Why should the SADC EPA allow export taxes?

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Negotiations on the SADC EPA are close to completion, but to finalize the deal limitations on export taxes should be abandoned. An acrimonious battle on the issue will impose more costs than allowing export taxes.

On 1 October 2014, the ten-year negotiations on free trade agreements between the European Union and groups from Africa, the Caribbean and the Pacific (ACP) will come to an end. It remains uncertain if all parties will have completed their Economic Partnership Agreement, or EPA. But on that day in October, regardless of the state of the deal, the EU will put an end to the difficult and at times acrimonious negotiations. The stakes remain high. The EPAs are meant to replace the long-standing Cotonou agreement, which gave ACP countries duty-free access to the wealthy European market. This access provided a competitive edge that will disappear if no agreement is reached. In SADC, Botswana, Namibia and Swaziland would lose duty free access to the profitable EU market; while South Africa and Angola, Mozambique and Lesotho would maintain access under the Trade Development and Cooperation Agreement (TDCA) and Everything But Arms agreements respectively.

Thankfully, the negotiations on a Southern African Development Community (SADC) EPA are close to completion, but a range of the most difficult issues have been left until last, and must now be overcome. Five remaining issues have consistently stood in the way of the completion of a deal. They are export taxes, the Most Favoured Nation (MFN) clause, agricultural safeguards, rules of origin, and regional integration. Each barrier remains important, but export taxes are particularly divisive. A change of mindset on the issue and a removal of requirements on export taxes would be a welcome step towards completing a workable EPA.

Fairness vs. policy space

Exports taxes are, as the name suggests, duties placed on exports. Export taxes are usually applied to commodities, in an attempt to divert supply of the good away from the export market and into the domestic market, thus driving the price up internationally and down locally. While they have sometimes been used to generate government revenue or improve food security, the primary use of export tariffs is to encourage local processing and beneficiation of basic goods. The EU insists on a ban on all export taxes for South Africa and Angola, and a ban on export taxes for other SADC EPA countries in all but a few extreme cases.

The EU sees export taxes as fundamentally unfair. Export taxes can drive up prices, harming the importer – in this case the EU – while relatively wealthy countries like South Africa benefit at their expense. The EU sees Africa as a vital strategic source of basic commodities, and is concerned about anything that can interrupt their supply of cheap raw materials. African countries see export taxes as a means to move up the value chain, and to break the colonial relationship in which they sell unprocessed goods to the rich world, and then buy back processed goods, making a loss in the process. They see the development of domestic processing as way to industrialize, creating jobs and moving the continent up the value chain. Both positions are legitimate, but there is nevertheless a clear avenue for resolution on export taxes.

The SADC EPA should allow export taxes

Simply put, the EU should abandon its objection to export taxes, for three reasons.

First, export taxes are highly unlikely to create large harms for the EU market. Export taxes impose costs on both the exporter and the importer. Exporters (African firms) have to pay an additional tax to export their goods. Importers (the EU) face extra costs because exporters raise prices to account for the tax. Crucially, the mechanism by which the EU would suffer is thus rising prices. But prices for the commodities the EU cares about are set on the world market. Unless a country has a huge proportion of the global market for that commodity, they will not have the requisite market power to change global prices significantly. In most cases, African countries do not have the necessary market power to effect global prices. This means that overwhelmingly it is local firms who will bear the cost of export taxes, because they will have to accept both the tax and fixed world prices. Given this cost, there is a natural disincentive against the use of export taxes, and they will almost certainly be used sparingly, and only in cases in which they can do so much good that this harm is offset.

Secondly, banning export taxes is an intrusion on the sovereign decision-making of African states. Yes, export taxes are complicated and many opposing voices need to be considered. But these voices should be heard in the context of a domestic political process that is accountable and balanced. Europe insists on similar sovereignty for the industrial support it provides under the Common Agricultural Policy, and it is hypocritical to ignore these demands in the case of Africa. Domestic policymaking processes will make better decisions and will more closely reflect the views of those exporters who are most effected by the costs of export taxes.

Finally, export taxes have become an incredibly poisonous issue. They are seen as representing Europe’s attempt to maintain old colonial value chains, and of ignoring the development interests of the continent. The idea that shoving these conditions down the throat of African states will exacerbate Europe’s resource security is misguided. Even if Europe succeeds in banning export taxes, this victory will come at a further loss of ground in the battle for the hearts and minds of African states. Europe has already fallen behind the likes of China in tapping into Africa’s natural wealth for precisely this reason. Ultimately, a strained relationship will cost Europe more than the use of export taxes will ever provide.

Conclusion

The SADC EPA will only make a meaningful contribution if it can succeed outside the negotiating room, when it is placed in the hands of the domestic regulators who must put it into practice. Successful implementation will only be possible if those politicians and civil servants believe the deal is beneficial. Strategic concessions on issues like export taxes hold the key to building the necessary political will to give life to the deal, and to strengthen the vital EU-Africa partnership.

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