

Ensuring future ACP-EU trade agreements effectively promote ACP development

A radical change to the ACP-EU relations is underway. On 27 September 2002 the European Union and the group of African, Caribbean and Pacific (ACP) countries will start negotiations on new trade arrangements. Following from the Cotonou Agreement, ambitious aims for these negotiations have been outlined, which firmly place trade alongside sustainable development, poverty reduction and integration of the ACP states into the global economy. This Brief examines some issues that may determine the success of the forthcoming negotiations in delivering on the hoped for development objectives.

Background

In May and June 2002 the EU-LDC Network organised an internet discussion on possible issues of common interest for the all-ACP-EU negotiations. Here we provide a summary of the main points raised.

For over 25 years, the EU has granted practically totally free market access to ACP countries' products. These preferences are not reciprocal. ACP countries have not been obliged to grant the same preferential treatment to European products in their own markets and have restricted their entry by taxing them. In the framework of the ACP-EU Partnership Agreement (commonly referred to as the Cotonou Agreement), the parties agree to begin negotiations in September 2002 on new development-friendly, World Trade Organisation (WTO)-compatible trading arrangements. To this end, Economic Partnership Agreements (EPAs) will be negotiated. These new trade arrangements should be agreed by January 2008. The likely result will be that the current preferential trade regime will be split into several trade and economic cooperation agreements, where different ACP countries and regions receive different treatment from the EU and where the ACP countries progressively open their

markets to European products. Financial aid is intended to help compensate the costs of trade liberalisation and of the economic restructuring it implies. The impact of the new trading arrangements on the development of ACP countries is a key debate for the upcoming negotiations. The conclusions of these negotiations will put the third pillar of the ACP-EU partnership covering "the economic and trade cooperation" into place alongside the political dimension and development finance cooperation already established under the Cotonou Agreement. Trade negotiations, therefore, offer a real opportunity to establish a comprehensive framework for the structural transformation of ACP economies so as to enable them to benefit from globalisation.

Principles and objectives of trade negotiations

The Cotonou Agreement sets out many of the parameters of the trade negotiations. First and foremost, any future trade arrangement must be subject to Cotonou's objectives of the sustainable economic and social development of ACP countries. Economic and trade co-operation must aim at fostering the smooth and gradual integration of ACP states into the world economy, with due regard to their political choices and development priorities, thereby promoting their sustainable development and contributing to poverty eradication in the ACP countries. Trade negotiations must also take account of the level of

development and the socio-economic impact of trade measures on ACP countries, and their capacity to adapt and to adjust their economies to the liberalisation process. Negotiations of EPAs will be undertaken with ACP countries which consider themselves in a position to do so, at the level they consider appropriate and in accordance with the procedures agreed by the ACP group, taking into account the regional integration processes within the the group of ACP countries. The Cotonou Agreement also provides that the preparatory period leading to the conclusion of new trading arrangements shall be used for capacity building in ACP countries.

The ACP and EU negotiating mandates

The ACP and EU mandates to negotiate EPAs were adopted in June. Both sides agree that EPAs must fulfil the development objectives of the Cotonou Agreement. Their views diverge, however, on how this can be ensured.

For the EU, EPAs are essentially free trade areas with ACP regional groupings. These will establish a stable, predictable and transparent framework for economic and trade relations between the ACP countries and the EU, create regional economies of scale, attract investment and increase competitiveness. This, in turn, will lead to an increase in trade flows in the region, with the EU and with the rest of the world, thereby promoting the sustainable economic and social development of the ACP countries. The EU acknowledges that EPAs can only play this development role if appropriate account is taken of the particular economic and social constraints of the ACP countries and if they are effectively combined with appropriate development strategies.

The emphasis for the ACP is on ensuring that the constraints (see "points raised in the discussion") that currently prevent them from benefiting from economic liberalisation are effectively addressed and that their economies are transformed in order to be able to take advantage of the positive aspects of integration into the world economy.

All-ACP-EU level negotiations

Many of the ACP countries are still in the process of determining their trade policy objectives, strategies and negotiating configurations at national, regional and all-ACP levels. Most of the ACP countries have not yet fully assessed the impact of reciprocity on their economies. Alongside their own civil society groups and private sector, ACP states need to determine if the new benefits accruing under EPAs will exceed the costs of adjustment arising from the possible introduction of duty free access for EU exports to ACP countries markets. Before beginning detailed discussions on tariff dismantlement at a regional level, the ACP countries want to negotiate, as a group, on cross-cutting issues of common concern and to establish the parameters and procedures for

the negotiation of future trading agreements. This would also enable the ACP group to have a better understanding of the wider context within which detailed EPA negotiations are to be conducted, since by 2005 a number of important outstanding issues (WTO negotiations, the EU's new generalised system of preferences (GSP), the Common Agricultural Policy (CAP) reform) should be resolved.

The EC agrees to launch negotiations at an all-ACP-countries-EU level, though it has a different view than the ACP countries on the types of issues to be discussed here. In parallel to these negotiations, the EC wants to begin negotiations with individual ACP regions by January 2003, at the latest. A potential danger of parallel negotiations could be that there may be insufficient capacity within the ACP countries to handle this (also in addition to WTO and other bilateral negotiations) and that their negotiating strength as a group is weakened.

Points raised in the discussion

Below are some issues identified by contributors to the internet discussion which could be discussed in an all-ACP-EU first phase of negotiations.

Market access

Ninety-three percent of ACP imports currently enters the EU market duty-free. This percentage is based on actual rather than potential trade. Had the latter been used, the percentage would be substantially lower. For the ACP countries, maintaining and expanding this market access is vital. The EU has promised, in the Cotonou Agreement, to keep its markets open. The ACP, as a group, could negotiate for an early EU commitment to provide duty free access to all ACP products, because they are from developing countries, as soon as EPAs come into force. The EU's "Everything but Arms" (EBA) initiative, adopted last year, provides duty free access to the EU market for virtually all LDC (least developed countries) products. The ACP would effectively be asking for the extension of EBA to all ACP countries (developing and least developed).

Non-tariff barriers

Market access alone is insufficient to ensure ACP products are exported to the EU. On the ACP side, constraints must be overcome so that the ACP countries can produce and export competitive products (this point is elaborated further below). On the EU side, there are some conditions which could negate the potential benefits of the ACP's market access to the EU such as non-tariff technical barriers to trade (like sanitary and phytosanitary standards and other regulatory measures, especially relating to food health and safety). The EU could commit itself to provide sufficient resources to meet the challenges facing ACP developing countries in this area and to formula-

te innovative and sensitive ways in which genuine EU health concerns can be addressed without creating new obstacles to trade which could prevent ACP suppliers from exporting to the EU and thereby undermining the potential benefits of duty free access. Other conditions which could negate the potential benefits of the ACP's market access to the EU include preferential EU market access granted in agreements with other regions and in the WTO, and internal policies such as the GSP, the CAP and EU enlargement.

Rules of origin

Another issue that could be negotiated at an all-ACP-EU-level concerns the rules of origin for EPAS. The EU calls for EPAS to be based on current, and complex, Cotonou rules of origin. The ACP countries want the EU to review and make these rules less stringent taking into account the level of development of ACP countries. This would allow for rules to be simplified and more easily administered so that the ACP countries could increase intra-ACP trade as well as trade with the rest of the world. ACP export diversification could be encouraged, for example, by deliberately reducing the processing requirements needed to fulfil the rules of origin, thus allowing for more processing to be done in a non-ACP state.

WTO rules

Future ACP-EU trade agreements must be compatible with WTO rules. These rules, in particular those relating to regional trading arrangements, are currently under negotiation with a view to ensuring developing countries' circumstances are better taken into account so that they can share in the benefits of free trade. WTO negotiations should be concluded by 2005. This has implications for EPAS which are scheduled to be concluded in 2008.

In view of this timing, and their limited negotiating capacity, many in the ACP group want to focus in the first instance on negotiations in the WTO on development principles and specific tariff reductions and to await the conclusion of the WTO round before negotiating detailed concessions on EPAS. Specifically, the ACP countries want to amend WTO rules on RTAs and provisions for special and differentiated treatment to allow for longer transition periods to respond to the re-structuring and development needs of ACP countries before having to grant reciprocity.

The EC claims that there is sufficient flexibility in existing WTO rules (in terms of duration of the transition, percentage of product coverage and exclusion and asymmetry in tariff dismantlement) to achieve ACP-EU development and trade objectives. The EU argues that permanent or excessive protection is anti-developmental. The EU's central premise is that for the situation in ACP countries to improve, larger, regional economies must be created to overcome the central problem of the smallness and restrictive-

ness of individual countries' markets. This, the EU claims, is a more effective approach than defining or reforming rules for special and differentiated treatment for smaller markets.

The fiscal impact of EPAS

In many ACP countries import duties constitute an important source of government revenue. If EPAS are reciprocal free trade arrangements, they will reduce tariffs and, therefore, ACP government revenues from this source. Governments' ability to fund important social and economic activities will then be constrained, at least in the short term. And this at a time when governments are having increasing demands placed on them in terms of creating a conducive environment for a market economy and to attract investment.

The EC argues that this problem can be addressed within existing European Development Fund (EDF) programmes. They also claim that reducing tariffs would increase fiscal revenues because more income-generating trade will be permitted. They acknowledge that it will take time to move to more appropriate systems of government revenue, but that negotiations will allow adequate time for this. The ACP countries point out that alternatives to customs are difficult to put into place and take a lot of time to implement in developing countries. The ACP countries want to formulate, together with the EU, programmes of assistance for improvements in the efficiency of government service delivery and revenue collection and for increased resources to be allocated, perhaps in the form of temporary budget support. Such assistance should include aspects such as identifying expenditures of the greatest importance to the poor with a view to insulating these areas of expenditure from budget cuts; support for revenue incidence analysis to identify the impact of new revenue measures on the poor; the extension of budgetary support where necessary and appropriate; support for training of ACP states personnel in cost-effective forms of alternative revenue collection; and support for institutional reform of government revenue collection.

The EU's Common Agricultural Policy (CAP)

The CAP provides support and protection to EU farmers. It has been both beneficial and detrimental to different ACP countries. Beneficial in, for example, providing guaranteed prices to ACP sugar producers. Detrimental in the sense that it excludes key ACP exports to the EU and disrupts domestic ACP production by dumping EU subsidised exports on to ACP markets. The CAP is currently being reformed to enhance the competitiveness of EU agricultural and value added food product industries on national and international markets. Given that agriculture in most ACP countries is a significant part of the economy,

the impact of the CAP reform on ACP agricultural production and exports to the EU should be examined. Also, since the extent to which the EU will maintain existing access for ACP agricultural products or grant new opportunities to ACP agricultural exports will be a key aspect of the detailed ACP-EU regional trade negotiations.

ACP supply-side constraints

A fundamental question relating to the ACP's access to the EU markets is the need for the ACP countries to be able to produce and export competitive products. Many of the ACP states now face enormous obstacles to doing this. Often referred to as supply side constraints, these obstacles can range from the unreliable provision of public utilities (electricity and water supply) and poor public infrastructure (run down roads and railways) to weak institutional and policy frameworks (leading to fluctuating exchange rates and high inflation and interest rates) and low labour productivity (arising from poor education, health, in particular HIV/AIDS and housing provisions). While these supply-side constraints need to be taken into account during the all-ACP-EU phase of negotiations, solutions to overcome these constraints should be addressed in co-ordinated and integrated country-specific programmes. Issues that could be discussed during the first phase of the negotiations include the nature and level of funding to overcome these supply-side constraints, and determining best practice and reform in existing programmes. Increased public funding from the EU could help support governments in creating the conditions to attract local and foreign investment and stimulate private economic activity.

Capacity building support

The process of establishing the new economic and trade cooperation agreement will by no means be simple. The ACP countries need to determine their

national interests, through consultations with civil society and the private sector and conducting a multitude of impact studies on various issues, translate these into trade policy objectives and strategies on and lobby to achieve these.

Support should be provided in view of the human and institutional constraints facing the ACP countries when engaging into negotiations with the EU. The Cotonou Agreement provides that the preparatory period leading to the conclusion of EPAs shall be used for capacity building in the public and private sectors of ACP countries, including measures to enhance competitiveness, for the strengthening of regional organisations and for support to regional trade integration initiatives, where appropriate with assistance to budgetary adjustment and fiscal reform as well as for infrastructure upgrading and development and for investment promotion. As in the case of addressing supply side constraints, this is an area where the ACP countries and the EU could discuss the establishment of programmes of assistance and the types and levels of funding necessary to build ACP capacity.

Further information

Over 1400 people involved in ACP-EU cooperation were invited to participate in the two-month internet discussion- from ACP and EU governments, civil society and the private sector. The contributions and documents posted to the discussion are available on the EU-LDC website (www.eu-ldc.org). The documents have also been transferred to the recently launched joint EU-LDC Network/ECDPM/ODI website on ACP-EU Trade Relations (www.acp-eu-trade.org) with a view to contributing to the ongoing process of networking and discussion on these issues.

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