

CONCORD Cotonou Working group
Briefing paper

Financing EPAs : don't expect EU Aid to right EPA wrongs

1. What is the issue ?

The ACP guidelines for the EPA negotiations are quite clear on the need for additional resources to finance EPA-related costs: "... *trade liberalisation entails for ACP countries certain economic costs such as fiscal impact and adjustment costs, and capacity requirements that need to be addressed. Unless these are addressed, the benefits of an EPA for the ACP would be unrealizable and the EU would be the beneficiary of ACP liberalisation. The partnership must therefore serve to address these development needs specifically deriving from trade liberalisation, which are different from, other kinds of development needs requiring EU support"*

EPAs will require additional resources to finance the negotiation costs, the development of new policies and institutions, the loss of fiscal revenue due to tariff elimination, the improvement of infrastructure and productive capacities, and flanking measures and adjustment costs.

ACP countries are not prepared to make trade liberalisation and economic reform commitments under the EPAs without firm guarantee that these costs will be covered. ACP countries therefore insist that EPA financing resources must be additional, visible, easily accessible, contractual and therefore integrated into the EPAs.

2. What is the EU proposing?

Initial position

1) The European Commission has tried to deny or at least downsize the need for additional resources.

While ACP countries insist that institutions, infrastructure and capacities need to be built in order to be able to compete with EU imports and investors, the Commission has maintained that trade liberalization will give ACP producers and consumers access to cheap quality products, services and inputs and that economic reform will attract investors that will improve infrastructure, productive and export capacities. As the EPAs would be implemented gradually, attract investors, accelerate growth, improve customs procedures etc., there is less need for additional means.

The Commonwealth Secretariat however has estimated EPA related adjustment costs to total 9.2 billion Euros.

2) The Commission has also been insisting that EPAs be trade agreements and not development agreements, and that development issues, including the financing of the EPAs, are already dealt with in the Cotonou Agreement and should for the rest be discussed outside the EPA negotiations in the regular programming processes of the European Development Fund (EDF). The Commission has therefore also promoted the creation of Regional Preparatory Task Forces (RPTF) alongside the EPA negotiation structure proper, where cooperation and financing needs identified in the EPA negotiations would be discussed among the development staff of both parties as well as other interested donors in order to feed into Aid for Trade (including under the EDF) programming processes.

3) The Commission has also maintained that it had no additional means at its disposal. It can only work with the means provided by the EU Budgetary authority (the Development Cooperation Instrument of the budget) or the EU Member States (the European development Funds, EDF)

This initial position of the Commission reflects a fundamental difference of opinion on the trade and development nexus: will trade liberalisation lead to development or does one need to have reached a certain level of development in order to be able to cope with increased competition. There is also a different view on the kind of agreements the EPAs should be: trade and/or development agreements. Both parties have come to the negotiating table with different approaches and expectations. These divergences have led to lengthy and heated debates, have taken much of the negotiating time and led to increased frustration among ACP countries culminating in official ACP resolutions calling for a change in the EU mandate to allow for the negotiation of EPAs as trade and development agreements.

Leaving the trenches (a bit).

1) Aid for Trade (AfT). Under pressure from similar discussions in the World Trade Organisation (WTO) to make more means available to finance trade reforms, the EU has made a promise at the end of 2005 to increase the annual EU's Aid for Trade expenditure to 2 billion Euros by 2010, i.e. 1 billion by the EU Member States and 1 billion by the Commission. This promise has been repeated in Hong Kong at the 5th WTO Ministerial, and by EU Councils of October 2006, May and October 2007. However, as the EU is already spending funds on AfT, the promise only entails a raise of 850 million Euro: 150 million by the Commission, and 700 by the EU MS. Since the Commission does not have additional funds, its 150 million will be taken away from other objectives, so that the additional part is only with the 700 million from the EU MS.

The EU Council of 15 October 2007 confirmed that of these additional means "in the range of 50%" would be dedicated to the ACP countries, i.e. 350 million, to be shared between WTO and EPA related costs. The Council did not prescribe how much each of the EU MS would contribute to the promised increase, nor how much would be delivered to which ACP countries. Instead the EU MS would respond to clear demands from the ACP countries and a yearly assessment would establish whether the promised total has been reached, whether the aid was equally distributed over the ACP countries and whether adjustments have to be made. The AfT funds are meant to support the trade negotiations, trade policy development and the improvement of the business environment, excluding infrastructure, capacity building or adjustment costs. AfT therefore falls short of the ACP expectations both in quantity and scope.

2) EDF. The Commission has always insisted that the EPA cooperation needs should be integrated into the country and regional programming process of the EDF using the regular EDF funds. It is difficult to say at this point how much EDF resources would be devoted to the EPAs and there is discussion about what should be considered EPA related aid and what not. Detailed overviews are difficult to come by. The Commission claims that the total envelope for the regional indicative programmes (RIPs) has doubled compared to the 9th EDF and that they would make a great contribution to the financing of EPAs. They are also said to contain a special EPA tranche of about 350 million Euros.

What is clear however, is that EDF expenditure on EPAs this will take away financing from other development goals. In this context it is striking to find that the spending foreseen in the country strategy papers of the 10th EDF witness a drastic decrease for two issues directly linked to the Millennium Development Goals: health and education, stagnate or even decrease while good governance (including economic reform), infrastructure and regional integration are on the rise. Also, while the Commission has stressed that the AfT funds would be unconditional upon reaching WTO or EPA agreements, the Commission has been insisting that EDF means for the EPAs depend on the ACP commitments made. Finally the funds of the 10th EDF will not be spent before the overdue ratification of the EDF internal agreement by the EU member states, and the revised Cotonou Agreement by the same and two thirds of ACP countries. It seems that this will not happen before at least mid 2008.

3) Visibility, compensation, integration into EPAs. Only since the autumn of 2006 has the Commission begun to accept that there would be development and cooperation elements integrated in the EPAs, so that they would not only contain commitments to liberalise or to deregulate, but also steps to be taken to prepare for these reforms. The Commission however avoids formulating legal obligations and sticks to best endeavour language and political commitments. Since February 2007 the Commission has also promised to foresee (EDF) means to compensate for "net" fiscal losses and to contribute to Regional EPA Funds, that the ACP regions would set up; Such funds would improve visibility of the means available and allow for an easier disbursement than under regular EDF procedures. Other donors, like the EU MS, would also be able to contribute to such funds. The EU Council of 15 October 2007 also promised to improve the coordination, quality and timely delivery of all trade related aid.

3. Recommendations to the JPA

The members of the Concord Cotonou Working Group call upon the Joint Parliamentary Assembly to insist that:

- **benchmarks be developed to gauge the development impact of EPAs**
- **any commitments by the ACP countries under the EPAs should be made conditional upon the delivery of cooperation programmes, the availability of adequate financial means and the attainment of benchmarks**
- **in order to avoid fiscal losses equitable and adequate fiscal reforms should be in place before any tariff reductions are undertaken**
- **adequate additional means are made available to finance EPA related costs, without any reduction of resources for other development goals**
- **additional means are made available to strengthen regional integration, improve infrastructure and build capacities in ACP countries regardless of the signing of trade agreements with the EU or in the WTO**
- **EU capacities are improved to assure the timely delivery of adequate trade related aid programmes**
- **EPAs first and foremost do not contain any commitments that do not match ACP countries needs and abilities**