

Ex-Post Evaluation of the Economic Partnership Agreement (EPA) between the EU and its Member States and the Southern African Development Community (SADC) EPA States

(TRADE2022/C1/C12 - 2022/OP/0007)

Preliminary findings on the impact of the EPA

October 2023



Project funded by the European Union. The views expressed in this document do not represent the official point of view of the European Commission or the SADC EPA State governments

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a team led by



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Preliminary findings on the impact of the EPA - overview



Economic effects



Social effects



Environmental effects



Effects on human rights

Economic effects

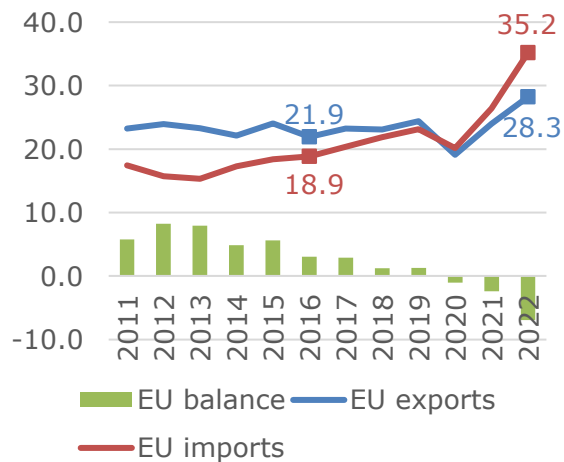
Overview

- **Overview of trade developments between SADC EPA States and the EU**
 - Over time (before/since EPA)
 - Compared to other trading partners
 - Problem: many factors intervene, in addition to the EPA
- **Computable general equilibrium (CGE) model results**
 - Isolate the impact of the EPA, compares actual situation by 2022 with two counterfactuals:
 - **Scenario A:** TDCA would have prevailed
 - **Scenario B:** No trade agreement would have been in place
 - But: simplified version of reality

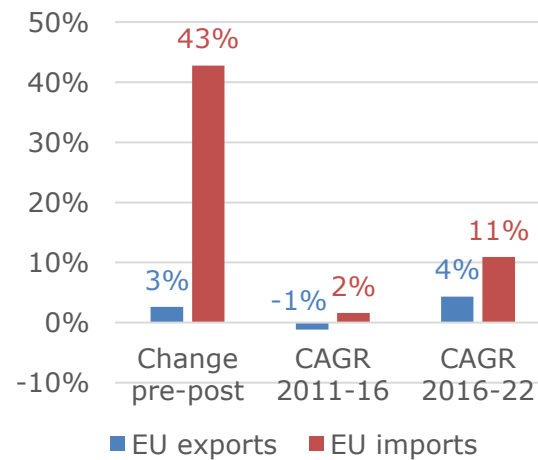
Trade performance over time

1. Trade between the EU27 and the six SADC EPA partners had stagnated between 2011 and 2016, but since 2016 increased substantially
2. Average growth in bilateral trade was higher since the EPA, both ways
3. South Africa accounts for about 80%-90% of bilateral trade – in line with its share in regional GDP
4. EU-Mozambique trade also increased, and grew faster, since the EPA started to be applied in 2018

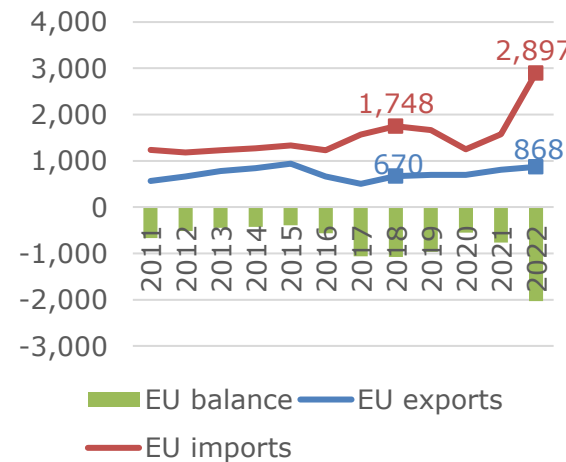
EU-SADC EPA State bilateral trade, 2011-2022 (€ billion)



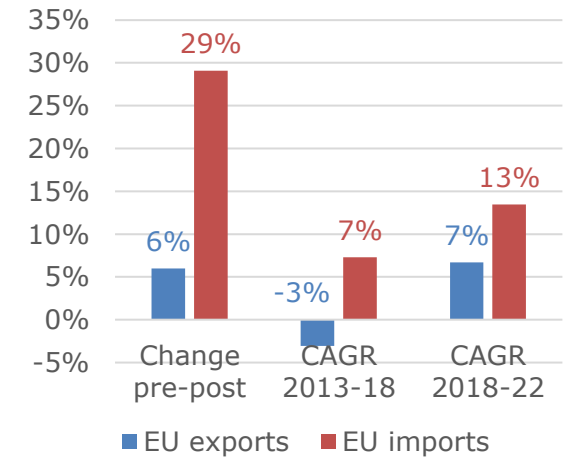
EU-SADC trade growth rates pre- and post-EPA



EU-MOZ bilateral trade, 2011-2022 (€ million)



EU-MOZ trade growth rates pre- and post-EPA



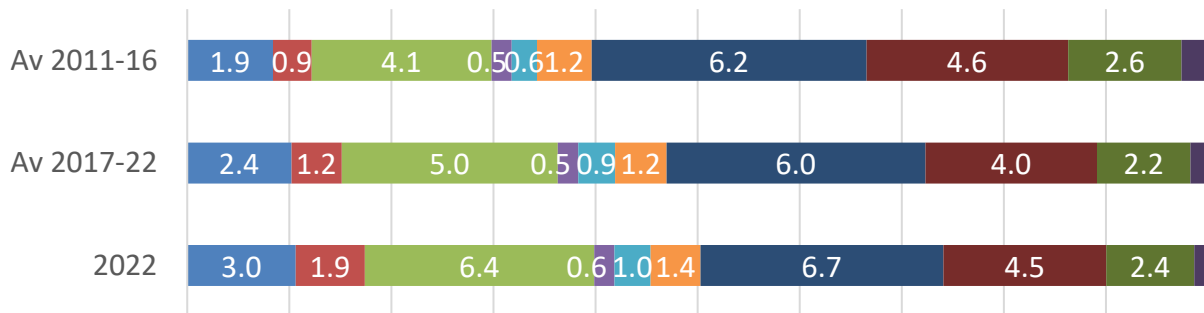
Sector composition of trade (1)

- Changes in the composition of trade over time have been limited, at **regional aggregate levels**:
 - EU exports to SADC EPA are led by machinery, chemicals and vehicles
 - EU imports from SADC EPA are led by five broad sectors: stone (mostly precious minerals), vehicles, minerals, metals, and agriculture

EU-SADC EPA States trade by broad sector (€ billion, %)

EU exports to SADC EPA States

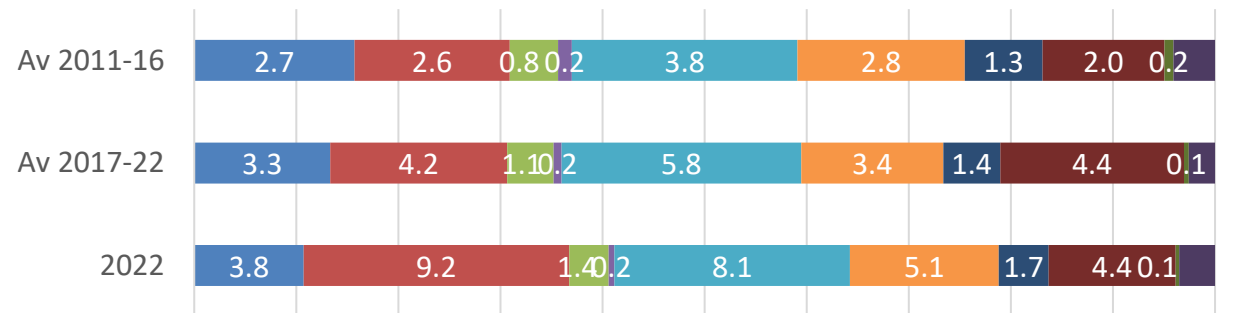
0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%



■ Agriculture ■ Minerals ■ Chemicals ■ Textiles ■ Stone
■ Metals ■ Machinery ■ Vehicles ■ Electronics ■ Other

EU imports from SADC EPA States

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%



■ Agriculture ■ Minerals ■ Chemicals ■ Textiles ■ Stone
■ Metals ■ Machinery ■ Vehicles ■ Electronics ■ Other

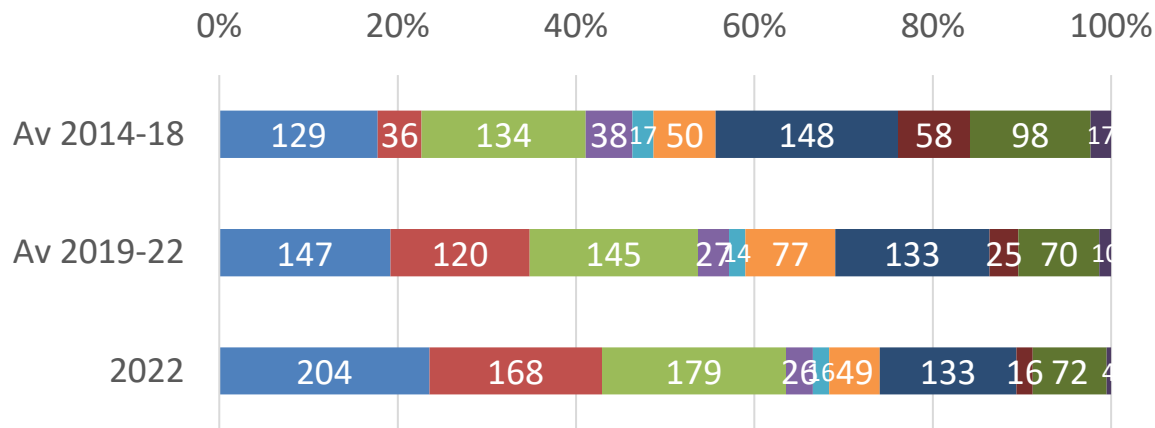
Sector composition of trade (2)

2. The composition of trade varies substantially across SADC EPA States. For **Mozambique**:

- EU exports of agri-food, minerals, and chemicals have grown at the expense of others
- EU imports are dominated by metals (aluminium), followed by minerals and agriculture/fish (decreasing share)

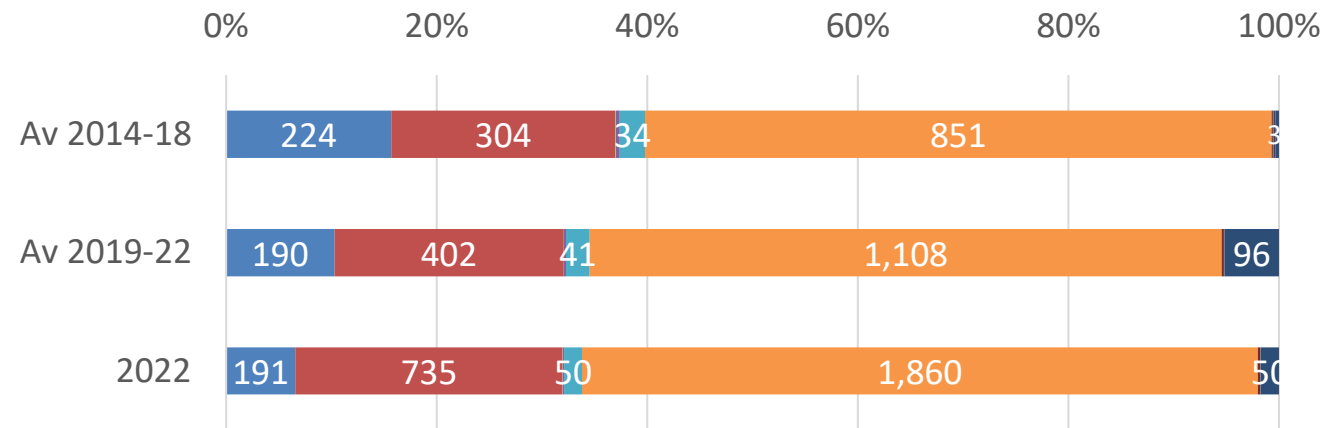
EU-Mozambique trade by broad sector (€ million, %)

EU exports to Mozambique



■ Agriculture ■ Minerals ■ Chemicals ■ Textiles ■ Stone
■ Metals ■ Machinery ■ Vehicles ■ Electronics ■ Other

EU imports from Mozambique



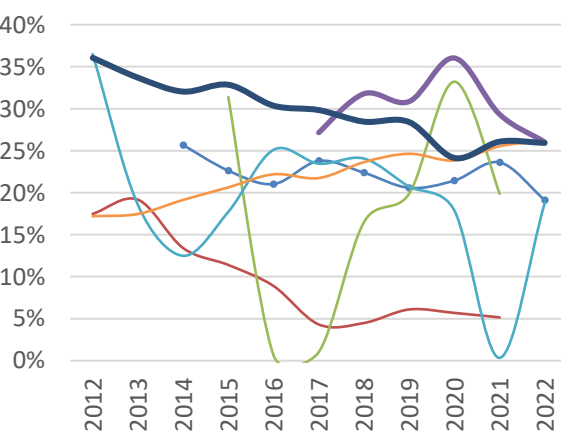
■ Agriculture ■ Minerals ■ Chemicals ■ Textiles ■ Stone
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Bilateral trade in context

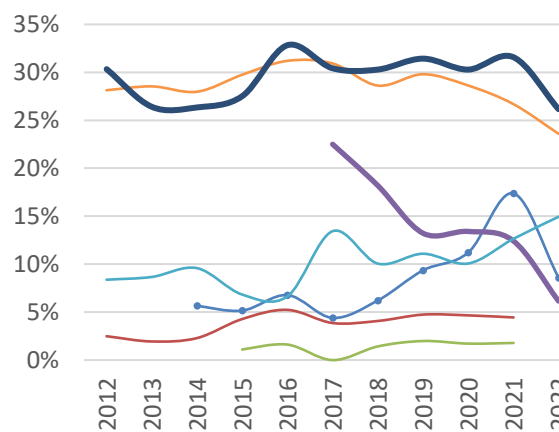
1. Despite the EPA, SADC EPA States have lost some importance as a destination for EU exports in the longer term (in relation to the EU's total extra-EU exports)
2. The EU's share in most SADC EPA States' exports has remained constant – in line with the continued preferential market access that these exports benefit from in the EU under the EPA
3. Differences across SADC EPA States are large – for **Mozambique**:
 - Exports to the EU have developed in line with other markets, imports from the EU have underperformed

Share of EU-SADC EPA bilateral trade in Parties' total trade, 2012-22

Exports

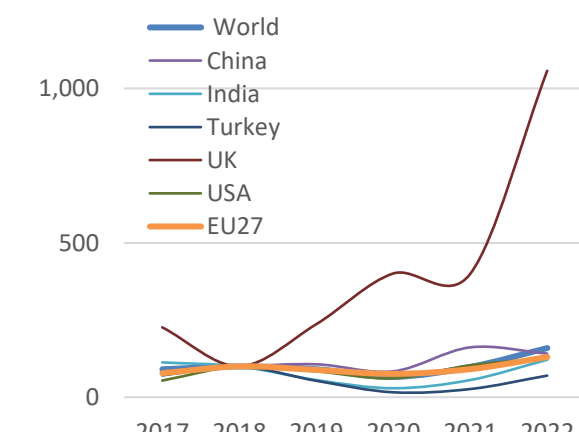


Imports

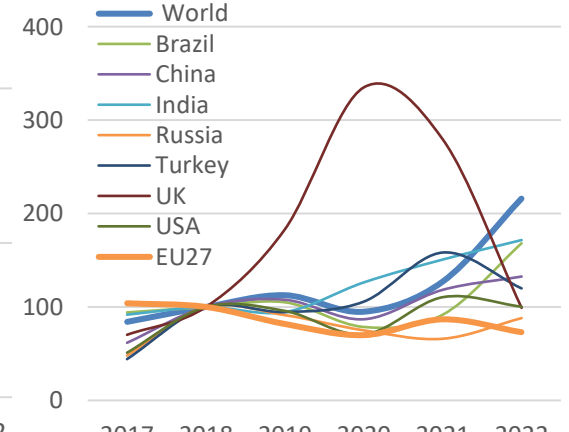


MOZ trade w/EU vs trade w/other partners (index, 2018=100)

Exports



Imports



— Botswana — Eswatini — Lesotho — Mozambique — Namibia — South Africa — EU27 (right axis)

CGE results - macro

- The EPA lowers the tariff for bilateral trade (**scenario A**, trade-weighted tariffs):
 - EU exports to SADC EPA States: from 5.74% to 0.5%
 - SADC EPA States exports to EU: from 1.44% to 0.03%

⇒ **Expanded two-way trade – by about 5.9%**
- Increased trade contributed to a **positive impact on real GDP for all Parties**
 - **Mozambique** (0.11%) has above-average gains
- **Economic welfare improved** both within the EU (a gain of €543 million) and across the SADC EPA region as a whole (a gain of €452 million)
 - Negligible welfare effect for **Mozambique** due to negative price impacts (terms of trade, GDP deflator and consumer prices all lower); real wages and output increase
- Impact of **scenario B** substantially larger for SADC EPA region as a whole
 - But limited differences between scenarios for Mozambique (hardly any differences in the tariff preferences)

CGE results - macro

Scenario A – comparison with TDCA

Bilateral trade		South Africa	Mozambique	Botswana	Namibia	Lesotho	Eswatini	SADC Total	
EU Bilateral Exports (€ millions, 2022 prices)		2,701	275	29	34	24	8	3,070	
SADC Bilateral Exports (€ millions, 2022 prices)		1,003	8	12	266	1	3	1,292	
EU Bilateral Exports (%)		7.7	20.2	5.5	3.0	48.1	4.6	8.0	
SADC Bilateral Exports(%)		3.4	0.5	0.4	14.1	0.3	2.7	3.6	
Welfare & GDP		EU27	South Africa	Mozambique	Botswana	Namibia	Lesotho	Eswatini	SADC Total
Economic Welfare (€ millions)		543	293	-10	19	149	2	0	452
Real GDP (% change)		0.0018	0.025	0.108	0.021	0.075	0.140	0.043	0.029

Scenario B – comparison with no agreement in place

Bilateral trade		South Africa	Mozambique	Botswana	Namibia	Lesotho	Eswatini	SADC Total	
EU Bilateral Exports (€ millions, 2022 prices)		8,352	276	81	91	27	21	8,849	
SADC Bilateral Exports (€ millions, 2022 prices)		5,880	-2	13	273	1	4	6,168	
EU Bilateral Exports (%)		23.9	20.3	15.7	8.1	54.2	12.4	23.2	
SADC Bilateral Exports(%)		20.1	-0.1	0.5	14.4	0.2	4.0	17.1	
Welfare & GDP		EU27	South Africa	Mozambique	Botswana	Namibia	Lesotho	Eswatini	SADC Total
Economic Welfare (€ millions)		593	1,507	-16	2	124	-4	-13	1,599
Real GDP (% change)		0.0025	0.042	0.103	0.006	0.087	0.183	0.092	0.044

Sectoral Impacts on SADC - Overview

- Half of SADC sectors saw an increase in bilateral exports to the EU due to the EPA
- Virtually all SADC sectors saw an EPA-driven increase in bilateral imports from the EU
- SADC sectors not benefiting from EU tariff liberalisation did marginally less well under the EPA as SADC resources were reallocated to sectors boosted by the EPA
- Overall impact on a given sector reflects the net effect of:
 - EPA-driven bilateral export gains to the EU;
 - EPA-driven import penetration of EU products in SADC markets;
 - Trade diversion effects (redirection of existing SADC exports to third parties towards EU markets, and switching sourcing of imports from third parties towards EU suppliers)
 - Impact on domestic sales of the EPA-driven income gains – non-traded sectors gain

Sectoral CGE results – Mozambique exports to EU

- Without the EPA, Mozambique would have enjoyed EBA tariff treatment in the EU under both Scenarios modelled. Accordingly, there is minimal direct impact on Mozambique's exports to the EU due to the EPA (and minimal difference between the Scenarios).
 - Commercial services see the biggest gain in bilateral exports: €5.8 million
 - This is driven by the additional economic activity generated by the EPA rather than sector-specific liberalisation
- Several sectors see very modest declines in bilateral exports:
 - Sugar sees a modest reduction of €0.95 million
 - This is the result of trade diversion as other SADC EPA states that do benefit from tariff liberalisation in the EU in this sector gain market share

Sectoral CGE results – Mozambique imports from EU

- Without the EPA, Mozambique would have imposed MFN tariffs on imports from the EU under both Scenarios modelled. Accordingly, many sectors would have experienced a direct impact
- Sectors experiencing the most import penetration by EU products as a result of the EPA are shown
- Imports in all these sectors make above average gains in the Mozambique market except commercial services, which is impacted by income gains rather than liberalization

	Bilateral Imports (€ millions)	Bilateral Imports (% change)
Metal products	33.46	33.25
Chemicals	30.81	22.19
Computer/electronic/optical	28.57	53.90
Electrical equipment	26.91	51.08
Other Manufacturing	22.93	53.14
Machinery and equipment	18.33	32.32
Other Meat	16.59	63.12
Rubber and plastics	15.22	47.79
Commercial services	14.55	6.21
Paper & paper products	11.84	35.13

Sectoral CGE results – Mozambique total impact on value of shipments (1)

- The total impact on a sector is the sum of its total exports to all markets (which takes into account redirection of existing exports towards the EU) and domestic shipments (which takes into account import penetration from all sources)
- Impacts reflect both quantity and price
- Mozambique’s leading gaining sectors in total shipments are in the energy sector
 - Gas and electricity export gains are to SADC, driven by the EPA income gains in SADC partners
- Chemicals and Forestry export gains are to third parties
- Chemicals import increase from the EU has limited impact on Mozambique producers as EU gains are at expense of third parties

Most positively affected sectors in Mozambique by value of total shipments, Scenario A (€ million)

	Total Exports	Domestic Shipments	Total Shipments
Coal	14.97	0.01	14.98
Gas	5.84	-0.02	5.82
Electricity	3.65	-0.59	3.06
Chemicals	2.22	-1.09	1.13
Forestry	0.93	0.13	1.06

Sectoral CGE results – Mozambique total impact on value of shipments (2)

- Mozambique's most negatively impacted sectors are in the services area
- These impacts are mainly driven by price effects – the lower tariffs under the EPA reduce prices and thus the value of sales
- Other meat, paper products and commercial services are the main trade-affected sectors
- In percentage terms, the paper products sector has by far the biggest negative impact on sales (€ 5.87 million or -9.1%)
- Other meat also has a palpable impact in percentage terms (-2.2%)
- Otherwise, the impacts on total shipments are negligible

Most negatively affected sectors in Mozambique by value of total shipments, Scenario A (€ million)

	Total Exports	Domestic Shipments	Total Shipments	
	€ millions	€ millions	€ millions	% ch
Public services	0.02	-9.72	-9.70	-0.12
Trade services	0.28	-8.55	-8.27	-0.86
Finance services	0.07	-6.51	-6.44	-0.37
Paper products	-0.31	-5.56	-5.87	-9.11
Other Meat	0.00	-4.08	-4.08	-2.19
Cattle	0.09	-3.77	-3.68	-0.66
Wheat	0.07	-3.05	-2.98	-0.31
Commercial serv.	6.73	-8.86	-2.13	-0.19

Social effects

Context / baseline

■ Key social issues in SADC EPA States (and links with trade)

- The economy and export structure of some SADC EPA States are focused on capital-intensive sectors (like mining) which do not create many jobs. Others have high employment shares in subsistence agriculture, with high informality levels and low incomes preserving poverty.
- Diversification of the economy and exports may create jobs for men and women (in agriculture, industry and services) helping to reduce high unemployment rates, poverty and job vulnerability.
- SADC EPA States would also benefit from improvement of education quality, including vocational training, to increase people's employability, also in jobs created by trade and investment.

■ Key social issues in Mozambique (and links with trade)

- Employment in agriculture offers export opportunities (e.g., tobacco, nuts). Income from selling for exports may contribute to reduction in poverty and child labour, at least locally.
- The country would also benefit from improved education quality to equip people in skills needed in jobs in the (processing) industry and services sectors producing for domestic market and exports.
- Complex registration requirements keep many businesses (and therefore jobs) informal. While they represent income opportunities, informality restricts access to capital, technology, markets & skills.

Findings – SADC EPA States

- **Building on the economic effects, overall social impacts of the EPA are limited, but they are more pronounced in some sectors, with differences across countries**
 - At the sector level (for the whole region), thanks to exports to the EU, an employment increase is estimated for sectors such as vegetables, fruit and nuts; sugar; prepared food; and automotive.
 - Increased imports from the EU may have had a negative effect on jobs in sectors like garments, leather, and rubber and plastics.
 - Imports of machinery and equipment may support SADC domestic production capacity.
- **Progress in ratification and implementation of ILO Conventions, but no EPA links**
 - SADC EPA States have ratified additional ILO Conventions in the reporting period.
 - Progress has also been made in the implementation of ILO Conventions: new or revised laws have been prepared (and some of them adopted), Action Plans (e.g., on the elimination of child labour or human trafficking) have been prepared, poor families with children have received support.
 - However, these activities do not seem to be linked to EPA, but rather domestic policy agenda, other commitments (e.g., SDGs) or cooperation with the ILO under Decent Work Country Programmes.

Findings – Mozambique

- **Prior preferential access to the EU market (under EBA) means limited EPA effects**
 - Against this background, limited employment creation has been estimated for sectors including coal, gas, beverages and tobacco, and leather (potential limited effects for poverty reduction).
 - Increased imports from the EU may have had a negative effect on employment in sectors including wheat, meat, dairy products, paper, rubber and plastics, and machinery (while the latter may also enhance domestic production capacity).
- **Examples of other labour-related developments (but no clear links to the EPA)**
 - MoU signed in 2018 to eliminate child labour from the tobacco industry. Additional school facilities for children of tobacco growing farmers, free meals at schools, awareness raising, and training.
 - Implementation of the National Action Plan to Combat the Worst Forms of Child Labour 2017-2022.
 - Tripartite Labour Advisory Commission consulted on the National Employment Policy and (under ILO Convention No. 144) on future ratification (see below) and implementation of ILO Conventions.
 - Ratification of ILO Convention No. 176 (Safety and Health in Mines), Maritime Labour Convention, 2014 Protocol to ILO Convention No. 29 and Protocol to Convention No. 81 (labour inspection).

Environmental effects

Context / baseline

- **Key environmental issues in SADC EPA states (and links with trade)**
 - SADC countries share many characteristics including high climate vulnerability
 - Low but rising greenhouse gas (GHG) emissions in all countries, except South Africa where emissions already high
 - Strong environmental concerns linked to mining
- **Key environmental issues in Mozambique**
 - Mozambique affected, on average, by a tropical cyclone or a flood event every two years & a drought event every three years
 - High economic losses, increasing food insecurity, internal migration and displacement
 - GHG emissions from land use, land-use change and forestry (LULUCF) are key contributors to rising emissions although emissions remain low in absolute terms
 - 267,000 ha of forests lost annually (0.79% of forests) with agriculture being the dominant driver of deforestation

Findings – SADC EPA States

- **Economic analysis indicates relatively limited trade effects of the EPA**
 - No major structural effects identified in relation to a diversification of exports
 - Levels of increase of exports from the SADC countries to the EU as a result of the EPA fairly limited
 - GHG emission increase can also only be attributed to the EPA in a limited manner
- **Environmental developments show no clear causal relation with the EPA**
 - All states have ambitions to reduce GHG emissions compared to business-as-usual developments in their (updated) Nationally Determined Contributions (NDCs) to Paris Agreement
 - Larger part of targeted GHG reductions in all countries subject to multilateral support

Findings – Mozambique

■ No scale effect of EPA

- Mozambique benefitted from preferential access to the EU market before EPA
- Exports fluctuated between 2016-2022: increased from 2016 to 2018, when Mozambique joined the EPA, dropped in 2019 and 2020, and then increased until 2022
- GHG emissions including LULUCF decreased: 109.32 tCO₂eq in 2016 to 103.81 tCO₂eq in 2020
- Emissions excluding LULUCF increased marginally: 31.8 tCO₂eq in 2016 to 33.7 tCO₂eq in 2020

■ No link between environmental developments and EPA

- *Policy developments:* Updated NDC to Paris Agreement in 2021, Second national Communication to UNFCCC & First Biennial Update Report to UNFCCC in 2022; Commitments to halt & reverse forest loss and land degradation by 2030; 2019 signing of Emission Reduction Payment Agreements with Carbon Fund of Forest Carbon Partnership Facility
- No evidence that these policy actions are linked to EPA
- Potential future effects of EU Carbon Border Adjustment Mechanism (CBAM) on aluminium exports (likely after 2026, not within scope of the evaluation)

Effects on human rights

Context / baseline

- **Key human rights issues (and links with trade)**
 - SADC EPA States share several issues regarding human rights: insufficient protection of informal workers, discrimination, child labour, human trafficking
 - Strong human rights concerns in some economic sectors, e.g. land & labour rights violations in the extractive sector, child labour (esp. in agriculture)
- **Key human rights issues in Mozambique**
 - Challenging situation in the Cabo Delgado province (and Niassa and Nampula)
 - Vulnerability to multiple weather-related hazards (periodic cyclones, droughts, floods, & related epidemics) – food insecurity, housing, water, sanitation & other infrastructure
 - Expansion of the extractive sector - violations of land rights, labour, security & distribution of resources
 - High informality (85%), low level of unionisation, high number of migrant workers
 - Child labour and forced labour in some sectors (e.g. artisanal mining, tobacco)

Findings – SADC EPA States

- **Economic analysis indicates relatively limited trade effects of the EPA**
 - No major effects identified regarding GDP, welfare and wages
 - Modest increase in employment in all SADC EPA States except South Africa (and Namibia)
 - Increase in exports and production due to the EPA is limited in all SADC EPA States except South Africa
- **Some human rights issues indicate causal relation with the EPA**
 - Limited employment changes in all SADC EPA States, more significant in South Africa – mixed impact of the EPA on the right to an adequate standard of living
 - Sectoral effects related to pre-existing vulnerabilities are investigated further

Findings – Mozambique

- **Low awareness about the EPA in Mozambique**
- **Limited effect of the EPA on human rights**
 - Mozambique benefited from preferential access to the EU market before the EPA
 - Effects from the EPA are limited:
 - Employment changes – limited mixed impact on the right to an adequate standard of living
 - No changes in agricultural sectors as a result of the EPA (the right to food)
 - No evidence so far for the impact of the EPA on mining and minerals (land rights)
- **No link between human rights developments and EPA**
 - Further commitments of the parties to the implementation of the 2019 Maputo Peace and Reconciliation Agreement, improvement in legal framework and management of elections in 2019, closure of the last RENAMO military base in June 2023
 - Continuing human rights issues arising from the Cabo Delgado situation
 - No evidence that these actions and developments are linked to the EPA

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