



A MORE EFFECTIVE EU TRADE POLICY FOR AFRICA





KEY MESSAGES

- 1** Over the next years, many European companies will seek to diversify their supply chains and, in some cases, relocate their production closer to the European market to increase their resilience. This can create opportunities for African countries, both as an investment destination and as a source of raw materials and inputs. At the same time, with growing middle classes and economic growth rates exceeding those of most developed countries, the African market will become increasingly attractive for EU exporters who seek to diversify their markets. To tap into this potential, the EU needs a more ambitious trade policy vis-à-vis the continent. This should involve increasing the number of African countries covered by preferential trade agreements with the EU, modernising and deepening existing trade agreements with African countries and regions – including by making sure that more sectors benefit from preferential access – and exploring the scope for innovative agreements in areas such as investment facilitation or digital trade.
- 2** The African Continental Free Trade Agreement (AfCFTA) has the potential to make the African continent a more attractive investment destination for European companies. Therefore, the EU should keep supporting African countries and the African Union with both the negotiation and implementation of the AfCFTA. The EU's long-term goal should be the creation of a continent-to-continent free-trade area between the EU and Africa, which streamlines all existing EU trade frameworks with the continent under one single deal.
- 3** EU trade and development policies need to better complement one another. On the one hand, EU development policy should flank trade policy by improving the investment climate in partner countries and mitigating excessive risks for investors. On the other hand, the EU should use tools such as capacity building and technical assistance to help partner countries comply with their commitments in trade agreements, namely in the area of sustainability.



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Thanks to their geographic proximity and a high degree of economic complementarity, the EU and Africa are natural partners. However, trade and investment relations between the two continents remain far below their potential. For the EU, trade in goods with Africa only made up for about 5% of its exports, and 6% of its imports in 2020. Although the EU is Africa's largest trading partner and the largest source of foreign direct investment (FDI) on the continent, trade and investment remain concentrated in certain countries and sectors. One reason for this is the fragmented nature of African markets and the high regional trading costs. This is mirrored by the fragmented approach the EU has in its trade policy towards the continent, which consists of different unilateral and reciprocal regimes with differing degrees of market access and diverging rules of origin: Currently, the EU is applying five Economic Partnership Agreements (EPAs) with 14 countries in Sub-Saharan Africa and four Association Agreements with countries in Northern Africa, while 34 African countries benefit from the EU's unilateral General Scheme of Preferences. Moreover, unlike modern EU trade agreements, the EU's deals in the region focus on liberalising only trade in goods, without including any of the deeper provisions that would facilitate the emergence of interregional value chains.

However, some promising developments have created new momentum in the economic relations between the EU and Africa. The African Continental Free Trade Area (AfCFTA), which was officially launched in January 2021, promises to overcome market fragmentation on the continent in the long run. Ambitious policy reforms in several African countries have aimed to improve the investment climate for foreign and domestic companies. Moreover, negotiations on the modernisation of the EU-Eastern and Southern Africa EPA were launched in late 2019 and may serve as an example for others. Finally, the COVID-19 pandemic and the Russian invasion of Ukraine have severely disrupted European supply chains. In the next years, many companies will thus seek to diversify their sources of supply, reduce their reliance on one single country or region, and, in some cases, relocate their production closer to Europe to become more resilient to future shocks. This can create opportunities for those African countries that put attractive investment conditions in place. At the same time, with growing middle classes and economic growth rates exceeding those of most developed countries, the African market will become increasingly attractive for EU exporters who seek to diversify their markets to increase their resilience.

Against this backdrop, this paper presents several priorities that would, in the view of the European business community, make the EU trade policy vis-à-vis the African continent a more impactful tool for bringing our economic relations with the continent to the next level. As trade policy is only one part of the equation, the paper should be read in conjunction with the BusinessEurope publication "[A better investment climate in Africa – business views](#)" from 2019.



1) Support the implementation of the AfCFTA and work towards a continent-to-continent free-trade area

The AfCFTA, more than any other single factor, has the potential to make the African continent a more attractive investment destination for European companies. If implemented properly, the agreement will liberalise a major share of African trade in goods as well as trade in services, e-commerce and investment, and create common rules in areas such as intellectual property and competition policy. Thereby, conditions for regional and interregional value chains will be improved substantially. However, the AfCFTA will only be fully implemented by 2035 at the earliest and many important provisions remain to be negotiated. Moreover, it remains to be seen to which extent it will be able to address non-tariff barriers that today constitute major obstacles to EU companies in Africa.

The EU should thus keep supporting African countries and the African Union with both the negotiation and implementation of the AfCFTA, e.g. through technical assistance and capacity-building measures. The EU's long-term goal should be the creation of a continent-to-continent free-trade area between the EU and Africa, which streamlines all existing EU trade frameworks with the continent under one single deal. In preparation for this outcome, the EU should align the rules of origin across its different trade agreements with African countries and regions to facilitate cumulation and promote the emergence of regional value chains.

2) Make the frameworks that govern EU-African economic relations fit for 21st-century trade

Our international production networks, which depend on the smooth two-way flow of goods, people, and information, have been severely disrupted in recent times. In reaction to this, European companies are exploring ways to diversify their supply chains and are in some cases bringing them closer to Europe to become more resilient to future economic and geopolitical shocks. Many African countries see this as an opportunity to attract foreign direct investment and become more integrated in European production networks. However, none of the EU's trade agreements with African countries contains any of the deeper provisions (e.g. on trade in services, digital trade, investment, trade facilitation, competition or sustainability) that would facilitate the closer integration of value chains between the signatory countries. Trade facilitation in particular will be key to lower the excessive trading costs and customs delays in this region by promoting transparent and agile customs procedures that make good use of digital tools. Besides, EPA partners should be encouraged to do more to fight illicit trade, which presents a significant barrier to development and investment by EU businesses.

Therefore, the EU should modernise its trade agreements with African countries that are willing to do so to create conditions conducive to a deeper integration of our economies. This should be done in a way that does not undermine but inspire and complement African continental integration. For example, many of the deeper provisions of modern trade agreements are implemented on a most-favoured nation basis. They would promote transparency, efficiency and fair competition and would thus benefit any foreign company, including those from other African countries. In this way, modernised EPAs can act as building blocks both for the AfCFTA and the future continent-to-continent free-trade area. Furthermore, sustainable investment agreements should be negotiated where partner countries are willing to improve their investment climate but are hesitant



to negotiate fully-fledged trade agreements. Finally, the EU should explore the scope for concluding structured agreements in other areas of mutual interest, such as digital trade or trade in environmental goods, with countries open-minded in this area, such as Ghana, Kenya, Nigeria, Ivory Coast, Senegal, and Rwanda.

Moreover, in the light of growing geopolitical risks, the EU should strive towards implementing its trade agreements with those African countries and regions with which European companies still trade on most-favoured nations terms. These deals should help secure the EU's access to critical minerals and energy resources. Over time, they should also reduce tariffs on a larger spectrum of goods that are of interest to the European business community, such as alcoholic beverages, which currently do not benefit from tariff reductions and suffer from both confiscatory taxes and unfair practices on the continent¹. As many African countries have yet to reach their full economic potential, a future EU-AU FTA should provide African nations, and their companies, the opportunity to move up the value chain. While the liberalisation of trade in goods and services in itself is a driver in this regard, the EU should explore options for a dedicated mechanism that can assist African countries to build their capacity for adding value in more parts of the value chain and better integrate into the global economy.

3) Use other EU policies and tools in a more complementary way

Some developing countries hesitate to commit to deeper disciplines in trade agreements because they lack the capacity to implement them and take full advantage of the benefits they could bring. For instance, developing countries often cannot tap the growth potential of trade liberalisation due to shortcomings concerning infrastructure or their business environment. At the same time, in many African countries, potential European investors face barriers and risks related to corruption, excessive taxes that encourage smuggling, a lack of transparency and clarity regarding applicable regulation, and other practices that undermine fair competition. To address these issues, EU trade and development policies need to be better integrated in order that they truly complement one another.

On the one hand, technical assistance and capacity building should help partner countries comply with the commitments they entered into, and African companies to meet the conditions for working with European companies and exporting to the EU market. On the other hand, EU external financing instruments, such as the Neighbourhood, Development and International Cooperation Instrument, should help further improve the investment climate and business environment in partner countries by complementing the deeper provisions of trade agreements while mitigating the risk for private investors. Finally, the Global Gateway promises to tackle infrastructure gaps in Africa in many key areas, building both on the priorities of partner countries and the strengths of European companies. At the same time, EU delegations in African countries should step in more actively to resolve trade barriers and administrative inertia.

A more streamlined use of EU development policy will be even more important in view of current EU policy developments that will impose higher sustainability conditions on developing countries and companies operating in them. If they are not flanked by development policy measures that empower the governments of partner countries to better enforce their labour, social and environmental regulations, initiatives such as the corporate sustainability and due diligence directive, the forced labour ban, or the review

¹ This is particularly true in South Africa, Nigeria, Kenya, Ivory Coast and Mozambique.



of trade and sustainable development chapters risk excluding many African countries from global value chains.

Finally, the EU should do more to help African countries build and improve their capacity for attending to trade policy matters in bi-, pluri- and multilateral fora. This could counter the tendency of smaller developing nations to side with larger developing countries on trade policy issues – most notably at the WTO – even though it might not be in their best self-interest.

4) Aim for a sustainable trade relationship, now and in the future

All three tracks should be developed while bearing an overarching sustainability agenda in mind. The aim should be to open new trading opportunities in a way that helps support social, environmental and economic development. The Paris climate accord and the United Nations Sustainable Development Goals should lie at the heart of this strategy. European firms have the technology and know-how needed to support the sustainable development of Africa, and many African firms could - based on the continent's resources – build successful businesses aimed at exporting sustainable goods and services to the EU. EU and African countries should thus work together on creating a stable framework for prosperous and sustainable trade, which will enable firms on both continents to engage in mutually beneficial economic exchanges.

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