

WHY THE EU APPROACH TO REGIONAL TRADE NEGOTIATIONS WITH DEVELOPING COUNTRIES IS BAD FOR DEVELOPMENT.

Briefing Paper on the so-called EPA negotiations between EU and ACP countries within the framework of the Cotonou Agreement

CONCORD Cotonou Working Group, January 2004.

Since September 2002, the European Union has been negotiating “Economic Partnership Agreements” (EPAs) with 77 developing countries from Africa, the Caribbean and the Pacific¹. These negotiations run parallel with the multilateral trade talks at the WTO, and are part and parcel of a broad European trade liberalisation agenda that demands far-reaching trade concessions by developing countries.

Co-operation between the EU and the ACP countries has been governed by successive so-called Lomé Agreements since 1975. One important feature of these agreements was the unilateral trade preferences granted to the ACP countries by the EU. In June 2000 a new co-operation agreement was signed in Cotonou. The Cotonou Agreement for the first time foresaw *negotiations* between the EU and the ACP countries to establish a new regime layed out in Economic Partnership Agreements between the EU and several regional groupings of ACP countries.

According to the Cotonou Agreement EPAs would contain “*new WTO compatible trading arrangements, removing progressively barriers to trade between EU and ACP countries*” building on “*the regional integration initiatives of ACP states*”². The negotiations are to be concluded by the end of 2007 and than gradually implemented between 2008 and 2020.

EPAs would not only bring and end to the unilateral trade preferences enjoyed by the ACP countries but would establish a trade regime between the EU and the ACP countries that would be “WTO-plus” in two respects.

First, for the European Union EPAs can only be based on Free Trade Areas (FTAs) as defined by the WTO, namely by Art.XXIV of GATT. Free Trade Areas imply *the elimination* (not the reduction but, the *elimination*) of duties and other restrictive regulations of commerce on essentially all trade within a period of 10 years (which can only be extended in exceptional cases). In addition the EU sticks to a narrow interpretation of this WTO rule insisting that “essentially all” would mean “more than 90%” and that extensions would be limited to 2 years only. In other words EPAs would require the ACP countries to almost completely open their markets to EU imports within a short period of time.

Second, for the EU EPA negotiations should also include investment, competition, government procurement, trade facilitation and data protection³. The first four belong to the so-called Singapore issues that many developing countries, including the ACP countries resisted so much at the WTO-level. Only an investment protection agreement and cooperation on competition policies is foreseen in the Cotonou Agreement. The EU therefore does not only want to go beyond the consensus at WTO level, but also outside the scope of Cotonou. The latter is also the case with regard to trade in services, where the EU pushes for expeditious and ambitious negotiations

¹ All ACP-countries minus South-Africa which signed a regional trade agreement with the EU in 1999.

² Art.34 to 38 of the Cotonou Agreement.

³ Directives for the negotiations of Economic Partnership Agreements with the ACP Countries and Regions, 17. June 2002

While EU and the ACP countries agree that EPA's must become "*instruments for development*", the EU approach to the EPA negotiations puts this development goal in jeopardy.

The problems with Economic Partnership Agreements

1. Free Trade Areas will expose ACP countries to devastating EU competition

GATT art.XXIV, especially in combination with the narrow interpretation the EU makes of it, offers too little flexibility for the ACP countries: the transition period is too short, the coverage is too broad, the *elimination* of tariffs too ambitious and there is too little regard for the position of Least Developed Countries, small vulnerable economies, land locked or island economies.

ACP producers –including those from least developed countries and other vulnerable economies- suffer from serious capacity problems and will struggle to compete with import surges of duty-free and often heavily subsidised European goods in areas where they already compete.

There will also be little incentive for ACP producers to diversify into more 'value-added' products, or for investors to put money in to developing new capacity, given uncertain domestic and regional markets for products competing with EU imports.. This could lead to a 'glass-ceiling' being placed on ACP countries' development, an increased dependence on the production and export of primary products and possible deindustrialisation with associated job losses. The Sustainability Impact Assessment commissioned by the Commission warns that for West Africa, EPAs "*might accelerate the collapse of the modern West African manufacturing sector*".⁴

2. ACP countries will face substantial adjustment costs when opening for EU exports

The exposure to competition with EU imports will require **significant funds** for investments in ACP production and supply capacities, and for social and other accompanying or compensatory measures which are simply not available within the ACP countries that have been weakened by the commodity crises, structural adjustment, debt, the HIV pandemic and war. On the EU side no such efforts will be required. Yet it is the EU that will see its markets expanded. Meanwhile, the EU refuses to make sufficient commitments for the additional resources that will be needed during the preparation, establishment and the operation of the EU-ACP Free Trade Areas. In other words ACP countries are expected to make immense commitments without any assurance of being able to pay for them.

3. Loss of government revenues will severely compromise governments' abilities

The elimination of tariffs will have important implications for government revenue as many ACP countries rely heavily on import taxes for their fiscal income. Removing this source of income will dramatically reduce ACP countries' spending abilities and institutional capacity and will require investments in alternative tax systems. Even then it is not sure whether alternative tax systems in some countries can provide an equal amount of government revenue. In any case additional financial resources will be needed for the sustained support of fiscal restructuring processes in ACP countries.

4. Even the poorest ACP countries will be forced to open their economies to EU markets

Least developed countries (LDCs) are normally exempt from reciprocity in the WTO. However if they accept to join a Free Trade Area as currently defined by Art. XXIV of GATT, they must also commit to maximise the elimination of their trade barriers. Although the EU made a widely published gesture to offer all LDCs duty and quota free access to the European market through the so-called "Everything But Arms"-initiative of 2001, under EPAs as currently foreseen, LDCs will be compelled to return the favour and open their markets.⁵

5. Indiscriminate opening of ACP economies jeopardises regional ACP integration initiatives

Following further trade liberalisation, existing processes of regional co-operation and integration

⁴ Sustainability Impact Assessments (SIA) of Trade Negotiations of the EU-ACP Economic Partnership Agreements, Mid Term Report Working Draft, 1. October 2003,

http://www.sia-gcc.org/acp/download/summarized_mid-term_report_final_doc_light.pdf

⁵ 40 ACP countries are LDCs

between ACP countries will be hijacked, as the EU (i) enforces the tendency of narrowing down regional co-operation and integration processes to trade liberation, (ii) forces the scope and pace of that liberalisation, (iii) causes the break up of regional configurations, and (iv) wants to be part of any region (EPA negotiations as foreseen by the EU will establish Free Trade Areas between the EU and West Africa, the EU and Central Africa, the EU and East and/or Southern Africa, the EU and the Caribbean and the EU and the Pacific).

6. The external implications of other EU policies further erode the value of existing trade preferences

Trade preferences for ACP countries are further being eroded through WTO led liberalisation and other bilateral schemes between the EU and third countries, which has resulted in improved market access for non-ACP developing countries. The value of the existing ACP preferences has diminished as a result of the reform of the European Common Agriculture Policy (CAP). Access to EU markets has proved to become more difficult due to tight rules of origin and a variety of non-trade barriers, including strengthened Sanitary and Phyto-Sanitary (SPS) measures. In other words the value of the existing market access that the ACP countries are expected to reciprocate for at a high cost, is continuously declining.

It is clear that Economic Partnership Agreements, if they are based on Free Trade Areas with the EU, will place too onerous a burden upon the ACP countries. The optimism of the Commission about the positive developmental effects of its approach is misplaced.

We suggest twelve steps to change the current EU approach.

We urgently call on the EU and its Member States to:

1. Emphasise the development co-operation, rather than the trade dimension of the EU-ACP partnership agreement, in line with the Cotonou principles and objectives;
2. Abandon the drive for reciprocal trade liberalisation of weaker economies in the South; refrain from seeking liberalisations before specified development indicators are met.
3. Examine alternative trade arrangements as a matter of urgency. These must encompass the Cotonou trade objectives while taking full account of the development needs expressed by ACP countries;
4. Work with the ACP countries to obtain more WTO-flexibility for such trade policy measures, including for regional trade agreements involving developed, developing and least-developed countries;
5. Respect and strengthen (rather than undermining) existing regional integration efforts;
6. Devote additional resources, and make them available more easily and promptly, to address supply side and other structural constraints to boost production capacity, strengthen competitiveness and diversify economies in ACP countries;
7. Free more means for sustainable development and poverty eradication by increasing ODA, cancelling unsustainable and unpayable ACP debts and exploring innovative sources of development funding (including the Currency Transaction Tax)
8. Give assurance for EU resources to address costs incurred by ACP countries following the EU (driven) policies, like the loss of boarder tax revenue, the effects of CAP reform and preference erosions;
9. Reform the common agricultural policy in such a way that it contributes to a more sustainable family agriculture in Europe which does not harm the agricultural and trade interests of third countries;
10. Assess the impact of existing and future trade policies (including trade policy reforms under Structural Adjustment Policies) more thoroughly;

11. Refrain from pressuring the ACP countries into negotiations that go beyond the scope of the Cotonou Agreement such as investment liberalisation, competition policies, government procurement, trade facilitation, data protection and services.
12. Provide more transparency about Europe's regional trade negotiations; establish broad, genuine and effective consultation mechanisms especially with grass root and civil society organisations and provide more accountability towards national and supranational parliaments including the ACP-EU Joint Parliamentary Assembly.

The Cotonou Working Group of the European NGO Confederation for Relief and Development (CONCORD) was founded in October 2003. Its overall objective is to push for the translation of the Cotonou Agreement into actions that advance poverty eradication in the ACP and contribute to the achievement of sustainable development. Currently the Cotonou Working Group focuses on AC-EU trade co-operation, co-operation in aid and the role of civil society in the Cotonou process.

For more information on our work and on how to get involved please contact the convenor of the CONCORD Cotonou Working Group (JBrown@christian-aid.org) or consult the CONCORD website www.concordeurope.org