



# **Sustainability Impact assessment (SIA) in support of trade negotiations with Angola for EU-SADC EPA accession**

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Executive Summary

Prepared by BKP Economic Advisors



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## EXECUTIVE SUMMARY

1. The European Commission has commissioned a Sustainability Impact Assessment (SIA) in support of negotiations with Angola on the latter's accession to the Economic Partnership Agreement (EPA) between the EU and Southern African Development Community (SADC). The negotiations are expected to be launched in 2021, following Angola's request for accession made in February 2020. Negotiations for a separate Angola-EU Sustainable Investment Facilitation Agreement (SIFA) were also launched in June 2021, the impacts of which are also considered in the SIA.

2. SIAs are integrated, independent, evidence-based, transparent, participatory, and proportionate studies and have two main elements. First, they provide a robust **analysis of the potential economic, social, human rights and environmental impacts** that the trade agreement under negotiation could have in the EU, in the partner country or countries, and in other relevant countries or specific regions. Second, they comprise a continuous and wide-ranging **consultation process** aimed at ensuring a high degree of transparency and the engagement of all relevant stakeholders in the conduct of the SIA inside and outside the EU.

3. Ultimately, the aim of the SIA is to assist the European Commission and the Government of Angola to structure the negotiations on Angola's accession to the EU-SADC EPA, the negotiations on the SIFA, and complementary technical assistance in such a way that these three elements, considered by the EU as a package, maximise the mutual benefits for the EU and Angola in an inclusive and sustainable manner.

### Context

4. The **EU-SADC EPA** is a trade agreement signed in 2016 between the EU and six SADC countries: Botswana, Eswatini, Lesotho, Namibia and South Africa (Southern African Customs Union - SACU countries), and Mozambique. Under the EPA, the EU has provided duty-free, quota-free access to imports from SADC EPA countries (with some exceptions for South Africa) since the first day of the EPA's application, while SADC EPA countries are progressively liberalising access to their markets for imports from the EU.

5. Although Angola participated in the original negotiations of the EPA, it eventually did not sign the Agreement. However, the accession of Angola at a later stage was already foreseen in the EPA.

6. **Angola's accession to the EU-SADC EPA** aims at addressing a number of Angolan and EU policy objectives. For Angola, preferential market access to the EU for non-oil goods under an EPA is expected to contribute to the much-needed diversification away from mineral fuels and diamonds. In this regard, the accession to the EPA would ensure that Angola does not lose some of the preferential access to the EU market which its exports currently enjoy under the EU preferential trade scheme Everything but Arms (EBA). The EPA would provide predictable and stable preferential market access to the EU market. For the EU, Angola's liberalisation under the EPA would likewise ensure predictable and stable preferential market access, and enhance the transparency of trade rules. The EU already is an important supplier for Angola of machinery and inputs used by Angolan firms. Reducing import tariffs on these goods under the EPA could enhance the competitiveness of Angolan firms. Finally, accession to the EPA (as well as Angola's membership in the SADC Trade Protocol) could facilitate regional economic integration between Angola and the other SADC countries, with EPA rules of origin allowing for regional cumulation.

7. To be successful, Angola's economic diversification project requires large investments. With investment issues currently not covered in the EU-SADC EPA, the SIFA with the EU could attract further investment in Angola, especially by small and medium-sized businesses and in the non-oil sector, contributing to Angola's economic diversification. The objectives of the SIFA would be to enhance the transparency and

predictability of investment conditions for all investors, as well as enhancing the investment framework through cooperation. The SIFA would not cover investment liberalisation, investor protection, or investor-state dispute settlement.

## Methodology

8. The **economic impact analysis** is based on a combination of quantitative and qualitative assessment techniques. It covers six sets of issues: a descriptive analysis of trade, services and investment flows; an economic impact analysis based on a partial equilibrium model simulation undertaken by the European Commission's DG TRADE, complemented with own analysis; an analysis of the links between EPA accession and non-tariff measures (NTMs); an assessment of possible effects of EPA accession and the SIFA on governance, the business environment and the investment climate in Angola; an analysis of impacts on regional integration in Southern Africa; and an assessment of the impact on the EU's outermost regions.

9. The **social analysis** seeks to respond to the question of how Angola's accession to the EPA could affect a range of social issues in Angola. For each of the following social issues we first analyse the current situation in Angola, then the expected impacts, based on the EPA text and estimated economic impacts, and conclude by suggesting policy recommendations and flanking measures: employment levels, women (as workers, entrepreneurs, traders and consumers), consumer welfare (including inequality and vulnerable groups), job quality and rights at work, corporate social responsibility (CSR), and public policies (e.g. social protection, healthcare and education).

10. The **human rights analysis** looks at how the EU-SADC EPA could affect the enjoyment of and state's responsibilities regarding human rights in Angola. Based on an established methodology for human rights impact assessments (European Commission 2015; De Schutter 2011), we provide a concise description of the human rights baseline in Angola, covering the country's international human rights obligations and pre-existing conditions of stress or vulnerability. Second, we carry out a screening and scoping exercise to identify specific key human rights/issues that could be most affected by the EPA. Third, we carry out a detailed assessment (quantitative and qualitative) of these potentially most affected rights, before deriving policy recommendations and relevant flanking measures.

11. The **environmental analysis** includes the following environmental impact dimensions: (1) Climate change; (2) Air quality; (3) Use of energy; (4) Water quality and resources; (5) Land use and soil quality; (6) Waste and waste management; (7) Biodiversity; and (8) Ecosystem services and protected areas. The analytical process follows the same stages as the human rights analysis: baseline description; screening and scoping; in-depth analysis; and recommendations.

12. This SIA also comprises an **assessment of the administrative capacity** in Angola to implement the EPA. Based primarily on consultations in Angola, this is undertaken in three steps: after an identification of the institutions that may have a direct and indirect intervention in the management and implementation of trade agreements, their administrative capacity constraints and the underlying explanations is determined, before the consequences for EPA implementation are assessed and recommendations, including on suggested technical assistance, are developed.

13. Complementing the overall analysis, four **case studies** have been prepared, providing more detail on specific topics respectively sectors. The selection criteria were, first, the magnitude of the EPA's expected impact on the sector or issue, and second, the importance of the issue or sector/value chain as seen by stakeholders and from a negotiating perspective. Based on these selection criteria, the four studies address the EPA's impact on the Angolan (1) fishery sector and (2) agri-food value chains, on (3) deforestation and biodiversity, and on (4) the potential implications on child labour and children's rights.

14. **Consultations** with stakeholder served to reflect their experience, priorities and concerns, helped identify priority areas and key issues relating to the possible economic, social, environmental and human rights impacts in the negotiations, and to contribute to the transparency of the SIA analysis. The consultation plan was based on four pillars: first, targeted consultation activities, in particular a workshop in Luanda, an online survey, and interviews with stakeholders in Angola, the EU and SADC; second, meetings with EU civil society; third, meetings with EU institutions; and finally digital engagement with stakeholders in general, through the SIA website and electronic communication channels.

## Findings and conclusions of the analysis

15. **Overall**, the expected impact of Angola's accession to the EU-SADC EPA is assessed as limited but positive in the short term, but substantially larger and positive in the longer term. The longer-term impact of the SIFA is potentially even stronger (and also positive) than the EPA impact. The SIFA and accession to the EPA are clearly complementary. For Angola to fully benefit from the accession to the EPA, assistance by the EU (and/or EU Member States) will be required, as well as a commitment by the Angolan Government to put in place the necessary measures that will enable businesses to enhance their competitiveness and produce not only for the EU export market but also for the domestic and regional markets, and do so in a sustainable and inclusive manner.

16. A quantitative assessment of the **economic impact** could be made only for the *short-term effects* arising from the tariff changes associated with Angola's accession to the EPA. Although this analysis tends to undervalue the gains from the EPA for a number of methodological reasons, it shows a net positive (if limited) impact for Angola: Angola's *exports* as an EPA member are estimated to be higher by €14.3 million (€14.5 million higher to the EU and €0.2 million lower to other markets) than in the counterfactual situation. It means that Angola will export (excluding mineral fuels and diamonds) about one quarter (26.5%) more to the EU under the EPA than as a GSP beneficiary country. Accession to the EPA will also contribute to export diversification. Angola's *imports* will increase more than exports, between €596 million and €693 million (6.1% to 7.1% of current total imports), depending on the degree of tariff liberalisation granted to imports from the EU. However, with very few exceptions – which can be addressed through Angola's exclusion list – the increased imports from the EU do not compete with domestic production in Angola. Rather, with a considerable share of imports from the EU being intermediates, their increased import leads to higher productivity and competitiveness of Angolan businesses. Angola's *government revenues* are estimated to decrease by up to €300 million as a result of tariff cuts, equivalent to about 1.8% of the 2019 government budget. This reduction in government revenues would be phased in over the transition period (the length of which is to be negotiated), providing the time to take fiscal countermeasures. Accession to the EU-SADC EPA would also develop Angola's trade with other SADC EPA states as a result of the regional preferences clause. Under this clause, Angola would grant the other SADC EPA states the same preferences that it grants to the EU, and would benefit from the same preferences that the SADC EPA states have granted to the EU.

17. *Longer-term effects* stemming from Angola's accession to the EPA (as well as the SIFA) are estimated to be positive and substantially larger than the short-term effects, but cannot be quantified. The EPA's and SIFA's focus on investment facilitation, transparency and predictability of rules are expected to substantially strengthen the *investment climate* and more broadly the business environment. This is expected to foster private *investment*, which in turn is expected to enhance productivity and hence the competitiveness of the Angolan economy overall – and ultimately *GDP*. With investments expected to be facilitated in particular in non-mineral fuels sectors, they will also contribute to further *economic and export diversification*. The positive developments are also expected to partially compensate the negative tariff revenue effects through increased collection of domestic taxes. Longer-term benefits could stem from favourable *rules of origin* in the EPA, which facilitate Angola's insertion into regional value chains. Also, although the EPA does not address African

*regional integration* beyond SADC, diagonal cumulation under the EPA rules of origin would in principle allow the coverage of African value chains involving most African countries.

18. Given the modest short-term economic impacts, **social impacts** in the short run are also expected to be limited, but somewhat stronger in the longer term, and on balance positive. *Employment effects* in export-oriented sectors as well as in retail trade are positive already in the short term, but are limited by the small size of exporting sectors, respectively by the anticipated concentration of areas where EU imports are marketed in the main cities. In import-competing sectors, some jobs could be put at risk, but this risk can be mitigated by a corresponding designation of sensitive and excluded goods in the accession agreement. The impact on *women* depends on the specific sector and type of economic activity in which women are engaged; as there is no clear pattern with regard to the employment of women in benefitting sectors or those that could come under stress because of the EPA, there is no indication that the EPA's impact on women would differ from the overall employment effects. The impact on *informality* is also expected to be limited, but the analysis has been hampered by the lack of robust and reliable data. The estimated effects of Angola's accession to EPA for *consumers* are positive, with an overall increase in availability and diversity of imported EU consumer goods, as well as the potential for better-quality and safe products to be manufactured in Angola, including for the domestic market. Impacts for *welfare* and *poverty* levels also seem to be positive, although limited.

19. With respect to *labour rights and working conditions*, the conclusions are as follows: No short-term effects for *child labour* are expected, as this occurs in segments of the Angolan economy that are not impacted on by the EPA. In the longer-term, there could be indirect positive effects, including job creation and income generation for adult household members which may decrease the need for child labour. Accession to the EPA is not expected to impact trade in most sectors where *forced labour* has been reported. Given the anticipated limited impact of the EPA on Angola's labour market and the lack of a specialised Trade and Sustainable Development (TSD) Committee under the EPA (and therefore a lower likelihood of a continuous policy dialogue addressing labour standards), accession to the EPA is not likely to bring about a change in the situation of *trade unions* or, more broadly, freedom of association in Angola. Similarly, impacts on *non-discrimination at work* are expected to be limited. Any effects regarding *civil society participation* will depend on the implementation practice at the time of accession. These, however, may also be limited given that the EPA does not include a mechanism of dialogue or consultation with civil society. Finally, because Angolan exports to the EU are expected to be higher under the EPA than under the GSP, *CSR/responsible business conduct (RBC) practices* and their contribution to sustainable development will be fostered. Moreover, the EU's text proposal for SIFA includes provisions related to investment and sustainable development as well as on dialogue with the civil society which, if kept in the final negotiated text, are expected to have a positive effect on the respect for international labour (and environmental) standards, labour inspection, gender equality, and encouraging the application of CSR/RBC practices in Angola.

20. Based on a screening and scoping analysis undertaken, the EPA's potential **impact on the enjoyment of human rights** in Angola is, overall, limited. A more detailed analysis of two potentially more affected rights has been undertaken. This analysis suggests that the Angola's accession to the EPA is not expected to have a significant impact on the *right to own property* overall. Indirect effects could occur via changes in sector output in agriculture. Considering existing implementation weaknesses, it cannot be excluded that the EPA or the SIFA contribute to the overall pressure on land rights in some regions in the country and might play a minor role in affecting the right to own property of local communities.

21. The *right to food* is likely to be impacted positively overall: imports of high-quality EU food products are expected to increase, allowing Angolan consumers access to high-quality food. Lower prices due to increased competition from EU food products entering

the market could also result, assuming sufficient competition in the distribution services sector. Domestic food production is not expected to be diverted by increased exports. However, the right to food of local communities could be affected less favourably as a result of agricultural investments that might be triggered by the EPA and by the SIFA.

22. Similar to the other impact dimensions, the **environmental impact** of Angola's accession is expected to be limited. For example, anticipated effects on *ecosystems services, energy consumption, water availability and quality, air quality, and biodiversity* are marginal or negligible. The direct effects on Angola's greenhouse gas (GHG) emissions, and *climate change* in general, are also expected to be limited: some positive effects would stem from the EPA's contribution towards diversifying Angola's economy away from oil, but potential increases in agri-food production could have a mixed effect on GHG emissions, including through potential land use change (deforestation for agricultural export-oriented production purposes). Given the EPA provisions on environmental sustainability in the *TSD chapter*, Angola would be encouraged to pursue effective implementation of the multilateral environmental agreements (MEAs) which the country has already ratified. In addition, although not a legal requirement under the EPA, for reasons of policy coherence membership in the EPA would also encourage Angola's ratification of those trade-related MEAs which it has not yet ratified.

23. With regard to Angola's **administrative capacity for EPA implementation**, some areas, such as the implementation of tariff preferences, would pose no implementation challenges. However, in a number of other areas, administrative capacity constraints have been identified: Although Angola's *customs operations* are overall well advanced, capacity constraints appear to exist with respect to origin verification (as Angola does not, so far, operate any preferential trade arrangements), risk-based operations, and customs automation. Also, challenges have been faced in the implementation of the electronic Single Window for trade. In addition, no administrative capacity for implementing trade defence instruments in line with international (WTO) requirements presently exists, and efforts at establishing trade defence institutions have not yet been successful.

24. The country's *quality infrastructure* (comprising both sanitary and phytosanitary, SPS, matters and technical barriers to trade, TBT) is underdeveloped in all respects. It neither allows an effective control of imports, ensuring human, animal and plant safety against imported pests and sub-standard quality products, nor does it provide internationally accredited conformity assessment services that potential exporters of many goods, especially agricultural products, would require to access foreign markets.

## Recommendations

25. The scope of negotiations on Angola's accession to the EPA is relatively limited. Nevertheless, a number of **recommendations for negotiations** are put forward:

- The Angolan government should carefully consider which goods to exclude from its market access offer, and for which goods to request transition periods for tariff reductions. Government revenue considerations and limiting import competition for key domestic sectors should guide these considerations.
- Considering the absence of any implementation experience with quotas and TRQs in Angola, as well as economic efficiency considerations, it is recommended that as part of its accession package to the EPA Angola commits not to use such instruments.
- Angola and the EU should discuss priority areas for technical assistance and support already during the accession negotiations. Suggested priorities for assistance are mentioned below.
- To highlight the importance of environmental issues, considering the European Green Deal and the need for EU trade policy to align with it, Angola and the EU should consider engaging in regular discussions on sustainability matters to avoid or mitigate any potential negative environmental effects of trade under the EPA.

26. With respect to the SIFA negotiations, the following is recommended:

- The use of soft provisions in the SIFA should be minimised as much as possible. This may require that the EU agrees to binding commitments for technical assistance to ensure the “practicability” of certain measures mentioned in the SIFA.
- Angola and the EU should aim at including strong enforceable provisions on investment and sustainable development, as currently foreseen in the EU text proposal for Chapter V.
- The responsibility by the Parties to respect human rights should be included, e.g. in the Preamble. An explicit reference to legitimate tenure and protecting property and land rights in Article 5.6 could be considered.

27. To ensure that the potential benefits offered by the EPA and the SIFA are actually reaped, and that the potential challenges and costs are minimised, the following **recommendations for flanking measures** are proposed:

- To mitigate the government revenue effects, the Angolan Government should, during the transition period in which tariffs are gradually reduced, *develop and implement fiscal measures*. The EU should provide technical support for this, including through twinning arrangements between the Angolan and EU revenue authorities.
- To benefit from *regional integration* opportunities provided under the EPA, the Angolan Government should prepare a specific strategy and prioritise specific value chains that can be developed within the context of Angola’s trade with SADC countries.
- To maximise the benefits from *export-driven employment generation*, complementary policy measures should comprise investment in vocational training, notably for young people to develop skills required for new job profiles and the new organisation of work.
- To support the *creation of formal businesses and jobs* the Angolan Government should improve procedures for setting up and running formal businesses, encourage formal employment with written contracts, social security contributions and the observance of health and safety at work requirements. In addition, the Government should take steps such as supporting creation of cooperatives and developing the trade infrastructure to enable access to markets and facilitating access to finance for small-scale food producers to help them to sustain their livelihoods.
- Awareness raising campaigns on the negative consequences of *child labour* should be undertaken and access to school and social assistance for children from poor families be facilitated. The Angolan authorities should also enhance efforts to address trafficking in persons, forced labour, hazardous child labour and other illegal activities. EU technical assistance should support these actions.
- The Angolan Government should urgently strengthen *land rights related to business activities*. The Government should also ensure that effective consultation processes consistently take place, backed by appropriate environmental and social impact assessments guaranteed by the law. A monitoring body should be established, and reports should be publicly available, involving non-state actors and affected communities. The EU should continue to provide assistance on these matters.
- The EU and Angola should ensure that the EPA is used as a tool to enhance Angola’s *food security*, reducing the risk of spiking food prices, hunger and adverse economic effects in times when environmental conditions hurt crop production.

28. **Technical assistance** by the EU and EU Member States should address administrative capacity constraints likely to affect the implementation of the EPA and the SIFA, as well as broader productive capacity constraints. As noted above, it would be preferable if the EU and Angola could address technical assistance needs already as part of the EPA accession and SIFA negotiations, and agree on the broad lines of support. The following areas of technical assistance are recommended as priorities:

- Support should be provided to address the identified constraints faced with respect to *customs management*, including origin verification, risk-based operations, customs automation, and the implementation of the electronic single window for trade.



- EU support in overcoming the constraints in Angola's *quality infrastructure* – covering SPS issues and TBTs – is an important element to ensure that Angolan exporters can make use of the preferential access to the EU market under the EPA. Already, technical assistance in this area is provided, but such support will need to continue for Angola to expand and diversify exports to the EU under the EPA.
- More broadly, the provision of *trade training programmes* – aimed at both public and private sector staff – should be considered, as well as support to introduce courses in international trade and economics in at least one Angolan university, e.g. through partnership with an EU university. A number of scholarships for public sector staff to participate in such course should be considered.
- The EU should provide financial and technical assistance to support *labour inspection* services, in particular in the context of the proposed SIFA text, according to which each Party shall establish and maintain an effective labour inspection system for all economic sectors, including for agriculture and mining activities. More broadly, EU technical assistance implemented in cooperation with the ILO could support the development of domestic dialogue between the Government and social partners on matters related to *respect for labour standards and working conditions*.
- EU technical assistance promoting the use of *CSR/RBC practices* and supporting capacity building in their application is also considered important.
- To complement commitments on reducing the environmental footprint of trade under the EPA, the EU should support Angola in the further development of renewable energy and of the expansion of clean technologies for sustainable agriculture and fishing, thereby ensuring effective water management, avoiding threats to biodiversity loss and land use change, and ensuring low emission-intense agricultural production and fishery. In addition, support towards Angola's ratification of the remaining trade-related MEAs and in the effective implementation could be considered.

29. A general recommendation relates to public-private dialogue: to create a common understanding on the EPA, the Angolan Government should make an effort to engage into dialogue with social partners and other civil society organisations on the reform process and accession to the EPA. Moreover, the EU should continue to provide technical assistance to further develop capacity of civil society in Angola; and the EU civil society, including the European Economic and Social Committee (EESC), should involve Angolan counterparts in a dialogue on trade, sustainable development and the EPA.



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