



## MINISTRY OF TOURISM, TRADE AND INDUSTRY

### Press Interview with the Permanent Secretary, (Dr Sam G. Nahamya), on EPAs

*1. There does not seem to be sufficient understanding of the whole concept of Economic Partnership Agreements (EPAs). Could you please explain what the EPAs are?*

The EPAs are a trade regime that will replace the current non-reciprocal preferential trade regime extended to the Caribbean, African and Pacific (ACP) Group of States – of which Uganda is a member – when it expires on the 31<sup>st</sup> December 2007. Currently, the trade cooperation chapter of the Caribbean, African and Pacific (ACP) Group of States-European Community Partnership Agreement (Cotonou Agreement) guides our trading regime with the European Union (EU). The Cotonou Agreement covers other components such as Development Cooperation under which the European Union extends development assistance to ACP states through the European Development Fund (EDF). While the other components of the Agreement expire in 2020, the trade cooperation chapter expires on 31<sup>st</sup> December 2007.

Under the trade cooperation chapter of the Cotonou Agreement, the EU extends preferential treatment to exports from ACP countries such as Uganda. By preferential treatment is meant the fact that the EU levies lower tariffs/import taxes on imports from ACP countries than she levies on similar imports from countries that are not members of the ACP Group. For example, exports of live fish to the EU by Uganda attract zero (0) tariff by virtue of being an ACP member while the EU charges a 16% tariff from other trading partners; for fish fillets Uganda's exports attract a zero (0) duty while those from non-ACP trading partners of the EU attract 18%. With regard to flower exports such as cut flowers and flower buds, Ugandan exports do not pay any tariffs/taxes while exports from non-ACP countries to the EU attract an 8.5% tariff. For decaffeinated coffee, our

exports to the EU do not attract any taxes while exports of decaffeinated coffee by non-ACP countries to the EU attract an import tax of 8.3%. This kind of treatment is extended to 97% of ACP exports to the EU.

The EU has had this form of trading relationship with ACP countries for well over thirty years. They were previously governed by the Lome Conventions. Hitherto, we have not been required to extend similar favours to imports from the EU in order for our exports to benefit from the preferential treatment. Thus, it is a non-reciprocal preferential trade regime. Given that the relationship is non-reciprocal in nature and that the EU discriminates amongst her trading partners, by exempting exports from the ACP from tariffs while exports from other countries which are also World Trade Organization (WTO) Members are made to pay the duties/taxes, the current trade regime as contained in the Cotonou Agreement is in breach of WTO/international trade rules. International trade rules allow countries to charge exports from selected countries tariffs lower than what they charge others provided the two countries/trading blocs enter a Free Trade Agreement or a Customs Union – like has been done under the East African Community, and provided they do not raise tariffs on non-participating trading partners to levels higher than those previously applied.

The EPAs are following this mode. An aspect of reciprocity will be introduced in the trade relation with the EU. WTO rules allow ‘less than full reciprocity’ or asymmetry if there are differences in the levels of development in countries participating in such negotiations. What this means is that such countries do not have to take on equal commitments. This has been inbuilt in the EPAs negotiations; for example, under the framework EPA signed by the EAC and EC on 27<sup>th</sup> November 2007 in Kampala, the EU offers full duty free and quota free market access to our products effective 1<sup>st</sup> January 2007 while about one-fifths of our imports from the EU are completely excluded from liberalization. For sectors where liberalization will be undertaken, it will be done in a phased manner over a period of up to twenty five years and it does not start in 2008.

This is what precisely what the EPAs are: a trade regime that will replace the current non-reciprocal trade arrangement when it expires, with a view to safeguarding existing preferences on the EU market and improving market access in the EU market on a secure and predictable long term basis. It will be reciprocal – but less than fully reciprocal – in nature.

***2. You have just mentioned a framework EPA that was signed by Uganda and other East African Community countries and the European Union on 27<sup>th</sup> November 2007. Could you please elaborate more on what exactly is in there and what the implications are?***

The initialed framework agreement contains Market Access offers made by both the EAC and EC to each other. The EC market access offer consists of duty free and quota free access except for rice and sugar for which a transitional arrangement is to be put in place. After 2010, all Ugandan exports to the EU will be duty free and without quota restrictions. Implementation of the EC Market Access offer begins on the 1<sup>st</sup> January 2008.

On its part, the EAC also made her Market Access offer to the EU that consists of 82% liberalization of imports from the EU over a twenty five (25) year transition period. In effect, the first real liberalization will begin in 2015 and is done in phases. The EAC offers to liberalize 64% of her imports from the EU in 2010. The products covered in this phase are already zero-rated/do not attract any import taxes under the EAC Customs Union Common External Tariff (CET). This is because they are either classified as raw materials or capital goods. From 2015 – 2023 further liberalization covering 14% of Uganda's imports from the EU will be undertaken. About one-fifths (18%) of our imports from the EU are to be excluded from liberalization. The criteria for including products on this list included; contribution to rural development, employment, livelihood sustainability, promotion of food security, fostering infant industries, contribution to government revenue, and protection of Uganda's interests in the regional markets. Products which were

deemed to contribute or to have a potential to contribute to increased production and trade competitiveness were excluded from the list. In addition, products which the European Union cannot produce by virtue of its climate - such as millet – were also offered for liberalization because the EU cannot produce, or export these products. This approach helped us to shield as many sectors as possible of the economy from liberalization where competition would have been real.

The framework Agreement also addresses issues of non-tariff barriers and trade defence instruments. The latter allows Uganda to raise tariffs to protect against imports of either goods that are being dumped or where an increase in imports is hurting local industry.

In order to prevent any trade disruption the Framework Agreement maintains the same rules of origin during the period of the negotiations for the comprehensive EPA. The one significant exception to this is in the area of Apparels and Textiles. Here, we have agreed with the EC on a simplification of the rules of origin to allow Ugandan companies to source fabric from anywhere into the world and still be able to export the garments made into the EU free of duties or quotas. It is anticipated that the private sector will find this feasible given the proximity of Europe to Uganda.

With regard to inland fisheries, the provisions commit the EC to co-operation to improve access to the EU market, attract capital inflows and investment into the sector, enhance aquaculture production, remove supply side constraints and improve the quality of fish and fish products to meet sanitary and phytosanitary measures/standards in EU market.

On Development, EAC and the EC have agreed that economic and development co-operation will be an entire chapter in the final EPA text. Development cooperation

will aim at addressing the supply-side constraints, impediments to business, and to enable the signatories – including Uganda – to build capacity to exploit the trade opportunities created by the EPA. The EC side has confirmed that it will provide the resources to address these constraints through their regular development aid, as well as through the ‘Aid for Trade’ Initiative and the EU budget. Both sides agreed to continue negotiations in this area next year.

The implication of the Framework EPA is that Ugandan exports to the EU will continue to enjoy preferential treatment on the EU market. The products eligible to benefit from this treatment are now more than they were under Cotonou.

3. ***Some people are scared that with an EPA, the Ugandan market will be flooded by European products which will force them out of business and lead to closure of local industries. What do you have to say about that?***

The most important thing to note is that currently an average of 64% of our imports from the EU are already zero-rated, that is, do not attract any taxes when imported into the country. This is mainly because of the nature of such imports; they are either of capital nature like machinery which we need cheaply to boost our production sectors, or products that we need but cannot produce here such as pharmaceutical products. Therefore, the fears you are talking about cannot become a reality when we have protected certain sectors by excluding them from any possible liberalization, and have phased-in liberalization in the few sectors where liberalization will be undertaken. More importantly, we have sufficient defence mechanisms in the text as I have just explained.

The most prudent thing for us to do, using a public-private partnership approach, is to undertake deliberate measures to enhance the country’s production and trade competitiveness. This should be done, at least, during the transition period/period of tariff phase down. Enhancing our production and trade competitiveness would be the logical thing to do, with or without an EPA. We are optimistic that the Development component of the EPAs, together with implementation of the National Trade Policy, the Diagnostic Trade Integration Study (DTIS) Action Matrix and the Competitiveness and Investment Climate Strategy (CICS) will improve our capacity to trade with not only Europe, but also with the rest of the world and even domestically.

4. *Uganda is eligible to benefit from the Everything But Arms (EBA) initiative of the EU. Why did have to opt for an EPA where we have to give something in return for what we are to get from the EU?*

The answer for this lies in the importance of predictability and transparency as a form of enabling environment for private sector growth. Predictability and transparency are pre-requisites for private sector growth.

First, the EBA is unilateral – that is, it was not negotiated, but simply given under terms and conditions decided by the EU. This means it can be withdrawn or modified anytime. The EBA has a list of ‘potential beneficiaries’, not of ‘beneficiaries’. Some Least Developed Countries have been barred from using the EBA for having policies or practices which the EU does not approve of. This kind of situation is not suitable for long-term or even medium term business/investment decision making. For example, a shrewd business person would not get a loan to invest in a business to take advantage of such a market when the expectation is that the net benefits of the investment/business would be positive over say five years! This is because you would not know whether Uganda would still be eligible for EBA in the next year since it is subject to periodic reviews. This lack of predictability works against our private sector and continues to undermine its competitiveness and efforts to move to invest in value addition ventures. The choice between EPAs and EBA is therefore a choice between uncertainty and predictability/certainty. Anyone would go for the latter.

Secondly, it is important to note that currently both the Cotonou arrangement and the EBA are available to Ugandan exporters to the EU, at least since 2001. An examination of the utilization of the two schemes indicates that up to 99.5% of Ugandan exporters to the EU prefer the Cotonou arrangement over the EBA. This is mainly because of the stringent Rules of Origin under EBA as compared to the Cotonou Agreement Rules of Origin. Under EBA, you can only use components or inputs from either the EU or another Least Developed Country, but not from countries such as Kenya. Our fellow Least Developed Countries also suffer from similar problems, and thus we cannot source inputs from such countries. If we source inputs from non-Least Developed Countries such as Kenya where

we currently get them from, we are ineligible for EBA – depending on the value of such inputs or components. On the other hand, Cotonou allows us to use materials from countries such as Kenya and South Africa. It is therefore prudent to choose an arrangement that builds on the Cotonou arrangement in the form of the EPAs.

**5. *There are some sections of society that say the EPAs are being imposed on the African countries by Europe. What is the true position?***

I hold a different opinion. The negotiation of EPAs is based on the Cotonou Agreement, signed way back in 2000. In this Agreement, besides agreeing to the current non-reciprocal preferential trade regime, both the ACP and EC agreed to negotiate WTO compatible Economic Partnership Agreements. It was also agreed that the negotiations would be concluded by 31<sup>st</sup> December 2007 “unless earlier dates are agreed”. The Cotonou Agreement was concluded with provisions that breached WTO rules, and as such a WTO waiver/permission to derogate from a country’s international trade commitments, was immediately sought and granted in 2001. The waiver, just like the current Cotonou trade provisions, also expires on 31<sup>st</sup> December 2007. So, in effect the decision to negotiate the EPAs was a joint one between the ACP Group of States and the EC and its member states.

**6. *Who are the different groups negotiating on Uganda’s side and what is their role?***

The negotiations are following a consultative process under the auspices of the IITC. The stakeholders on the IITC – public sector, private sector, civil society and academia are known to have their own mechanisms of interacting with their own stakeholders before the wider IITC consultative meetings. For example, in the private sector there are EPAs cluster working groups and the Trade Policy Core Team – both under Private Sector Foundation Uganda (PSFU). The Ministry has provided technical input into the activities of these groups as they prepare to and engage in the EPAs process. Within the civil society, there is the Civil Society working group on EPAs. Then there is the core technical team led by the Ministry which draws technical expertise from different Government Ministries and agencies. All these work in a complementary manner.

**7. *Some people have expressed concerns that EPAs negotiations have continued despite the slow progress at the World Trade Organization. Could you give us an insight on the relationship between the WTO Doha Round and the EPA negotiations?***

Negotiations under the Doha Round have moved at a slower pace than originally anticipated to the effect that nobody knows when they will be concluded. EPAs negotiations are expected to conform to Article XXIV of the WTO/GATT 1994 which governs Free Trade Agreements. It provides, inter alia, that under such Agreements, liberalization of trade should cover ‘substantially’ all trade. The ACP Group made

proposals on amending Article XXIV in 2004 with a view to making it take on more of her interests. Unfortunately, we as ACP have not been good at following up our own proposal and it has somehow fallen off the main Doha negotiations. I do not envisage an amended Article XXIV at the conclusion of the Doha Round; so in effect if we decided to wait for the Doha to conclude before proceeding with the EPAs we would be waiting for what we already have. It is not worth risking the flow of trade with our main export market by waiting for what we already have.

I am aware that some people are also concerned that a number of issues not being negotiated under the WTO are being negotiated in the EPAs. The truth is that we do not always get what we want in the WTO. So, if we have an interest we have not been able to get in the WTO but can get in the EPAs we seize the opportunity. For example, at one time some sections in Uganda were arguing that we should not negotiate Trade Facilitation because other countries were opposing it in the WTO! I thought that should be the last thing that we as a landlocked country should advocate for. The same goes for Investment, given our desire to improve and attract investments in this country.

The most important thing, therefore, is pursuing your economic and commercial interests; and not merely cheering on others who are pursuing their interests even when the hurt your own interests. Nevertheless, cohesion remains important; but such cohesion should cater for everybody's economic interests.

**8. *What is your appeal to the public about EPAs?***

It is important we ensure for a private sector a secure and predictable trading regime with their main export market. To leave the private sector to continue guessing the tariff, trade regime they would face in the EU on a perpetual basis is not in the interest of private sector growth. We must jointly work to ensure the predictability of this regime, and Government will not fail the private sector. The possible shocks that normally come with any change have been well anticipated and safeguards will continue to be in-built into the negotiations and ultimately the EPA.

My appeal to the public therefore is for them to objectively contribute to efforts aimed at achieving the above. We, public and private sectors, must also start preparing ourselves to be more competitive and thereby place ourselves in a vantage position to exploit the trade opportunities that EPAs will bring. We live in a competitive world and if we are not in a position to exploit the opportunities, someone else will exploit them.