



## Duty-free, quota-free access: What is it worth?

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### Key points

- Duty-free, quota-free access (DFQF) to EU markets is the key measurable gain for those African, Caribbean and Pacific group (ACP) states that have agreed interim Economic Partnership Agreements in recent months
- DFQF will transfer almost €13 million, currently collected as import taxes by the EU, to ACP export supply chains each year
- DFQF will not reach its full potential, in gains for ACP members, without more aid for trade, private investment and improved rules of origin

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The European Union (EU) and members of the African, Caribbean and Pacific (ACP) group have been negotiating Economic Partnership Agreements (EPAs) for the past five years. At the end of 2007, 35 ACP states signed interim EPAs under which the EU will remove all tariffs and quotas on its ACP imports, an initiative known as duty-free and quota-free access (DFQF). This Project Briefing asks what would fully implemented DFQF be worth to ACP members and what might it mean for Europe's other import suppliers, consumers and domestic producers of competing goods? It examines only one aspect of EPAs, which are controversial. A forthcoming ODI Briefing Paper will examine EPAs in their entirety.

The Briefing examines the short- and potentially long-term effects (see Box 1). In absolute terms the immediate gains will be relatively small, as pre-existing conditions were already liberal. EPAs are unusual. Trade negotiations normally involve all parties agreeing broadly similar improvements in access to their markets for exports from partners. But most ACP exports could already enter the EU duty free under the Cotonou Agreement that expired in 2007. The only improvement that the EU could offer was

the removal of the few tariffs that remained. For some countries, the principal benefit of EPAs is not so much the new opportunities offered by DFQF, as the retention of the access withdrawn from non-signatories by the EU in January 2008.

### Which countries will gain?

While the short-term gains may be small, they will be important for some countries and the longer term gains could be greater once DFQF is fully implemented (see Box 2). As of January 2008, most exports from 35 ACP states are covered by DFQF access. The greatest change has been for the 26 that are not least-developed countries (LDCs). LDCs already enjoy DFQF under the EU's Everything But Arms (EBA) initiative of 2001, which will be fully phased-in by 2009. Their export situation will only change if the EPA rules of origin provide more opportunities than those already provided. The EPA origin rules are the 'small print' of trade agreements that determine which goods benefit from lower tariffs (ODI 2006) and are still under negotiation. This Project Briefing, therefore, focuses on the impact for non-LDCs.

Table 1 lists the non-LDC ACP countries that stand to gain from DFQF according to the value

### Box 1: The potential effects of duty-free, quota-free access (DFQF)

- The first and most immediate impact would be the transfer of the import tax, formerly levied by the EU, to parts of the ACP export supply chain. If this accrues to producers and exporters, it will make exports more profitable.
- Second, if part of the revenue transfer accrues to importers, it could induce them to buy more from ACP members, leading to an increase in the volume of ACP exports. If it accrues to producers/exporters, it may also enable ACP members to increase their supply of competitive products without substantial new investment.
- Third, by removing tariff barriers, DFQF may make it commercially feasible, for the first time, for ACP countries to export products to the EU that are already exported to other markets.
- The fourth effect could be greatest, but is hardest to predict. If DFQF means increased supply from ACP states, there could be increases in foreign exchange earning and knock-on effects for the rest of the economy.

## Box 2: Phasing in DFQF

In January 2008, the EU removed all tariffs and quotas on imports from EPA signatories except those for rice and sugar, for which DFQF is being phased in. DFQF for the rice varieties exported by the ACP will begin in 2010. While some details are still being agreed, the sugar transition will involve three phases for non-LDCs:

- January 2008 – September 2009: continuation of the Sugar Protocol, with additional market access for beneficiaries;
- October 2009 – September 2015: DFQF for non-LDC EPA members, subject to an ‘automatic volume safeguard clause’ and, for processed agricultural products with high sugar content, an ‘enhanced surveillance mechanism’ to prevent circumvention of the sugar import regime.
- October 2015 onwards: DFQF for non-LDC sugar exports, subject to a ‘special safeguard clause’.

**Table 1: The exporting countries**

Non-LDC ACP exporter	No. different goods	Value of exports 2006 (€000)
Mauritius	20	270,382
Cameroon	10	175,975
Côte d’Ivoire	16	146,382
Dominican Republic	21	111,436
Guyana	6	111,196
Fiji	1	105,792
Jamaica	17	85,052
Swaziland	15	81,065
Belize	4	67,854
Namibia	5	54,870
Zimbabwe	16	39,742
St Lucia	2	24,006
Botswana	3	23,712
Suriname	13	21,332
Trinidad and Tobago	9	18,288
Barbados	6	16,575
Ghana	24	13,940
St Vincent and the Grenadines	1	11,249
Kenya	28	10,685
Dominica	6	8,624
Congo	2	5,513
Antigua and Barbuda, Bahamas, Gabon, Marshall Islands, Nigeria, Seychelles		€1 million each
<b>Total</b>		<b>€1,405,255</b>

Source: Calculated from data obtained from Eurostat COMTEXT database.

and number of affected exports. Countries in italics have not yet initialled EPAs and, in general, have more limited immediate interests. However, all the ACP states with important immediate interests in DFQF have signed, and DFQF access has already been applied to some €1.4 billion worth of existing

exports from countries that have initialled EPAs (this would rise to €1.41 billion, if all non-LDCs signed).

The table shows that most of the non-LDC states gain from DFQF and that a significant number of export products are covered. The DFQF initiative applies to over €100 million worth of exports from six of the 26 states that have agreed EPAs. An additional 13 countries have had more than €10 million worth of DFQF-affected exports. Ten countries will see an improvement in access to the EU market for more than ten of their current exports.

Although the €1.4 billion of affected exports accounts for just 2% of total EU imports from all non-LDC ACP states in 2006, the gains for some particular items may be large, so the potential effects of DFQF must be assessed from each of the perspectives in Box 1: tariff saving on existing exports; increases in existing exports due to removal of tariffs and quotas; and increases in exports following a DFQF-induced increase in ACP supply.

## Tariff saving gains

The biggest tariff saving gains will arise from the removal of tariffs that are very high, but not so high as to stifle ACP exports altogether or keep them at low levels. Table 2 lists the goods that will be most affected by the removal of EU import taxes. It shows that this will inject significant funds into the ACP supply chain, as these goods were taxed to the tune of €12.7 million in 2006. Exactly who benefits (producers, traders, or European consumers), and by how much, will depend on the dynamics of each chain.

The goods topping the table are rice, grapes and beef, followed by citrus fruit and vegetables. These have faced high tariffs and have been imported at moderate levels. Lower down the table are processed foods that are currently exported at modest levels but which could become more important if DFQF is accompanied by measures to increase supply.

## Increased sales of current exports

Table 2, however, does not give the full picture. Sugar, for example, does not appear because ACP members pay no tariff. However, this is not because the current EU import regime is very liberal – quite the contrary. Normal tariffs are so high that imports are only viable if they fall within a fixed, duty-free quota. Gains from DFQF will depend upon: the removal of these quotas in 2009 (see Box 2); a ‘light’ application of the new safeguards; and the ability of countries to supply more sugar competitively, at a time when EU prices are falling. If all of these things happen, countries such as Guyana stand to make substantial gains.

What about more extreme cases: goods that face high tariffs and that have not been exported, or exported in very small volume? Will tariff removal unlock the gates to ACP exports, or do countries have limited supply potential? Boxes 3 and 4 examine the situation in Namibia and Ghana. The question is easiest to answer when an ACP country already exports to markets outside the EU. The failure of countries

**Table 2: Products most likely to generate gains**

Harmonised system/ combined nomenclature	Description	Non-LDC ACP exports 2006 (€000)	Duty paid in 2006 (€000)
ex 1006	Rice	29,651	4,041
08061010	Fresh table grapes	28,075	3,959
ex 0201/2	Beef	50,507	2,611
ex 0805	Citrus fruit	17,869	599
ex 07	Some fresh vegetables such as tomatoes, onions, leeks, cauliflower, broccoli, kohlrabi, chicory, carrots, turnips, spinach, salad vegetables, (excl. lettuce), sweetcorn, manioc, arrowroot/salep	6,124	384
ex 19	Preparations of cereals	1,733	338
23023010	Wheat bran	493	244
18069070	Preparations containing cocoa for making beverages	1,174	220
ex 11	Flour of cereals or roots and tubers	917	132
ex 0808/09	Apples, pears, plums	815	77
15091090	Olive oil	248	77
04022119	Milk and cream of a fat content >11% but <=27%, unsweetened	87	23
ex 2007/9	Fruit jams and juice	194	19
08119011	Tropical fruit and nuts	60	5
22042185	Wine	97	4
12129920	Sugar cane	186	3
21069059	Flavoured or coloured sugar syrups	124	0.5
<b>Total</b>		<b>138,354</b>	<b>12,737</b>

Source: Trade: Eurostat COMEXT database. Tariffs: UNCTAD TRAINS database, UK Tariff 2007, EC Taric Consultation online.

to export to Europe goods that they sell to a non-EU market could be due to differences in taste, transport costs, standards or other factors unaffected by DFQF. However, where pre-DFQF tariffs have been very high, it may indicate that ACP countries could supply Europe competitively, but have been hampered by protectionism. By improving the commercial attraction of the EU market, relative to others, DFQF could result in a diversion of trade to the EU from the ACP's non-European markets. That would benefit the ACP, as exports will be diverted only if EU prices are higher. It could, potentially, also involve costs for any countries that currently export the same goods to Europe, either because they previously enjoyed more preferential access than ACP states, or because they are sufficiently competitive to sell to the EU, despite the protection. Their exports might be displaced by the, now cheaper, ACP goods.

Our research suggests that neither effect – positive for ACP members, or negative for their competitors – is likely on a large scale. In most cases, the countries that compete with the ACP on the EU market also have favourable access. Some have free trade agreements with the EU for more than half of the goods that will be covered by DFQF. Restrictions

on imports into Europe are detailed and often relate to specific varieties or seasons. Only case-by-case analyses will show whether joining an EPA gives an ACP a competitive advantage.

It is unlikely that there will be a sudden diversion of ACP imports to the EU. Nor is it likely that ACP members will export to the EU entirely new products that they currently sell only in other markets. ACP members are more likely to export a wider range of the products already in their current basket than to re-direct new products to Europe.

### Boosting supply capacity

Apart from the immediate revenue gain, the long term impact of DFQF rests on whether it leads to increased export supply from ACP members. This may, in turn, require increased investment. The most likely candidates are meat other than beef and its products, grapes, rice and possibly citrus. All are agricultural, as ACP members have long received DFQF for industrial goods, provided they meet the rules of origin.

There could be scope to increase exports of processed foods, especially those containing sugar, once quotas are lifted – provided the remaining safeguards are not limiting – but this will depend on how

## Box 3: Namibia: Clear gains

Several Namibian exports faced EU tariffs until DFQF. All will gain in the short-term but only some seem likely to make dynamic medium term gains. Beef exporters will gain in the short-term, but this will be sustained only if supply is increased. About 80% of Namibia's beef production is exported, mainly to the EU, where a fixed quantity has been subject to a greatly reduced tariff, giving Namibia a competitive advantage over Brazil, Argentina and other globally competitive suppliers.

Under DFQF the supply chain will receive the €1.4 million paid in EU import taxes in 2006. Greater gains would arise if Namibia used its new right to export unlimited quantities at zero tariff. However, Namibia has never supplied the full 13,000 tonnes that it can already export at reduced tariff (Meyn, 2007). There could be more scope to increase exports of de-boned lamb as only 500 tons benefited from a reduced tariff until DFQF. Namibia is the only ACP state that fulfils the strict EU sanitary requirements and has a commercial interest in exporting lamb. But its exports of de-boned lamb are worth little (just €343 in 2006) and Namibia must compete with New Zealand, which can sell up to 227,000 tonnes to the EU at reduced tariffs. Namibia is exploring options to export bone-in-lamb to the EU, which could be viable if the EU grants sanitary approval.

The country's grape industry will probably gain most from DFQF. Namibia has had reduced tariff access to the EU, but only for 6% of its 2006 sales to Europe. DFQF will save €3.95 million in import taxes. It has been able to export despite less favourable access in the past than either of its major competitors, South Africa and Chile, suggesting that production can be increased. DFQF will also allow more Namibian grapes to be exported directly to the EU, rather than via South Africa, but only if any increases in the cost of transport are lower than the new tax advantage that Namibian exporter have over their South African rivals. This may depend on investment in infrastructure, reinforcing the need for supporting aid to flank DFQF if it is to have maximum impact.

## Box 4: Ghana: Potential gains, but no certainty

Ghana is fairly typical. It could gain from DFQF if there is new investment to increase supply, if market demand increases and if there are no new EU restrictions. The banana industry is most likely to benefit, but as the smallest of three West African banana producers, after Cameroon and Côte d'Ivoire, it is not certain that Ghana will reap the potential gains offered by DFQF. It does not export even as much as it was entitled to under the old regime and does not compete with Latin American countries that continue to face EU tariffs. Further country and product-specific study is needed to gauge the full potential export impact of its EPA membership. Ghana could increase the value of cocoa exports by selling it in mixtures with sugar. Contrary to widespread opinion, Ghana has faced no EU tariff barriers to exporting chocolate, so its failure to do so on a large scale probably reflects the priorities of buyers and retailers. However, it has faced tariffs on simpler, possibly more commercially attractive products that involve mixing cocoa with sugar. Other ACP states have had similar problems with sugar additives (eg for canned fruit in sugar syrup) and with dairy products (eg in biscuits). DFQF removes these – although in the case of some processed sugar products, investors may well wait to see how the EU uses the 'enhanced surveillance mechanism' that will remain even when DFQF is fully implemented.

the current rules of origin are amended during EPA negotiations. Critics claim, and the EU Commission has accepted, that some rules are onerous, stopping ACP members using the tariff preferences that exist on paper. DFQF extends existing concerns to the processed food industry. In many cases, current rules do not allow an ACP state to process raw materials that are imported unless they have been produced by a member of the same EPA or the EU.

It is unlikely that many ACP countries or their EPA partners will be able to increase production substantially of the basic raw materials needed for processed food products. If supply is limited, the need for food security suggests their use for unprocessed domestic consumption, rather than processed exports. There could be scope, if the rules of origin were amended, for value-added processing using local raw materials not in short supply, alongside imported inputs.

## Conclusions

DFQF will generate immediate gains for ACP members from the revenue that, until the end of 2007,

went to the EU as import tax. Longer-term benefits, however, depend on increased ACP supply and this will require significant investment in physical and human resources from both the private and public sectors. As DFQF is the centrepiece of the EU's commitment to EPAs, it would be sensible to ensure adequate aid provision to remove blockages to increased supply. Europe has committed to provide more 'aid for trade' to developing countries and should ensure that this enhances the impact of DFQF by removing obstacles to production and export, such as poor infrastructure and other physical or institutional deficiencies.

Recent history indicates that trade preferences granted by the EU to the ACP have been rapidly extended to other suppliers, and the competitive advantage of DFQF could erode in the same way. The speed and breadth of this erosion is a matter for speculation, but the benefits are unlikely to last for much more than a decade. DFQF is a time-bound window of opportunity. The onus is on the EU and its members to help countries make the most of it.

## References and project information

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