC trade.

There are two special agreements. The first is on trade in sugar. The other is on trade in clothing and textiles. These are regarded as sensitive products. The agreed formula is that the SADC sugar producers have a non-reciprocal access to the Southern African Customs Union (SACU) market as an interim measure. This can then be expanded over time.

The special agreement relating to trade in clothing and textiles is based on a two-stage substantial transformation rule of origin. Malawi, Mozambique, Tanzania and Zambia (referred to as MMTZ countries) are given special provisions. The provision given is that the MMTZ are allowed access to the SACU market under a one-stage transformation rule subject to quotas for a five year period after which the MMTZ countries graduate to full double transformation requirement without quotas.

The SADC economic integration instruments and targets are a) a Free Trade Area by 2008, b) Customs Union in 2010, c) Common Market by 2012 to 2015 and d) a common monetary area by 2016

[34] For details see Muyakwa S. L. (2008)) page 5)

[35] This paper draws on Kalenga P. (2004) Implementation of the SADC Trade Protocol in Honsohm D. et al (Editors) (2004): Monitoring Regional Integration in Southern Africa, Windhoek, Namibia.

Table 14 below shows how trade has developed within SADC between 1978 and 2003. There is a positive development to be registered in imports but exports have declined over the period as a share of total trade. Generally, it is evident that intra SADC trade is a very small proportion of the regions trade with the rest of the world.

**Table 14: Intra- SADC Trade Developments as a proportion of total trade in the region**

| Period | Imports (%) | Exports (%) |
|---|---|---|
| 1978 | 5 | 9.5 |
| 1980 | 4 | 2.8 |
| 1990 | 6 | 7 |
| 1998 | 6.2 | 6 |
| 2003 | 6.3 | 6 |

Source: Muyakwa S. L. and UNECA (2008 page 11).

## 6.2 The Common Market for Eastern and Southern Africa (COMESA)

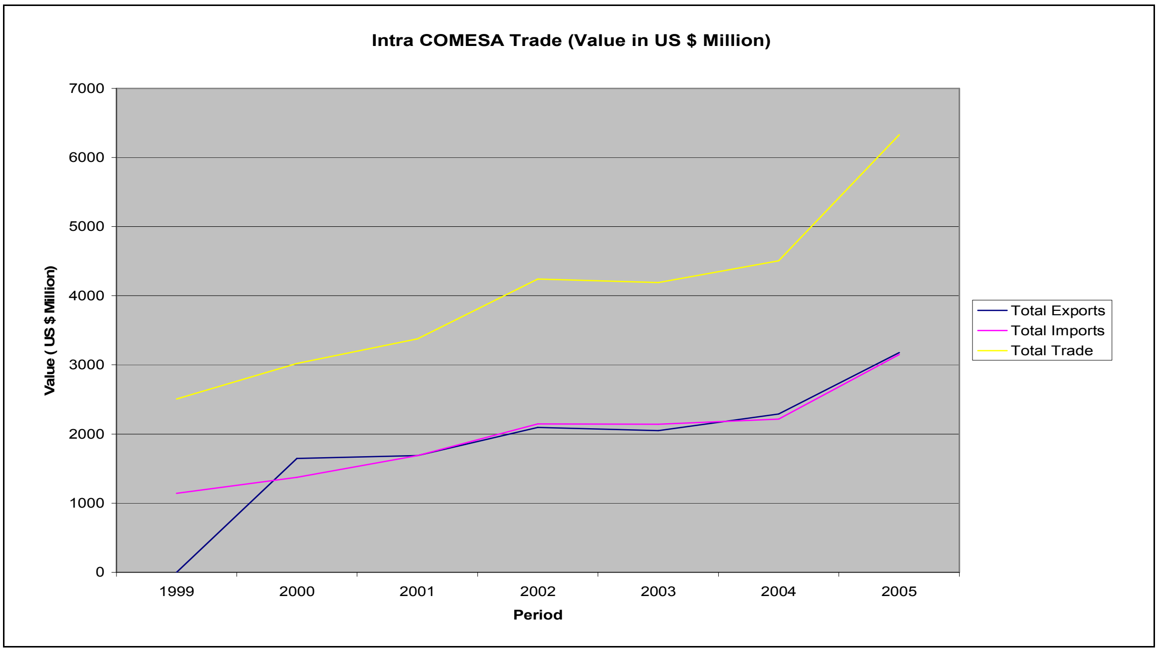
COMESA was launched on 5th November 1993 in Kampala, Uganda. COMESA replaced the former Preferential Trade Area (PTA) which had existed since 1981. Its main focus is on the formation of a large economic and trading unit that is capable of overcoming some of the barriers that are faced by individual states. In 2000, all internal trade tariffs and barriers were removed. After that COMESA will introduce a common external tariff structure (2008) to deal with all third party trade and will have considerably simplified all trade procedures. The COMESA economic integration instruments and targets are a) a free trade Area in 2000, b) Customs Union in 2008 and b) a monetary union in 2020.

### 6.2.1 Trade in COMESA and the COMESA Treaty

Article 45 of the COMESA Treaty is about cooperation in trade liberalization and development. In this regard intra-COMESA trade increased by 40% in 2005, to US$6.3 billion. This compares to US$4.5 billion in 2004 and US$3 billion in 2000. Sectors driving this growth were agricultural raw materials, which increased by 87% and manufactures and fuels which registered 40% and 37% gains, respectively[36] see chart 14 below.

[36] See COMESA (2006): The State of Integration in COMESA Report Of The Secretary General to the 11th COMESA Summit Djibouti.

**Chart 14: Intra COMESA Trade 1998 to 2006**




Source: Muyakwa S. L. and UNECA (2008 page 16)

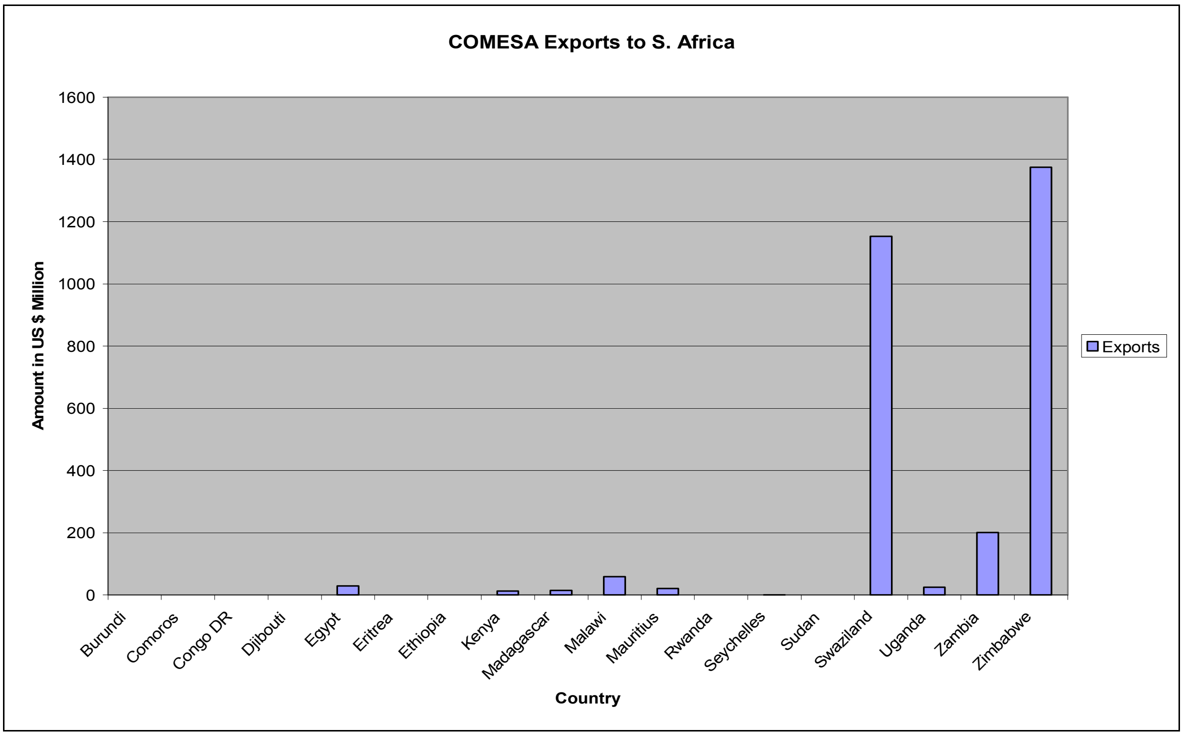
Petroleum continued to be the top export product, while tea was the second most traded commodity. Other notable performers were chocolate products, alginic acid and vegetable products.

## 6.3 Intra SADC-COMESA Trade

COMESA exports to South Africa[37] declined by 70% in 2005 compared to 2004 and constitute only 21% of the total trade. The data below is from the COMESA data bank. Major exports were copper, nickel ores, cotton, tea and tobacco. Zambia and Zimbabwe, between them, accounted for about 80% of the exports. Imports by COMESA countries from South Africa declined by 24% in 2005 compared to 2004. Major imports in 2005 were petroleum products, helicopters, steel, motor vehicles and maize. Zambia, Kenya, Zimbabwe, Malawi and Mauritius in that order accounted for over 90% of the imports see chart 15 below.

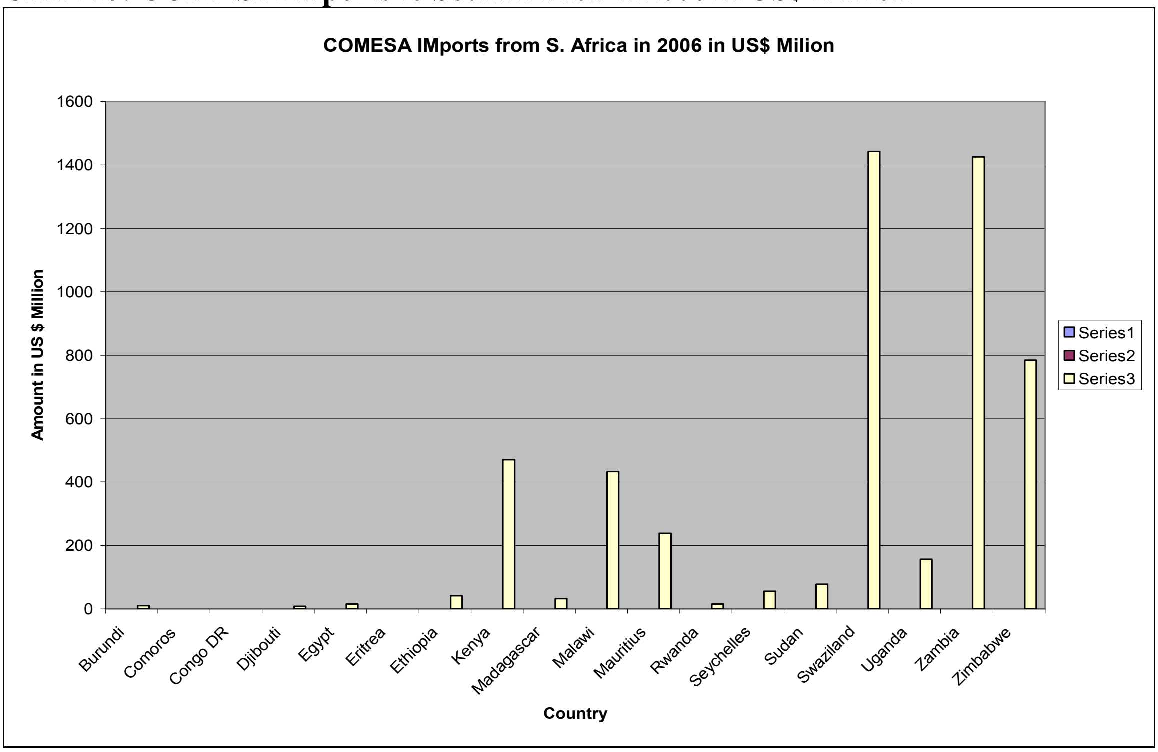
[37] South Africa can act as a proxy for SADC due to its' dominant role in the grouping.

**Chart 15: COMESA Exports to South Africa in 2003 in US $ Million.**




Source: Muyakwa S. L. and UNECA (2008 page 20)

**Chart 17: COMESA Imports to South Africa in 2006 in US$ Million**




Source: Muyakwa S. L. and UNECA (2008 page 20)

Chart 17 above shows the same picture in terms of imports. The picture shows that Zambia and Zimbabwe are very dependent on imports from South Africa.

### 6.4 Challenges of Regional Integration

The above analysis suggests that the level of intra- COMESA and intra- SADC trade is not very encouraging both in a historical context and presently. As far back as 1991, Mulat T[38] showed that the intra- Africa trade was low. Since 1990 intra-regional trade stagnates in SADC at around 6% of member countries' total trade. COMESA was able to increase its intraregional trade level slightly from 7% in 1990 to around 7.5% in 2003 after the creation of the free trade area in 2000.

However, intra-regional growth rates in the period 2001-2003 were encouraging with 9% for SADC and 11.5% for COMESA[39]. This positive trend has continued and will lead to sustainable intra-regional trade expansion in southern Africa depending, to a considerable extent on the ability to overcome the existing obstacles to intra-regional trade and deeper economic integration.

The above analysis further shows that the two regional bodies are negotiating deeper forms of regional integration, namely a Free Trade area for SADC and a Customs Union for COMESA in 2008. This has several implications in relation to the EPAs. Deeper regional integration, especially for the Free Trade Area under SADC will entail further cuts in tariff revenue to the government at the same time as the EPAs will entail loss of tariff revenue for the EU trade. Another challenge is that the EPAs have their own rules regulating trade such as rules of origin which are different from the regional integration rules. This places enormous strain on the trade regulating authorities in Zambia who have to content with different sets of rules for different trading blocks. A further point to note is that a free trade arrangement in SADC includes South Africa, a major entry point for Zambian imported goods. There are possibilities that EU goods, though on the sensitive list under EPAs, are imported through South Africa (or any other regional port which has a free trade area status with Zambia) may enter Zambia without tariffs and thus severely affect the producers in Zambia.

Some of the key challenges in regional integration include i) non complimentary trade structure in the region as most countries produce the same goods making trade difficult, ii) poverty which reduces the purchasing power of consumers and hence the market size, iii) supply side constraints especially roads, communications and cost of doing business, iv) the high dependency on trade taxes thus reducing the countries' desire to reduce tariffs, v) trade imbalances as some countries like South Africa in SADC and Kenya or Egypt in COMESA get more benefits from regional integration on account of their high levels of industrialisation, vi) the existence of non tariff barriers to trade such as

[38] Mulat T. (1991): Commodity Trade Flows Between African Countries: Developments, Problems and Prospects in Saasa O (Editor): Joining the Future: Economic Integration and Cooperation in Africa. Lusaka, Zambia
[39] Ibid

exchange rate restrictions and road blocks, viii) complex rules of origin especially under SADC.

### 6.5 Trade Harmonisation between COMESA/ SADC and EAC

The Regional Economic Communities (RECs) of COMESA, SADC and EAC have long recognised the importance of improving trade facilitation (amongst other issues) in the context of deepening regional integration and in reducing the costs of cross-border transactions and so improving economic livelihoods. As such, the RECs have supported a number of trade facilitation instruments such as regional customs bond guarantee systems, a regional 3rd party vehicle insurance scheme, harmonised axle loads and vehicle dimensions, a single customs document, harmonised customs procedures, regional carrier's license, etc. All RECs have also supported infrastructural development programmes. The thrust of the cooperation and coordination is to "preserve" the existence of the three RECs as they represent fundamental elements of interest to each member state[40]. The ultimate aim is to develop common trade tools for all the three RECs so that come 2010 when there will be a lot of activity around customs union, all the three RECs use identical trade tools and can thus trade with each other as if they constituted one economic space. The main tools of trade being coordinated and harmonised include i) rules of origin, ii) customs valuation, iii) customs declaration documents iv) FTA tariff elimination timelines, v) development of a common tariff nomenclature vi) non tariff barriers, vii) sanitary and phytosanitary measures, viii) safeguards and trade remedies and, ix) sensitive products under a customs union.

The regional groupings have established mechanisms for dealing with these and other trade issues including an institutional arrangement where the heads of state of the three regional groups of SADC, COMESA and SADC will meet and agree on proposals submitted by the technical working groups from the three regional groupings.

### 6.6 The Challenges that an EPA pose for SADC and COMESA

Available data shows that the EU is an important trading partner for most SADC and COMESA countries and the most important trading partner for South Africa, Egypt, Burundi, Comoros, DR Congo, Mauritius, Madagascar, and Seychelles. On average, the EU accounts for around 30% of total SADC and COMESA imports and absorbs around 40% of their exports[41]

The immediate costs arising from an EPA are expected to be considerable for many African countries and have resulted in a strong opposition against the EPA from civil society organisations. Though, to date, it is unclear how the EPA will concretely look like, they are expected to imply severe revenue losses for most African countries since African countries are going to liberalise their import regime towards a major trading

[40] For details see Report of the Fourth Meeting of the COMESA/ SADC/ EAC Chief Executives on Co-operation in the Areas of Customs and Trade and Infrastructure. Zanzibar, Tanzania, 2007

[41] For details on this section see *Mareike Meyn* (2005) The Progress of Economic Regionalisation in Southern Africa – Challenges for SADC and COMESA in Hansohm D et al : Monitoring Regional Integration in Southern Africa Yearbook Vol. 5. Namibian Economic Policy Research Unit

partner. These revenue losses are expected to range between 1% for Uganda and Tanzania to 10-12% for Mauritius and Rwanda.

Another concern articulated by African negotiators is the limited option for infant industry protection. Since an EPA is supposed to liberalise around 90% of trade between the EU and southern African, the countries would be left with few options to industrialise. In this respect it is also critically highlighted that southern African countries, especially landlocked ones like Zambia, hardly have the capacities to implement effective safeguard measures in order to protect their industries from serious injury caused by "unfair competition", such as subsidised EU agricultural exports[42]. Considering these circumstances it is proposed that EPAs should exclude *a priori* sectors that are regarded as highly sensitive as well as products that are subject to EU export subsidies.

A further concern is the fragmentation of the regional groupings in the process of negotiating an EPA with the EU. This has seen the emergence of ESA EPA group, SADC EPA group etc. The LDCs who ordinarily should have a common cause are now scattered into separate groups to negotiate an EPA. This is not good for regional integration and the solidarity of the LDCs.

### 6.7 Summary Findings

The main conclusion from this section is that regional integration is considered an imperative for development but huge obstacles, such as heavy reliance on trade taxes and domination of regional power houses, stand in the way of smooth regional integration. The EPA negotiations have torn the unity of the regional groupings apart as counties have formed "new" negotiating blocks with the EU. There are, however, signs that efforts are being made at a political level to harmonise the regional integration efforts and achieve progress.

The regional integration negotiations, unlike the EPA negotiations, are driven by officials from the governments and the economic groupings with little input from civil society organisations. This is partly because the CPA under which the EPA negotiations fall has explicit provision for the participation of non state actors. Civil Society needs to identify entry points in this regional integration process and influence it for pro poor outcomes to materialise in the negotiations.

[42] For a detailed discussion on safeguard measures see Muyakwa S. L. and Trocaire (2005): Special Safeguard Measures for Developing Countries. Lusaka, Zambia

## 7.0 Overview of EPA Impact Studies Findings

As part of the EPA negotiations strategy, each ESA country was expected to conduct an EPA impact assessment. In Zambia, as in other ESA countries, these impact studies have been conducted. In this section, we outline briefly the outcomes of these impact studies[43].

The macro-sectors results from the study done by Keck and Piermartini (KP henceforth) is compared with the study done by the Oversees Development Institute (ODI). The studies group all products into nine macro-sectors. A few key sectors are selected for comparison and analysis in this section. The findings are as follows[44]:

### 7.1 Agriculture

Both studies conclude that agriculture is not going to be affected if agricultural based products are to be excluded from liberalisation. The main potential change is related to EU liberalisation of sugar quotas discussed above. The sugar quotas may increase Zambian exports of sugar to the EU. In the KP study, this potential change is captured by the increase in exports of food products, which include some sugar related categories (e.g.: refined sugar), and the subsequent reallocation of resources toward food products and sugar. The other channel through which agriculture may be affected by an EPA is via a change in input prices, and capital equipment in particular (e.g.: tractors, processing machinery, trucks). The EU is a relatively large provider of these inputs. There may, thus, be some competitiveness gains to be achieved by an EPA. There is, though, a significant risk of trade diversion from cheaper suppliers (who would still pay tariffs) to the EU. A separate and specific study done by Morrissey on agriculture sees very little negative impact from EPAs as the EU does not export horticulture products to the ACP countries. In some instances, the study saw gains from EPAs if the ACP country imports productive equipment from the EU which is used into farming at lower rates of tariffs. It is important to note that both studies do not adequately deal with the threat of EU goods coming into South Africa and entering Zambia as South African goods.

### 7.2 Textiles

The two studies say that the textiles sector should experience no change in imports again if (as seems likely) this sector is excluded. If that were not the case, then some large increase in imports from the EU is to be expected, especially in second hand clothing sector, where the EU is the largest source of imports. Both studies see such an increase as likely to displace local producers, although it has the potential to increase welfare gains through trade creation, benefiting in particular low income households.

[43] See bibliography for the key EPA impact Assessment studies
[44] For details see ODI (2006)

## 7.3 Heavy Manufacturing

The two studies say that in heavy manufacturing sector (including chemicals, plastic and construction material) most of the categories in this sector are likely to be liberalized. The direct impact of an EPA is going to be larger in terms of displacement of local production (especially chemicals and plastic) and cheaper factors of production. Both studies see the former effect as a decrease in the sector's share of value added, while the latter effect is likely to be enjoyed especially by those sectors using rubber and plastic as inputs. This is because the EU is the largest source of imports for these inputs, i.e.: the most efficient producer. The decreases in input prices in the other sectors (e.g.: chemicals and construction materials) are driven more by trade diversion than trade creation, thus offsetting the competitiveness benefit of cheaper inputs. The employment and incomes situation in Zambia is likely to get worse as local production in the manufacturing sector is displaced by EU imports.

## 7.4 Light Manufacturing

Regarding light manufacturing (including capital equipment and vehicles) both studies say this is the sector potentially causing most trade diversion for Zambia. This is mainly due to the road vehicles and some of the machinery sectors (especially electric machinery and optical instruments). On the other hand no major displacement of domestic producers is likely to happen, and benefits in terms of cheaper inputs are likely to be enjoyed for some Zambian sectors, in particular the processed food ones. The agricultural sector is not going to particularly benefit from the liberalisation, given the little share of imports from the EU in the agricultural machinery sector (6%). These findings are based on a static assumption that Zambia will always import vehicles from abroad and ignores the possibility of the country developing its' own vehicle manufacturing plants. Cheap imports of EU machinery through the EPA can prevent the development of a manufacturing industry in Zambia.

## 7.5 Summary Findings

The basic conclusion from this section is that the EPA will have some negative impacts on some sectors in Zambia. The impacts are most serious on the heavy manufacturing sub- sector. The monetary value of the impacts is considered manageable. This analysis is however static and ignores the potential for expanding Zambia's manufacturing base. The studies also ignore the fragility of the employment and incomes situation in Zambia.

# 8.0 Sanitary and Phytosanitary Standards (SPS)

## 8.1 Background to SPS

In simpler language, Sanitary and Phytosanitary Standards (SPS) refer to the set of trade rules relating to health and food safety. The WTO SPS agreement was negotiated in the context of the agreement on Agriculture - although its coverage extends to products other than agriculture. This agreement was a result of inadequacies experienced with the implementation of the technical barriers to trade (TBT) Agreement especially when applied to complex SPS measures[45].

The SPS agreement covers rules and standards related to food safety, animal and plant life and health. It recognizes the sovereign right of member countries to provide the level of health protection deemed appropriate for as long as such measures are based on an objective criteria and accurate scientific data. This implies that countries should have adequate testing and verification facilities in order to establish the scientific basis of certain measures employed. In most developing, especially least developed, countries, such facilities are lacking or inadequate. A country can also take temporary precautionary measures where there is not sufficient scientific evidence, while seeking further information. Furthermore, WTO Members can apply different SPS requirements depending on the origin of a product, climatic conditions and risks of diseases and pests in a given territory. The SPS Agreement is therefore seen as providing more leeway for WTO Members to adopt very high standards, which in some cases are construed as disguised restrictions to trade. Most products originating from developing countries, especially Sub-Saharan Africa, are unprocessed or raw agricultural products. Such products are therefore frequent victims of SPS measures maintained in the developed country markets.

## 8.2 Experiences of LDCs in Food, Safety and Health (SPS)

### 8.2.1 The Ugandan Fish Sector

The Ugandan economy has experienced substantial growth since the country embarked on an economic recovery programme in 1987. In the fish sector, investment grew. Fish exports grew from a value of US $ 1.3 million in 1990 to US $ 45 million in 1996, but fell to US $ 29.9 million in 1997, due to a temporary export ban by the European Union. In 1996, fish and fish products were the country’s second largest export earner after coffee. The quantity of fish harvested from Ugandan waters increased from about 175,000 tonnes in 1985 to about 219,000 tonnes in 1997.

In the early 1990s, the EU adopted several measures for fish product imports to restrict imports and protect the health of EU consumers from food poisoning and intoxication. Among the measures adopted was testing for pathogenic micro-organisms in fish products entering the EU. However, at about the same time, Uganda had established a

[45] Most of this section draws on Muyakwa S. L. and Both ENDS (2004): Market Access Manual. Lusaka, Zambia.

market for its fish products - including a market for chilled and frozen fillets - before any national and international quality standards had been formulated. When EU standards were established, Uganda had no prior national standards in place to satisfy the requirements of the EU market. This EU SPS requirement curtailed the Ugandan economy's lucrative market for fish and all the investments made were threatened.

#### 8.2.2 Zambia's SPS Experience with Honey

Some 10,000 farmers in North-Western Province of Zambia have been producing honey and beeswax for many years. The North Western Province is an accredited producer of organic and fair trade honey, providing scope for commanding considerable price premiums for producers and exports. Annual exports are some 600 to 700 tons per year, worth about US $ 1.5 to 2.0 million. Most exports have been directed to the European Union. However, the nearby South African market represents a large market opportunity for Zambia, with the potential for realizing considerable higher prices than currently obtained.

At present, imports of honey into South Africa from Zambia are required by South African authorities to be irradiated for the elimination of the possible presence of American Fool Brood (AFB)—a disease in honeybees. Honey is sent to South Africa in bulk 200 litre containers and irradiated in Johannesburg before release for sale. The use of irradiation darkens the honey and nullifies the organic certificate. It is blended with South African honey and marketed as originating from South Africa. These conditions are applied because it is unclear to the South African Authorities what the status of AFB in Zambia is.

It is important to note that the SPS are a serious obstacle to market access but are not the main obstacle to expanded agricultural exports in Zambia. Supply side constraints such as quantities, quality and cost are more important obstacles. This is because of the raw nature of Zambia's agricultural exports[46].

### 8.3 Summary Findings

The above case study shows the difficulties developing countries, especially the LDCs face regarding SPS measures. The developed countries sometimes put up SPS measures to block exports coming from LDCs while in some cases, the SPS measures require investments well beyond the financial capacity of LDCs to implement. The problems of the SPS and TBT present formidable obstacles to developing country exports. It is only through concerted efforts and negotiations that a resolution of these problems can be found. While Zambia faces SPS challenges, supply side constraints are more serious. The focus for Zambia should revolve around resolving the supply side constraints and then move into the SPS area.

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46 Source: World Bank and USAID (2006): Zambia: SPS Management. Recommendations of a Joint World Bank/USAID Assessment Team, Lusaka, Zambia

# 9.0 Conclusions and Recommendations

## 9.1 Conclusions

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, for its part, 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. However, 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, fraught with risks 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.

### 9.2 Recommendations

#### 9.2.1 Recommendations to the European Commission

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 her economy and markets.
- 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 her ability to cope with the costs of adjustment caused by trade reforms already undertaken, those to be undertaken and the erosion of preferences.
- Ensure that the EU's trading relationship and negotiations with Zambia and other ACP countries supports the development efforts rather than driving the development strategies, including efforts to create larger regional markets.
- 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 must be linked to development benchmarks and should not be undertaken unless it will contribute to poverty reduction.

#### 9.2.2 Recommendations to the Zambian Government

The main recommendations to the Zambian Government are as follows:

a) The Zambian Government faces a taunting task of harmonizing the numerous trading programmes at bilateral, regional and multilateral levels and this with limited resources. 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 health and food safety rules, while at the same time preventing trade that would cause harm to the Zambian economy and people.
b) 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 EPAs.
c) The Government, together with likeminded 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.
d) Within the EPA negotiations, the Government should seek to obtain some 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.

e) 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 EPAs strategy.
f) 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.
g) Government must address the supply side constraints so that producers will be able to take advantage of the EU Market. The EU should agree to pay for the removal of supply side constraints.
h) The Government must, as a matter of urgency, institute measures to ensure that South Africa does not import EU goods whose identity is changed only to enter Zambia as South African goods.
i) 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.

#### 9.2.3 Recommendations to CSOs

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

a) Zambian CSOs, with their international partners, have so far managed to play a critical role in sensitizing the public on issues of trade and economic liberalisation. The CSOs should continue and intensify this activity.
b) Zambian CSOs have been instrumental in advancing pro-poor options to the Zambian Government regarding trade policy formulation, implementation and monitoring. Zambian CSOs should continue and enhance its efforts in this direction so that the Government is aware of the consequences of trade policy on poverty reduction.
c) CSOs have been in the forefront of pointing out the dangers of the EPA on poverty reduction. These efforts have begun to bear fruit as more and more governments around the world are beginning to take note and pressure is mounting on the EU to take note of these concerns. CSOs should continue to perform this function.
d) CSOs have engaged in research to inform the trade policy advocacy and lobby work. This should continue so that the Government authorities have no option but to listen to informed contributions from the CSOs.
e) The regional integration agenda appears to be dominated by government officials. CSOs should double efforts to penetrate this 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. CSO input in this process is critical.
f) CSO 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.

g) The CSOs should pressure the EU to provide funding for the social safety nets and training programmes needed to cushion the impacts of EPA on the employees that may lose their jobs.
h) CSOs should lobby the Government and the EU to reduce the burden of the SPS and allow Zambia to fully participate in the sanitary and phytosanitary (SPS) setting fora.
   j) CSOs should review the findings of this report and pick out issues for continued lobby and advocacy work.
   k) CSOs should monitor the role played by agribusinesses to ensure that small scale farmers benefit from out grower schemes for export products.

**List of Annexes**

## Annex 1: Sensitive Products for Zambia

**Category 1**

1. Poultry products
2. Beef Products
3. Dairy Products
4. Garlic, fresh or chilled
5. Fresh vegetables,
6. Unpeeled tomatoes, whole or in pieces, prepared or preserved
7. Fresh cut flowers and buds, of a kind suitable for bouquets or for ornamental purposes,
8. Plain woven fabrics of cotton
9. Textile products and articles for technical purposes
10. Category
11. Wooden furniture of a kind used in kitchens
12. Wooden furniture for bedrooms
13. Wooden furniture for dining rooms and living rooms
14. Wooden furniture (excl. for offices or shops, kitchens, dining rooms, living rooms and bedrooms,

## Annex 2: Zambia's Special Products

1. Waters, incl. mineral and aerated, with added sugar, sweetener or flavour
2. Electric conductors, for a voltage.
3. Second hand clothing and textile products
4. Motor cars and other motor vehicles principally designed for the transport of persons
5. Flexible tubes, pipes and hoses, and fittings
6. Women s or girls overcoats, car-coats, capes, cloaks, anoraks, incl. ski-jackets, wind-cheaters, wind-jackets and similar articles, of textile materials, knitted or crocheted
7. Women s or girls trousers, bib and brace overalls, breeches and shorts of wool or fine animal hair, knitted or crocheted
8. Adhesives based on polymers of heading 3901 to 3913 or on rubber
9. Milk and cream in solid forms
10. Aerials and aerial reflectors of all kinds
11. Electric conductors
12. Chandeliers and other electric ceiling or wall lighting fittings
13. Beauty or make-up preparations and preparations for the care of the skin
14. Registers, account books, note books, order books, receipt books, letter pads, memorandum pads, diaries and similar articles, of paper or paperboard

15. Food preparations
16. Cartridges for smooth-barrelled shotguns
17. Electric hair dryers
18. Paints and varnishes
19. Receivers for radio-telephony, radio-telegraphy or commercial radio
20. Sparkling wine of fresh grapes
21. Conveyor belts or belting, of vulcanized rubber
22. Waterproof footwear incorporating a protective metal toecap
23. Printed matter
24. Articles for the conveyance or packaging of goods, of plastics
25. Bottles, flasks and similar articles; spools, spindles, bobbins and similar supports; stoppers, lid
26. Furniture of cane, osier, bamboo or similar materials
27. Discs, recorded, for laser reading systems, for reproducing sound and image or image only
28. Preparation of chemicals for photographic uses
29. Lead acid accumulators
30. Protein concentrates and textured protein substances
31. Electric instantaneous or storage water heaters and immersion heaters
32. Spools, cops, bobbins and similar supports, of plastics
33. Used pneumatic tyres of rubber
34. Furniture designed to receive refrigerating or freezing equipment
35. Scent sprays and similar toilet sprays, and mounts and heads therefore
36. Trunks, suit-cases, vanity-cases, executive-cases, brief-cases, school satchels and similar containers, with outer surface of plastics or textile materials
37. Trade advertising material, commercial catalogues

## Annex 3: Table of People Interviewed

| Name | Gender | Organisation | Position | Comments |
|---|---|---|---|---|
| 1. Judith Fessehaie | Female | Ministry of Commerce Trade and Industry | Advisor | |
| 2. Dominic Chanda | Male | Civil Society Trade Network of Zambia | Programme Officer | Supplied data |
| 3. Vladimir Chilinya | Male | " | " | Supplied data |
| 4. Jimmy Daka | " | Organisation Development and Community management Trust | " | Supplied data |
| 5. Angela Mulenga | Female | Consumer Unity Trust-Africa Resource Centre | " | Supplied data |
| 6. Ellla Chembe | " | Zambia National Farmers Union | Economist | |
| 7. Penias Chabwela | Male | Zambia Chamber of Small and Medium Business Associations | Membership, Monitoring and Evaluation Coordinator | |
| 8. Clive Saili | " | Zambia Chambers of Commerce and Industry | Policy Officer | Email Response |
| 9. Dr. Moses Tekere | Male | COMESA | CTA | Madagascar Senior Officials EPAs meeting in August 2008 |
| 10. Stephen Karangizi | Male | COMESA | Deputy Secretary General | Madagascar Senior Officials EPAs meeting in August 2008 |
| 11. Calson Mbengabolowe | Male | COMESA | Multilateral Trade Advisor | Madagascar Senior Officials EPAs meeting in August 2008 |
| 12. Jack Jones Zulu | Male | United Nations economic Commission for Africa-Southern Africa Office | - | Email contacts |
| 13. Eunice Phiri | Female | Zambia Association of Manufacturers | Executive Officer | |
| 14. Cecilia Binga | Female | - | Small Scale Farmer | **Choma Rural** |
| 15. Mary Sitima | Female | - | " | " |

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