Impacts of Trade and Investment Liberalisation in ACP Countries

Preparations for the Negotiations
between the EU and ACP Countries on
Economic Partnership Agreements (EPAs)

Documentation

of a workshop held on 5. December 2001
in Bonn, Germany

weed
terre des hommes

terre des hommes and WEED wish to express their thanks to the

Heinrich-Böll-Foundation

for co-operation and financial support of this workshop.

Impacts of Trade and Investment Liberalisation in ACP Countries

Preparations for the Negotiations between the
EU and ACP Countries
on Economic Partnership Agreements (EPAs)

Documentation of a workshop held on 5. December 2001
in Bonn, Germany

Editor:
Klaus Schilder

© Bonn, February 2002

Further Information:
WEED – World Economy, Ecology & Development
Bertha-von-Suttner-Platz 13
D-53111 Bonn
Tel.: +49 (0) 228 - 766130
Fax: +49 (0) 228 - 696470
E-Mail: weed@weedbonn.org
Internet: http://www.weedbonn.org/eu

TABLE OF CONTENTS

Page

I. INTRODUCTION

.....3

II. OBJECTIVES OF EU TRADE POLICY
Reflections on the Upcoming Trade Negotiations between the EU and the ACP Countries

Mirjam van Reisen, Nedworc 4

III. EU TRADE LIBERALISATION POLICIES
Impacts on ACP and Other Developing Countries – Preliminary Results and Conclusions

Klaus Schilder, WEED 11

IV. FREE TRADE AGREEMENTS WITH AFRICA: CONTROVERSES AND INTEGRATION

Medicine Masiiwa, Trades Centre 15

V. FUTURE EU-ACP TRADE RELATIONS
Issues, Debates and Approach

Paul Goodison, ERO 25

VI. LIST OF PARTICIPANTS

.....28

INTRODUCTION

Liberalisation of trade and investment relations is at the heart of the new partnership agreement between the EU and the African, Caribbean and Pacific Countries (ACP), the so-called, Cotonou-Agreement', that was signed in July 2000. In September 2002, the EU and ACP will begin formal negotiations on new trade agreements, the so-called "Economic Partnership Agreements" (EPAs) which shall enter into force by January 2008 at the latest. Both the EU and the ACP countries have laid down their preparatory activities in a Joint Action Plan in May 2001. According to this Action Plan, the ACP group is currently assessing the impact of the proposed Economic Partnership Agreements with the EU. Based on the outcome of these studies the ACP countries will then decide upon the regional configuration in which they will enter into negotiations with the EU. A final decision on the regional configuration is expected by the end of 2001. In addition, the ACP studies will contribute to the preparation of the ACP negotiating mandate. The drafting of the negotiating mandates will start in November 2001 within the ACP group and in December 2001 within the EU Commission and be concluded in June 2002 and July 2002, respectively.

It is the aim of our joint activities[1] to subject the objectives and strategies of European trade policy towards the ACP countries in its entity to critical examination and thus to reveal underlying tendencies in EU North-South trade policy. Within the preparations for EU-ACP negotiations on future trade arrangements it is on one hand envisioned to analyse the ACP impact studies on new trade arrangements in closer detail once they become available (foreseen in September 2001). On the other hand, our activities will monitor the drafting of the EU negotiating mandate in the interest of an ecologically sustainable and socially just development process. The proposed project forms an integral part of our joint activities on EU North South Policy.

The workshop aimed to discuss joint political strategies among NGOs for the process of EU-ACP trade negotiations and to develop clear some recommendations and expectations in time to be considered in the drafting of the EU negotiating mandate. Discussions, among others, focused on the impact of liberalisation in EU trade and investment policies on ACP countries and regions. In particular, the need for close monitoring of social and ecological consequences of such liberalisation policies was stressed. The workshop took stock of the lessons that can be learned from already existing trade and investment agreements with countries in the South (e.g. the recent EU free trade agreements with Mexico and South Africa). In this respect, the workshop draws upon a draft study under preparation by terre des hommes and WEED analysing the consequences of EU trade liberalisation policies on ACP countries.

Peter Eisenblätter
terre des hommes

Klaus Schilder
World Economy, Ecology & Development

[1] More information on the co-operation programme can be found on the joint terre des hommes / WEED website on EU North-South Policy
http://www.weedbonn.org/eu/index_e.htm

OBJECTIVES OF EU TRADE POLICY

Reflections on the Upcoming Trade Negotiations between the EU and the ACP Countries

MIRJAM VAN REISEN
NETWORC

Introduction

This paper identifies a number of possible strategic approaches that might be considered in the run-up to the upcoming negotiations between the European Union and the ACP countries. Obviously these negotiations should be regarded as connected to the upcoming new Round of multilateral trade negotiations in the WTO. It is argued that common interests between the EU and the ACP should inform the negotiation positions of these two groups, within the two sets of negotiations. It is suggested that the area of precautionary measures is further explored to integrate key developmental objectives, such as food-security, the provision of basic social services and employment.

Origin ACP-EU relations

The origin of ACP-EU relations is in an era that looked quite different from the current times. In the divided Europe of the 18th and 19th century different colonies provided wealth for individual European countries. The ACP-EU relations stem from this reality, but also transcended the relationship with the (former) colonies to a new reality: that of a 'united Europe', certainly that of a single market and economic operator.

Firstly intended to associate the ex-colonies (mainly from France at that stage) to the Community, it was later expanded to integrate colonies from other European countries, which eventually joined the Community.

But the successive enlargements of the Community did not bring all the former colonies and Third world relationships into the ACP agreement. With many countries, the EU set up bilateral or regional relations, particularly those located in Asia, Latin American and the Mediterranean bilateral or regional relations, that remained outside the ACP framework.

As a consequence the EU has now relations with almost every region and country in the world. This obviously has in turn eroded the exclusiveness of the relationship between the EU and the ACP. Since 1990 this is specifically compounded by the developments in Eastern Europe, and the remarkably fast opening up of markets in Eastern Europe for European agricultural and industrial products and services. This is clearly visible in trade figures (see annex).

While within the EU these developments have lead to a questioning of the legitimacy of the ACP as a group, the ACP has made steps to put its existence on a stronger and more independent foundation. This includes the possibility for the ACP group to include new members, which are not party to the ACP-EU Agreements.[2]

Reduced economic weight of EU trade with ACP

African markets dramatically reduced their share in world trade by more than twelve percentage points between 1960 and 1998, partly due to the fall in primary goods prices and the loss of colonial economic ties in this period. For Sub Saharan countries in particular poor economic and trade performance combined with high population growth has led to a negative movement in per capita incomes. Since the mid 70s, the growth of export revenue has not kept pace with expenditures on imports and debt servicing.

Reminding that the ACP group now comprises of 77 countries, puts in perspective that this group provides only 2.8% of EU imports in 1999. The same trend is true for ACP countries generally with ACP countries becoming increasingly marginalised in world trade. For example Sub Sahara African competitiveness in words trade has fallen dramatically with a reduction in exports from 2.4% in 1970 to 1% in 1992. If oil was excluded this share would be even less.

The dramatic shift is illustrated by shifts in ranking. Nigeria was the 6th largest EU trading partners for exports in 1980. However, in 1990

[2] Georgetown Agreement, establishing the ACP group as a legal personality, 1992.

it stood at a 35th place, and in 1999 at 39th place – still being the largest trading partner country from the ACP as a whole! For imports Nigeria ranked 8th in 1980, 23rd in 1990 and 40th in 1999 – again, still being the largest of the whole ACP group. No other ACP countries features in the list of 50 main trading partners in 1999. In fact a large share of imports from ACP countries originates from a relatively small group of ACP member countries.[3]

Agricultural policy

Why has the ACP share in trade with the Community diminished so dramatically? The main reason lies in the agricultural policy the Community has pursued, and the dependence of ACP countries on agricultural production. The CAP established in 1962 designed as a system of support for EU farmers in order to ensure food security.

The main feature of the CSP is the setting up of target prices within the Community for specific products. Import prices for these products are then kept above the target price. Within the Community intervention prices are set slightly below the target price. If sales can only be made below the intervention price the Community buys up the product in order to drive up the price.

Agriculture is a key area for ACP countries. In exports many depend on coffee, tea and other food products, for which the world market prices continue to decrease.

In other areas, such as meat and dairy, The CAP increases agricultural production and lowers world market prices, for which European farmers are compensated but farmers in developing countries are not. The overproduction has dramatically increased the EU exports. This has harmed farmers in the South in supplying their domestic markets and in increasing their export earnings. The CAP has prevented agricultural producers in developing countries from capitalising on their number one comparative advantage.

As a consequence the CAP has had detrimental effects on food security of developing countries and has made them increasingly dependent on food imports from industrial countries, which out competes national production.

The CAP is now being reformed. The policy has become too expensive and will be unaffordable with the enlargement with countries from Eastern Europe. But the question is whether ACP countries will be able to benefit from these changes. This depends on developments within the international trading arrangements.

Whereas increasing EU competitiveness abroad is one consideration, The European Union shares with ACP countries an interest of international trade in agriculture not being based exclusively on competitiveness, but on a system that will give weight to the requirements of protecting European and ACP agriculture.

The Community uses for this several instruments, including:

- Limitations on the increases in tariff quotas for third countries based on the Community market's real possibilities of absorbing the imports, in terms of the sensitivity of community production;
- Weight to be given, in negotiations with third countries, to the characteristics of the agricultural market, the repercussions of concessions being considered and the need to develop a coherent global strategy;
- Regular analysis of the impact of preferential import schemes and consideration of these analyses as the basis of policy discussions.[4]

A number of Member states believe that the strategy towards ACP countries and countries benefiting from GSP should be brought in line with the strategy applied to other states. It follows that ACP (and other developing countries) should be able to identify instruments to protect key interests, similar to those applied by the Community.

Globalisation

The EU has moved from a relatively closed trading system to an open trading system; and now competes around the globe for market penetration with the US. Market penetration is not the same as liberalisation. It requires liberalisation by third party countries, while various kinds of measures for market protection in the EU, and the US can and do continue to exist.

With the removal of tariffs and other restrictions globalisation may bring opportunities for ACP countries, in the form of improved market access generally and in non-traditional products specifically. However, the major risk is that this significantly increases the exposure of enterprises in developing countries to international market competition. There is also a risk of a negative balance of payments movement as imports respond more readily than exports to open trading regimes.[5]

The EU has an interest in reversing this trend and capturing some of the new market potential that could be created in ACP countries. However, until recently the EU was happily entertaining Third World liberalisation without analysing the negative repercussions of uncontrolled liberalisation. The EU focused primarily on stated intentions to help ACP countries develop outside markets through technical assistance. Within the statements by the Commission latterly in the context of a multilateral trade agenda, much greater focus is given to rec-

[3] Eurostat figures, 2000.

[4] Europe, 6945.

[5] European Commission, Trade 2000, A Strategy, DG VIII A/5, February 1997.

ognition of a shared agenda between the EU and the Least Developed countries in fostering a responsible liberalisation process, which recognises the need to accept the legitimacy of protective measures related to some key concerns. This is a way forward that might be more productive than the proposals entertained earlier by the Commission in reforming its trade relations with ACP countries. The question is whether this objective to defend common interests of the ACP and the EU translates into some real substance for the negotiations, or is merely rhetorical.

Some scepticism might be justified in relation to the EU agenda. Whilst the EU heralded the decision to put in place negotiations for a 'Development Round' as its achievement, the position of the ACP, and other developing countries, in particular India, Pakistan, Indonesia and Malaysia, had not been in favour a development round. Non-transparent 'green-room' tactics brought the group of developing countries on board, one-by-one; eventually leaving only India to withhold consensus on the declaration.[6]

The Cotonou Agreement

In the negotiations for the Cotonou Agreement the proposal of EPAs (first called REPAs) was introduced. The objective was to negotiate Regional Free Trade Agreements with ACP groups of countries, and replace the Lomé trade regime, that was seen as increasingly incompatible with WTO basic principles.

A key concern that arose in these negotiations was that studies – commissioned by the European Commission, to study the potential impact of the REPAs indicated that little if any benefits could be identified for ACP countries, while the EU itself stood to gain in terms of market access.[7] Industries in ACP countries would suffer from European competition, and revenue losses were expected from lost tariff revenues. In a number of countries the agricultural sector would be particularly vulnerable. It was also identified that the regional integration of ACP countries was essential for their integration into the world economy, but would have little chance if, at the same time negotiations were conducted with the European Union.

The Commission has always pointed to the positive dynamic effects that would arise from the REPAs. These might include the attraction of FDI. While the benefits of FDI would depend much on the form in which the FDI takes place, the naturally competitive and arbitrary nature of these dynamic effects, are problematic in the case where regional integration is in the process of being developed – but still rather weak. It undermines the development of greater cohesive measures within regions – because the interests at stake with the larger negotiating partner (in this case the EU) are so overwhelmingly dominant.

However, the negotiations of EPAs are now coming up and so is a new Round of multilateral trade negotiations. In this reality it is no longer relevant to debate the most beneficial order of negotiations, and we now must proceed recognising that it will be of the utmost importance that these two processes are linked, and that the EU and ACP countries will advance in a consistent way together in the two concurrent negotiations. We therefore need to understand the possible directions that might be considered within the context of a new WTO Round.

WTO

The ACP has given itself legitimacy beyond the special relations with the EU. In the Ministerial meeting of the ACP in Libreville, it was agreed that the scope of the ACP would be moved beyond the agreement with the EU. The Libreville Declaration recognised the importance of the negotiations in the WTO for the ACP as a group, and, by implication, acknowledging common interests in the WTO of ACP countries.

In prior negotiations between the ACP and the EU the EU has often (ab)used the WTO framework, to find support for its negotiation position with the ACP. Among others, this strategy failed to recognise that the WTO was established to, inter alia, ensure that developing countries, and particularly the least developed among them, secure a share in international trade commensurate with the needs of their economic development.

In the negotiations on the Cotonou agreement the EU made references to vague notions of WTO rules portrayed as a fixed set of internationally rules. This was seen as problematic because the reality of the WTO is one of a new mechanism in which much of the assumptions made about it depend on interpretation and speculation. In other words, the WTO should first and foremost be regarded as a political space, in which WTO terms are "*..understood to be accessible to alteration if appropriate alliances are created and effective interventions are pursued (…) This is the context and this is the spirit in which the WTO and its role vis-á-vis Lomé and the ACP's interests has to be viewed.*"[8]

[6] India gave up its resistance after a compromise was reached on the Chairman's understanding of the Declaration, that the Fifth Ministerial meeting will decide on consensus basis whether negotiations would begin, and that any member could prevent consensus. It is not clear whether this compromise will in reality carry any legal weight. Jennifer del Rosario-Malonzo, 'WTO Doha meeting in retrospect. A whole new Round, IBON Features, no 44, 10 December 2001.

[7] Reisen, van, M, EU "Global Player - The North-South Policy of the European Union, *International Books*, Utrecht, 2000.

[8] Keet, D., The implication of a reciprocal free trade agreement with the EU in relation to regional integration and development in Southern Africa. *Presentation to the International Hearing and Workshop on the Implications of the EU's proposed Alternatives to the Lomé Convention* – Organised by WEED and terre des Hommes, Königswinter, 23-25 April 1999.

Until Seattle, the accumulation of the various processes had led to the QUAD countries (US, EU, Japan, Canada) as principal players controlling which issues are put on the multilateral trading agenda, and which issues were left out.

This reality does not mean that developing countries have no power at all. On the contrary, Seattle failed because the power that developing countries generated, and this is one of the major reasons that the EU has sought a coalition with this group of countries; to gain support to tackle some major issues it has to settle with the US. These issues include, among others, the distortive measures the US has since taken in the field of agriculture, among others by export credits, at a time that the EU has reduced its export subsidies, in order to comply with the Uruguay Round.

The EU also does not envisage greater liberalisation in each and every area. Quite the contrary, the EU has hammered again and again that its concerns are with a fairer system. This the developing countries can perhaps use to their advantage. In certain areas a coalition between the EU and developing countries could possibly be developed. It is, first and foremost, in the interest of the EU that key areas of concern – such as rural livelihood, the environment, and consumer's issues can be protected.

Such a stand relates to the area of precautionary measures. The principle of allowing precautionary measures for key areas of interests - and particularly those linked to human rights standards, could be a shared way forward between the Community and the ACP countries.

In this context there is an urgent need to also recognise that a priority of the international community should be for development issues to be put at the centre of the multilateral trade negotiations, in order to enhance the development potential of ACP states. The Special and Differential treatment for developing countries is a core principle of the WTO. It should be the foundation for any future WTO agreements and rules; and the implementation of Special and Differential provisions should be made legally binding and enforceable. [9]

Secondly the EU could help ACP countries to rebuild their markets – an objective that Japan is beginning to actively support. The EU's vital economic interests are, at the moment not in the ACP. Europe should develop strategies together with ACP countries to establish better and sounder economies in the ACP countries, so that, in the future not only market access is guaranteed, but also that markets in ACP countries are created. It should be recognised that flexible time frames must be built into the future agreements that will allow sufficient space and investment for domestic industry to develop – and that these transition periods will naturally have to be based on non-reciprocity. This is possible, as the Cotonou agreement did not bind the ACP to any particular type of arrangement.

Precautionary measures and internationally agreed standards

Precautionary measures are generally referred to in the context of consumer's and health issues – often in the industrial countries. This is peculiar, because precautionary measures provide a good concept to allow instruments to be developed that will also ensure that the weaker players in the global trading system have some kind of protection – and particularly more vulnerable groups within the LDC countries. Protection of key interests is the logic for defining precautionary measures, whether for industrial countries or for developing countries.

Apart from precautionary measures the Community applies safeguard measures, in particular for sensitive products, such as rice, bananas, manioc and bovine meat. On this basis it should be possible to identify a short list of products to be excluded from liberalisation processes. These are products excluded from full liberalisation, given the potential, but not necessarily proven, damage that exports from developing countries can do to producers in the Community. These lists vary in accordance with the reality in various ACP countries.

The rationale for precautionary and safeguard measures should be equally applicable to the protection of developmental interests in ACP countries. The objective being that developing countries should be enabled to create a productive capacity for the domestic market before they are required to give market access to far more competitive outside economic players. It should be recognised that the ACP countries are the weak players in international trade. Trade has to be seen in function of this reality. It should be recognised that a deterioration of the trade balance will further compound to the already immense problems of poverty in ACP countries. [10]

Precautionary measures and human rights

There has to be a principle that can serve as a standard for taking into account this specific reality in a rules-based trading system that provides enhanced certainty and security for all its members.

The principle that should be built into the international trading system is that liberalisation can be pursued as long as it does not violate human

[9] ACP groups position ahead of the WO Conference, ACP Press Release, Brussels, 7th November 2001.

[10] The ACP emphasises "the need for provisions which offer developing countries adequate advancement of their non-trade concernsd, namely food security, sustainable rural development, rural livelihoods and poverty alleviation." (ACP's position ahead of the WTO Conference, 7th November 2001.) These proposasl could be further elaborated in the 'Development Box' included in the agreement reached in Doha.

rights as agreed in internationally adopted instruments. As the WTO has now hesitantly recognised in some kind of shape, the right to basic health care needs to be taken into account in the TRIPS agreements.

Precautionary measures, which are justified, should be related to internationally recognised basic rights. The concept of precautionary measures is useful if it is related to a set of internationally accepted standards. The EU refers to the international agreements reached in the area of the environment and consumer protection.

The principle of precautionary measures should equally relate to the right to « freely dispose of their natural wealth an resources without prejudice to any obligations arising out of international economic cooperation. In no case may a people be deprived of its own means of subsistence. » as laid down in article 1 of the Convention for cultural, economic and social rights.

Non food-exporting developing countries should demand precautionary measures to protect their right to food security, as a basic necessity to maintain the means of domestic subsistence – just as the EU based its agricultural policy in 1962 on the principle of food security. On this basis developing countries should be allowed to protect their markets from imports of meat, dairy, cereals, beverages, and other products that can be produced domestically.

The principle of precautionary measures should also apply to the right to work – and to gain a living by work (article 6 of the Convention of Cultural, Economic and Social Rights.). Where the impact of trade agreements are likely to violate this right, by increasing unemployment among particular groups, it should be possible to activate precautionary measures to safeguard this right. This includes the enjoyment of just and favourable conditions of work, including fair wages and equal remuneration, a decent living for themselves and their families, safe and healthy working conditions, equal opportunity and rest.

Precautionary measures taken, at present, by the Community protect interests from the point of view of food self-sufficiency, as well as interests stemming from employment opportunities – and fear to loose the competitive battle with producers from third countries. The legitimacy of these considerations should be extended to principles recognised in the multilateral trading system.

ACP countries should be allowed to take precautionary measures for liberalisation in areas where they are able to produce work for large sections of the population. However, these should be based on objective, verifiable processes of determination, while current trade barriers created on the basis of political interests need to be abolished. Eventually processes should be identified to define a process by which the justification for precautionary measures for the protection of human rights could be established, with the United Nations Commission on Human Rights (UNCHR) assisting in the process of reporting on the human rights implications of trade in agriculture – particularly in relation to the delivery of basic services, particularly health and education, food security and employment. The UNCHR is already engaged in a process of reporting on the human rights implications of trade in services.[11]

One of the only alternative positions that could be advocated to protect food security in ACP countries is to take the area of agriculture entirely out of the WTO.

The political process

One of the difficulties identified with the EPAs has been the lack of capacity in ACP countries to negotiate a new Round at the same time as it negotiates specific arrangements with the EU. The processes are also intimately linked, and what would be agreed in one process would be of consequence to the other.

A clear regional agenda for the ACP as a whole and the three large different regions within it (Africa, Caribbean and Pacific) should clarify instruments for fairer economic instruments that will govern the specific relations between the EU and EPAs, and set the ground for negotiations in the WTO. The ACP-Europe trade negotiation Forum should be guided by Heads of State meetings who establish the agenda, and have a negotiation process of regular meetings between senior officials.

Transparency in relation to the negotiations between the EU and the ACP should be matched by much greater openness and accountability in the in the decision-making process of the WTO, ensuring the involvement of all members in the decision-making processes.

No linkage with politically unrelated or outstanding issues

At the very last stage of negotiations on the Cotonou Agreement the EU introduced the issue of 'migration'. The EU has equally attempted to bring issues related to multilateral investment into the negotiations with ACP countries, after negotiations on an MAI had collapsed in the OECD. In relation to the multilateral investment issue it should be recalled that:

"it is clearly understood that future negotiations, if any, regarding multilateral disciplines in these areas, will take place only after an explicit consensus decision is taken among

[11] Jennifer del Rosario-Malonzo, 'WTO Doha meeting in retrospect. A whole new Round, IBON Features, no 44, 10 December 2001.

WTO members regarding such negotiations."[12]

The framework agreement between the EU and the ACP should agree a clear clearly mandate for the negotiations with individual countries, to ensure that issues, which are not related to the trade negotiations, enter into the agenda.

Capacity for a Development Round

The European Union stands to gain from a new 'development round'. However, developing countries, the supposed beneficiaries of this process, do have little capacity to deal with the various processes at the same time. If the European Union genuinely has the interests of developing countries at heart, it should ensure that sufficient resources are made available to ACP countries to prepare themselves, as a group and individually, for these multileveled negotiations. This should not only include assistance to increase ACP's capacity in Geneva, where an ACP office will be opened soon, but also assistance in preparations by the ACP for the EPA negotiations. The expedient release of these resources is vital.

The Inter Governmental Conference

The European Commission identified cleverly how it could turn Seattle to its advantage. By identifying how a (imagined) coalition with developing countries could advance EU interests and the interests of developing countries alike. The EBA is a case in point, and shows that the EU can do much more to the benefit of LDC's without harming its domestic interests. On the contrary, these will help to give greater voice to EU concerns in the multilateral arena.

The developments since the 11th of September create a further opportunity for the European Union to establish itself as a global player, which will take global responsibility. The EU can profit from demonstrating that global security can best be achieved by co-operation, rather than by military force alone. It can do this if it chooses to work with developing countries and take their interests at heart. The EU should use its historic links with many developing countries, particularly those in the ACP group. It should look at the common interests, and identify how these can best be pursued in the international trade arena.

The EU is committed to the Millennium Development Targets, to achieve a reduction by half of world poverty in 2015. It is committed to specific targets set in the areas of health and education. The Inter Governmental Conference should define a Common Community Policy towards WTO – based on the commitment to have poverty eradication as the primary focus of development activity.

The inter Governmental Conference provides with an opportunity to strengthen this aspect of the Community competence. The IGC should specify the development objectives of its co-operation with the poorest countries, and strengthen the articles requiring coherence of Community policies with the objectives of co-operation with the poorest developing countries. Coherence in global economic governance, through consistent and mutually supportive policies is essential for a European strategy that seriously aims for Europe to act as a responsible global player with special concerns for the needs of developing countries.[13]

Conclusions

The marginalisation of the developing countries in the global economy, particularly the least developed countries, is a major challenge confronting the international community. The European Union has much to gain from a coalition with the ACP, and can use its negotiations with the ACP on EPAs as a platform for preparing positions in the new development round. The following elements should be part of a comprehensive approach towards these multilevel negotiations:

1. Given the new WTO Round is a fact, ensure that negotiations on EPAs go hand in hand with the negotiations in the WTO, and focus on ensuring that WTO rules become more balanced and supportive of development objectives, and ensuring adequate flexibility for the interests of ACP countries to be taken into account of regional trade agreements.

2. Ensure that the negotiations on EPAs will take place in an overall structure, in which common principles are defined – which can be applied in accordance to specific situations in EPA negotiations. The umbrella negotiations should be guided by an agenda set by the EU-ACP Council of Ministers, with a structured negotiation process to implement this agenda, by senior officials. The EU-ACP Council of Ministers should agree a clear mandate for the negotiations. This should help to avoid that the EU in its negotiations puts issues on the table with individual countries at a later stage, which are not agreed as part of the agenda, such as migration and multilateral investment.

3. There is an urgent need for development issues to be put at the centre of the multilateral trade negotiations, in order to enhance the development potential of ACP states. The Special and Differential treatment for developing countries is a core principle of the WTO. It should be the foundation for any future WTO agreements and rules; and the implementation of Special

[12] ACP's position ahead of the WTO Conference, 7th November 2001.

[13] Such strategies must include measures to reduce and cancel debt.

and Differential provisions should be made legally binding and enforceable.

4. ACP countries have always indicated that there would be insufficient capacity to negotiate a WTO round and an agreement with the EU at the same time. Additional capacity should, therefore, be made available, to ensure that ACP countries can participate in these multilevel negotiations in a serious way. These preparations should start immediately and funding schemes to source these preparations are urgently needed, including for ACP preparations of the EPA negotiations.

5. The objective of the EU in its negotiations with the ACP should be to build a coalition to (i) obtain mutual interest principles enshrined in the new WTO development round; (ii) develop a common strategy to create greater future market potential in the ACP countries;

6. The UNCHR should be asked to report on the human rights implications of trade in agriculture; particularly in relation to the importance of the delivery of basic services, such as health and education, food security and employment.

7. The legitimacy of safeguard measures for industrial and developing countries alike should be recognised; particularly of those products that form the basis of a policy of food security – and can be directly related to the protection of human rights, including the delivery of basic services (health, education), food-security and employment.

■

EU TRADE LIBERALISATION POLICIES

Impacts on ACP and other Developing Countries - Preliminary Results and Conclusions

KLAUS SCHILDER

WORLD ECONOMY, ECOLOGY & DEVELOPMENT

„Fairness is not about same rules, but about same outcomes!"

Aileen Kwa
Focus on the Global South

So far, a survey of some 35 developing countries case studies was conducted to examine the effects of EU trade liberalisation policies on ACP and other developing countries. An overview of the studies used in this survey is given in this table (overhead). As you can see, most of the ACP-studies are from Africa, hardly any are available both from the Caribbean and the Pacific. The studies originate from several sources including the FAO, UNEP, national research institutions, development NGOs and final national reports from the 'Structural Adjustment Participatory Review International Network' (SAPRIN).

A note of caution in advance: Most of the case studies did not focus explicitly on EU policies towards ACP countries but investigated the overall effects of trade liberalisation under macroeconomic Structural Adjustment Programmes (SAPs). Therefore, it proved difficult to distinguish the effects of particular EU trade liberalisation policies on ACP countries from other multilateral developments taking place prior to or at the same time such as the effects of SAPs during the late 80s and early 90s. However, it became clear that further EU liberalisation initiatives such as those foreseen under the Cotonou Agreement will aggravate the consequences of multilateral trade liberalisation rounds that are documented here.

In a few cases, however, a more detailed analysis of the effects of EU policies was provided (e.g. the case study on dairy dumping in Jamaica, poultry exports to The Gambia). This clearly points to a lack of detailed country data when discussing the possible effects that further liberalisation under the 'Economic Partnership Agreements' will have on ACP countries and regions.

The methodologies used in these studies were widely different ranging from simple before-after approaches to more complex modelling and simulation as well as econometric approaches. Thus, it is difficult to make quantitative comparisons between the different studies. I will therefore try to summarise some of the qualitative findings and draw some more general conclusions from that.

I. Some general remarks

In general, trade liberalisation policies seem to be failing the rural poor in developing countries for several reasons. Most studies focused on this part of the population rather than on urban effects. The most important reasons are:

- the increase of imports volume that surpassed exports in most of the countries analysed
- the priority on the production of export cash crops on the expense of domestic food-crops
- increased role of transnational corporations – SAPs and trade liberalisation seem to have a built-in bias towards benefiting larger producers and TNCs at the expense of smaller domestic farmers
- increase of landlessness – small farmers bear the major burden of the negative effects. While trends towards the concentration of farms into larger operations let to an increase in productivity and competitiveness, the absence of social safety nets marginalised small producers and forced many of them out of business
- increasing rates of unemployment ad poverty
- increased migration from rural to urban areas
- adverse impacts on the role of women, who increasingly rely on informal employment
- environmental degradation and unsustainable use of natural resources

- shrinking governmental services, e.g. in health care, education and other social services
- threats to food security – low-income families spend less money on food which is increasingly declining in quality and availability. Dumping of often subsidised food exports from developed countries threatens local markets
- trader and middlemen gain most of the profits available

2. Some results

Too fast and too far reaching. In a lot of countries, the studies suggest, trade liberalisation agenda has been pushed too rapidly, with complementary reforms in other sectors lacking behind. As a result domestic producers have been ill-equipped (in terms of under-developed infrastructure and technology, lack of proper investments, an inadequate judicial system or significant adaptation cost) to face competition from imports. Trade liberalisation, in other words, deprived domestic producers of a level playing field. In Zimbabwe for example, after trade liberalisation the level of unemployment increased severely. Firstly, the removal of protection for companies supplying the domestic market (particularly in the textile and clothing sectors) let to the closure of many small firms and the lay-off of over 20.000 employees. Secondly, workers were also affected by privatisations, rationalisations, and in companies that supply overseas markets. As a consequence of retrenchment in formal sector employment, informal sector, the so-called "backyard-business", employment grew rapidly. New job opportunities were created only to a limited extend, in export-oriented companies producing non-traditional export products such as in horticulture and agro-processing.

Gender bias of liberalisation

Most, if not all of the case studies concluded that women have been the main victims of increasing unemployment in the formal sector and, as a result, have been forced to stay home or engage in informal sector activities. These include activities such as trading second-hand clothing or illegal cross-border trade (smuggling). Women, in addition, constitute the majority of small-scale farmers in rural areas. Many studies that investigate the effects on food security point out that women are the main source of rural food production. Faced with a high work load they often have to sell at the village while they would gain a higher price at the local market.
Decreasing income levels put additional pressure on women by forcing them to adopt wage labour in addition to their traditional domestic tasks to supplement family income.

Effects on small-scale farming and food security

Most of the case studies agree that the negative effects on small-scale farmers and household food security outweigh the positive ones. Trade liberalisation mainly resulted in the consolidation and closure of many of the smaller farms, seriously marginalising small and medium-scale farmers. In some cases, large-scale industrial agro-processing companies have replaced traditional co-operatives. As a result of the removal of subsidies, prices for farm inputs such as fertilisers, seeds or agro-chemicals, and other production costs have increased beyond the economic limits of most small farmers. The main problem here is inadequate and uneven competitiveness, both in domestic and export markets. In detail, it let to increasing levels of rural unemployment and subsequently to an increase in rural food insecurity. The situation in many cases is worsened by the virtual absence of any social safety nets for small-scale farmers in rural areas. In Kenya, after trade liberalisation under SAPs rural poverty increased by 47% as compared to 29% increase in urban areas. Trade liberalisation did not result in an increase in farm crop prices or food movement to deficient areas.

Some studies thus point to the need to introduce binding legal regulations that safeguard the interests of small farmers, such as micro-credit schemes and diversification incentives, and other support mechanisms for people particular vulnerable to liberalisation consequences.

Displacement of domestic production by imported goods

Most of the case studies that examined one or more sectors in closer detail found that surges of imports from developed countries (i.e. dumping) had seriously undermined domestic production thus putting import-competing industries at high risk. Examples include cereal imports from the EU and the USA into African countries, sugar imports from the EU, or rice from Thailand.

Without an adequate market protection, accompanied by development programmes, many more domestic products will be replaced with further liberalisation of trade. This in turn leads to the transformation of local diets and increased dependence on imported foods or products. A case in point is the textile industry in Zimbabwe. A SAPRIN country study concludes that the sector has been hit hardest by the liberalisation under SAPs because it was most protected before. Opening to foreign imports and investments increased competition dramatically mostly affecting companies producing for the domestic market. The textile sector has been adversely affected also by the import of second-hand clothing from developed countries that are traded on local flea-markets.

Trade liberalisation has also resulted in increased informal cross-border trade and smuggling. This creates job opportunities and increases household income, but negatively

affects Government revenue generation and creates social tensions.

Impact on the environment

In general trade liberalisation tends to foster environmental degradation due to the unsustainable use of natural resources. E.g., contamination of drinking water in many cases resulted from the use of fertilisers and lack of appropriate sanitary measure thus contributing to the spread of water-borne diseases.
More specifically, a study on the environmental impact of trade liberalisation in the Tanzanian forestry sector (SAPRIN country study), concluded that negative consequences of liberalisation measures included unsustainable increases in deforestation rates, timber smuggling, firewood and charcoal production, water shortages, and unreliability in water supply, and declines in soil fertility.

In Senegal for example, Structural Adjustment favoured "Growth through Export"-policies in the fishing sector. This not only let to a serious threat of the countries food security but drove a number of commercial species to the verge of extinction. A similar effect was noted in Uganda with the exploitation of the Victoria Lake perch.

Therefore: Strong environmental regulations are needed in any free trade agreement. In a recent study on the environmental impact of *Regional Free Trade Agreements* the German Ministry for Environment concludes that these treaties should be conditioned on an *ex ante* Environmental Impact Assessment. The study argues that strategic objectives of interregional FTAs should be more fully used to for the benefit of environmental protection. This includes the possibility of ecological conditionalities (ecological good governance) which could be promoted by economic compensations.

Tariffs - an important trade instruments & source of revenue

Several case studies (e.g. FAO 2000 incl. Botswana, Jamaica, Kenya, Senegal) point to the fact that tariffs are often the primary, if not the only, trade instrument open to these countries for stabilising domestic markets and safeguarding farmers' interests in the face of high volatility in world market prices for agricultural products or surge of imports. In the almost absence of any safety-net measures and practical difficulties to resort to WTO safeguards, tariffs were frequently varied to cope with unforeseen fluctuations in world market prices. Besides, tariffs and customs duties are often the most important source of budgetary income!

Trade-based food security (imports of food paid by exports)

There is evidence to suggest a high correlation between household food security and the proportion of food consumption originating from local production. Therefore, it is highly controversial whether a country should depend on volatile international cash crop markets for the earning of foreign exchange to pay for food imports. Food security thus is ensured by higher export earnings ("trade-based food security"). Whenever the increase in income from cash crop production is neither stable nor predictable due to fluctuating world market prices, it is difficult to ensure food security based on these earnings. It may provide producers with higher profits if world market prices are high (e.g. the coffee boom from 1993-95), but available evidence shows that average income levels of smallholder farmers generally did not profit due to low production levels, simultaneous increases in production costs or other non-price factors.

In Uganda for example, the development of so-called "Non-Traditional Agricultural Exports" like maize, beans, sesame or soy-beans gradually replaced former cash-crops such as coffee. This caused a decline in the production of staple food available for local consumption thus undermining household food security. Traders and middlemen often aggravate the situation by using malpractice and fraud forcing the farmers to sell under price.

Lack of effective safeguard mechanisms

In some cases the need was shown for having effective trade remedy measures and safeguard provisions in place to cope with episodes of import surges that undermine domestic sectors - dumping (e.g. the Jamaican case of poultry, beef, dairy and rice imports; poultry in Gambia and Zimbabwe). These safeguards are most often lacking.

Quite clearly, prior to any trade liberalisation measure there is the need to incorporate appropriate safeguard mechanisms that are easy to access in practical terms. This is essential if further trade liberalisation will not incur high social and environmental costs. Most of the studies have convincingly shown that market-based forces alone cannot guarantee social and environmental sustainability.

3. Some conclusions

Among the common consequences of liberalisation policies both in ACP and non-AP countries were declining rural productivity, increasing lack of access to agricultural inputs, distortions of domestic markets, accentuated gender imbalances and a decline in food quality and availability. As a result, the poor population in rural areas is increasingly preoccupied with their survival and deterioration of rural livelihood systems, and poverty has been increasing.

Ingredients of a potential policy package to correct the adverse impacts of trade liberalisation

- Inclusion of trade policy objectives into the countries' overall development strategy - Some of the studies conclude that trade liberalisation would be best undertaken only as one of several components within a domestically-owned and comprehensive national development strategy, i.e. as a means and not an end in itself.

- Protection for infant and vulnerable industries in ACP countries from massive competition by European companies.

- Effectively addressing supply side constraints – Underlying deficiencies such as lack of human resources, infrastructure and weak public administration will not be adequately addressed by changes in trade policy and therefore have to be dealt with before any further liberalisation

- Support for small-scale local processing – This has very important social function since it employs massive labour, most of them women, contributes to local availability of food and contributes to the expansion of regional trade

- Special support programmes to protect women working in rural agriculture and small-scale manufacturing and soften increasing gender imbalances.

- Obligatory sustainable impact assessments prior to the onset of negotiations of trade liberalisation agreements

- Effective 'Environmental Management Framework' for any particular sector addressing adequate management procedures for the sustainable use of resources

- Strengthening of the existing institutional frameworks, both to negotiate multilateral trade regimes as well as to implement safeguard measures more efficiently

The Challenge for future EU-ACP trade relations is managing in a way to combine the quest for external economic competitivity of the weaker trading partner, sustainable domestic resource management and rural food security – in other words to provide for development that is economically fair and equitable, and socially just. ■

FREE TRADE AGREEMENTS WITH AFRICA

Controversies and Integration

MEDICINE MASIIWA

TRADE AND DEVELOPMENT STUDIES CENTRE / INTITUTE OF DEVELOPMENT STUDIES

I. Background to ACP-EU Co-operation (Lomé Agreement)

For over two decades, trade relationship between the EU and Africa has been determined by the provisions of the Lomé Convention, which was signed in Lomé, the capital of Togo in 1975. The EU agreed to provide ACP states trade and financial assistance at preferential rates. Trade provisions under Lomé were aimed at exempting the exports of ACP states from tariff and some non-tariff barriers. These preferences were (and are still till 2008) non-reciprocal and apply to industrial, processed and agricultural exports. In addition, sugar and beef protocols were introduced as a way of reducing the adverse effects on ACP producers of distortions arising from the EU's Common Agricultural Policy (CAP) on these products. Under these protocols, selected and traditional ACP suppliers enjoy free access to EU markets for a fixed quantity of these agricultural commodities. In addition, ACP suppliers benefit from a high price based on the internal EU price established by the CAP.

The trade preferences for agricultural commodities are subject to a number of exclusions. Certain agricultural products are restricted by quota ceilings and seasonal restrictions based on marketing calendars, while some agricultural products are excluded from any preferences. In addition, a safeguard clause (article 177), enables the EU to impose duty and quota restrictions on imports from ACP countries which threaten to result in a serious disturbance to any sector of the EU market. Further to the trade preferences, the Lomé Convention provided financial assistance to ACP countries through a wide variety of instruments which played a very important role in supplementing bilateral aid.

African countries still heavily rely on preferential access to the EU market for a large proportion of their total exports to that market: Lesotho's textile exports, for instance, account for 48% of their total exports to the EU; for Mauritius, 38% of total exports were knitted and woven fabrics and other textiles. Tobacco accounts for 66% of Malawi's exports to the EU, and coffee for 29% of both Tanzania and Zimbabwe's exports. In addition, Botswana, Namibia and Zimbabwe are beneficiaries of the beef protocol. Mauritius, Malawi, Swaziland and Tanzania benefit from the Sugar protocol. In addition to securing access for a particular quantity of the good in question, the Protocols set a guaranteed price equivalent to that of EU producers (who were heavily subsidised) and, hence, assure ACP producers of prices that are significantly above world market prices. These countries are all, to a greater or lesser degree, dependent on the export earnings generated by these preferences. For example, sugar exports account for 31% of total exports and 5% of GDP in Mauritius and in Botswana beef exports accounted for 24 million EUROs per annum during the period 1990-1994 (equivalent to 20% of all development assistance received).

2. An Assessment of the Performance Of Lomé

2.1 Major Benefits of Lomé

Export Revenue

Lomé provisions remain important sources of export revenue for African countries. If such preferences were dismantled, the negative economic impact would be enormous.

Financial Co-operation

In addition to the trade provisions of the Lomé Convention, financial co-operation has had a significant impact on African member countries. Under the successive Lomé Conventions, development aid to African countries expanded at an increasing rate. During the period 1976 -1995, the following sectors were targeted and benefited from EU financial aid: education, environment, rural development, fisheries, mining, industrial development, social sectors, structural ad-

justment and balance of payments support, transport and communication.

Regional Co-operation and Integration

In line with the EU's commitment to promoting regional co-operation and integration, Southern Africa has received a total of ECU 350 million for regional co-operation under the RIP since 1976 - the second largest allocation to a regional grouping after Eastern Africa (which received ECU 600 million). The most prominent regional projects include:

- the rehabilitation of the Beira port;
- rehabilitation of the Cabora-Basaa /South Africa transmission lines;
- rehabilitation of the Trans-Caprivi highway;
- rehabilitation of the road in the Beira corridor; and
- animal disease projects.

Facilitation of Cross-border Trade

Together with the IMF and World Bank, the EU was greatly involved in cross-border trade initiatives in Africa.

Other areas

Other areas that have and continue to receive financial assistance are:

- Human resource development
- Strengthening of the region's financial institutions and stock exchanges
- Efforts to strengthen information systems relating to the production and availability of food in the region
- Promotion of intra-regional trade in cereals and other agricultural products
- Business and management
- Consolidation of democracy
- Cultural co-operation;
- Measures to combat illicit drug trafficking and AIDS
- Energy and Water
- Telecommunication and Transport

2.2 Failures of Lomé: The EU's Argument

It is fair to evaluate Lomé according to its objectives and aspirations. The objective of Lomé was to improve the trade performance of ACP countries with the ultimate aim of accelerating the pace of their economic growth and development. Key instruments used to achieve this were non-reciprocal trade preferences, market access, and the establishment of STABEX and SYSMIN. Both The EU and ACP countries are agreeable that the major objective of improving trade performance of ACP countries has not been achieved for the following reasons.

Expansion of Exports

Apart from export revenue, however, the trade preferences were reported to have made very little impact on the expansion of exports, investment and economic diversification. Only Mauritius has succeeded in utilising the trade preferences as a tool to diversify its export base. In addition, Mauritius (and to a more limited extent Zimbabwe), appear to have had some success in using the preferences to attract Foreign Direct Investment (FDI). Despite non-reciprocal trade preferences, ACP exports to EU have grown much less than exports from other non-ACP developing countries to the EU. During the period 1888 to 1997 for instance, ACP exports to the EU increased by only about 4%, compared to 75% increase recorded by non-ACP developing countries to the community.

Diversification of Exports

A scrutiny of the composition of exports to and imports from the EU reveals a neo-colonial pattern of trade, with African countries exporting primary raw materials and importing capital, intermediate goods and manufactures from the EU. Textiles are the only manufactured products that account for any significant share of ACP exports. In addition, while Africa's exports to the EU account for a very high proportion of the region's total exports, the EU's exports to Africa account for a very small and insignificant proportion of total EU exports.

Table I: Net Foreign Direct Investment Flows and Debt Services in Southern Africa

Country	Net foreign direct investment flows as % of GDP in 1999	Total Debt Service in 1999	
		as % of GDP	as % of exports of goods and services
Angola	28,9	13.4	21,1
Botswana	0,6	1.4	2,4
Kenya	0,1	6,7	26,7
Lesotho	18,7	5,8	9,4
Malawi	3,3	3,8	11,4
Mozambique	9,7	3,1	20.0
Rwanda	0,1	1,6	29,6
South Africa	1	3,7	13,9
Sudan	3,8	0,6	6,5
Swaziland	2,7	2,5	2,6
Tanzania	2,1	2,2	15,6
Uganda	3,5	2,9	23,7
Zambia	5,2	13,9	46,6
Zimbabwe	1,1	11,6	25,3

Source: United Nations Development Programme 2001; ..: Figures not available

ACP's Share on World Trade

ACP's share on world trade, including export of primary commodities has been decreasing. Africa's share of world commodity exports for instance, decreased from 8.6% during the period 1970-72 to 3.3% during the period 1990-92. During the same period, the EU's (12 members) share increased from 25% to 37.7%.

Instability of export prices

Instability of export prices and earnings remain a major problem for most ACP countries, the STABEZX and SYSMIN notwithstanding.

Foreign Direct Investment (FDI)

There is no significant growth of FDI as a result of Lomé in Africa. Instead, Africa has experienced mounting external indebtedness accompanied by very high debt service ratios which have diverted a significant portion of export earnings from development programs (including those that are specifically integration-related) to debt servicing. *Table 1* shows FDI inflows and debt service ratios for some countries in Southern Africa. Of the 9 countries in the world whose 1996 debt is unsustainable, 5 are in Southern Africa: Zambia, Mozambique, Burundi, DRC and Sudan (Financial Mail, 30 June 1996). These countries spend as much as 46% of its export revenue to service debts. This has adverse effects on the economies provides undue burden on people. Instead of using resources for regional integration, member countries spend more resources in debt servicing. During the period of 1992 to 1994, for instance, Zambia used about 98 percent of its donor assistance to pay off foreign debt.

Net foreign direct investment flows on the other hand is minimal for most countries in Southern Africa. In 1999 for instance, only two countries in this part of the world, Angola and Lesotho received significant FDI inflows of about 29% and 19% of GDP respectively. FDI inflows to other members were marginal.

Failure to Reduce Poverty in Africa?

From the perspective of both the EU and the ACP countries", the critical question that should guide negotiations towards a post-Lomé relationship is: why have the generous trade preferences and comprehensive instruments of financial cooperation failed to have any significant impact on the economic development of the latter states?" It is noted with concern that poverty levels in most African ACP states are high, despite the generous provisions of Lomé.

Table 2 shows poverty, health, educational and nutritional indices for some countries in Southern Africa. It is clear from the table that poverty levels are very high and all other socio-development indices are poor. Southern African region has the highest cases of poverty as shown by percentage of people living below the poverty datum line (35.5%), high malnutrition rates, low per capita GDP, low HDI etc.

Life expectancy at birth in Southern Africa is very low compared to

world average and that of developing countries in general. Most countries in the region have life expectancy figures below that the world (66.7) and that of developing countries (64.5). Rwanda and Malawi for instance, have an extremely low life expectancy of about 40. Per capita GDP in the region is also very low, averaging only $US 2063, compared to the world average of $US 6980. Per Capita GDP growth in some countries has been negative during the period 1990 to 1999. Under-nourishment and diseases have also had a high toll in this region. Adult literacy rate is also low, although the overall picture in the region is skewed. Some members have realised a significant achievement while others still lag behind. Zimbabwe for instance has achieved an adult literacy rate of 88%, which is significantly higher than the average for developing countries of about 73%. On the other hand, literacy rate in Angola is still very low at 42%.

Southern Africa is a region constantly facing the problem of food insecurity. As shown in about 36% of the population in Southern Africa is undernourished (see table 1). In Zimbabwe, for instance, about 1 million tonnes of grain import is required to supplement the inadequate local production in the year 2001 to 2001 (Daily News, 2001). The same case is with Zambia, Malawi and Mozambique.

HIV/AIDS are proving to be one the worst human disasters in living memory in Southern Africa. One in every four people in this region are infected with the HIV virus (UNDP, 2001). Of about 35 million reported HIV/AIDS cases in the world, about 25 million are found in Southern Africa. It is mainly the economically active group (between 18 and 49) of people who are affected. Effects of the diseases and deaths is catastrophic in terms loss of income, caring for the sick, welfare of the orphans, budgets constraints. There are also other life threatening diseases such as malaria and tuberculosis. Despite having the highest incidences of HIV/AIDS and infectious diseases, Southern Africa has the poorest access to medical drugs, particularly essential drugs. In some parts of the world, life saving drugs against AIDS/HIV drugs have drastically cut related deaths and increased life and quality of people living with AIDS (UNDP, 2001). Such benefits are rare in Southern Africa.

3. The New ACP-EU Co-operation (Cotonou Agreement): Critical Issues and Controversies

The Lomé Convention expired on 29th February 2000. As the discussion on the new co-operation between ACP-EU raged on, the EU used some failures of the Lomé to justify a new co-operation based upon totally different principles. In the view of the EU, non-reciprocal trade preferences have failed to

Table 2: Socio-economic development indicators some Southern African Countries

	Life expectance at birth	Adult literacy rate (% of age 15 and above	GDP per Capita ($US)	GDP per Capita growth (%)	Under nourished people as % of total population	% of people living with HIV AIDS (15 years and above)
Country	**1999**	**1999**	**1999**	**1990-99**	**1996/98**	**1999**
Angola	45.0	42	3179	-2.8	43	2.78
Burundi	40.6	46.9	578	-0.5	68	11.32
DRC	51.0	60.3	801	-8.1	61	5.07
Kenya	51.3	81.5	1022	-0.3	43	13.95
Lesotho	47.9	92.9	1854	2.1	29	23.57
Malawi	40.3	59.2	586	0.9	32	15.96
Mozambique	39.8	43.2	861	3.8	58	13.22
Namibia	44.9	81.4	5468	0.8	31	19.54
Rwanda	39.9	65.8	885	-3	39	11.21
Swaziland	47.0	78.9	3987	-0.2	14	25.25
Uganda	43.2	66.1	1167	4	30	8.3
Zambia	41.0	77.2	756	-2.4	45	19.95
Zimbabwe	42.9	88	1711	0.6	37	25.06
Average for the World	66.7	..	6980	1.1	..	1.1
Average for Developing Countries	64.5	72.9	3530	3.2	18	1.3

Source: United Nations Development Programme 2001; ..: Figures not available

improve trade performance of ACP states because the ACP tended to be complacent, given the generosity of non-reciprocal trade. Non-reciprocal trade preferences are also against WTO rules, particularly that of the Most Favoured Nation principle. The EU would like to enter into a trade relationship with the ACP countries that is WTO compatible. It is under this background that the Union introduced the concept of Economic Partnership Agreements EPAs.

In June 2000, the EU and 77 member states of African, Caribbean and Pacific (ACP), signed a new partnership agreement in Cotonou, the capital of Benin replacing the Lomé Convention. The Cotonou Agreement provides for the setting up, in the long term, of a new trade arrangement characterised by the progressive abolition of obstacles to trade between the parties, in accordance with the WTO rules. To achieve this objective, economic partnership agreements will be negotiated from September 2002 and will enter into force as of 1 January 2008. In the interim, the current non-reciprocal preferences and the regimes of the various protocols will be maintained. The main elements of the agreement are:

Poverty reduction

This is one the main principal objectives the new partnership agreement. It is based on five inter-linked pillars: enhanced political dialogue, increased participation of non-state actors, poverty reduction, reinforced economic and trade relations and improved financial co-operation. Through the European Development Fund, the Agreement will help the ACP governments in their attempts to achieve economic growth, improve quality and coverage of social services and expand the private sector.

Political dialogue

Political between the EU and each of the partner States (or regions) will play a key role in determining the nature and objectives of the assistance provided. The Agreement is based on respect for human rights, democratic principles, the rule of law and good governance. It also establishes special consultation procedures and appropriate sanctions for dealing with human rights violations and serious corruption. More dialogue between the partners will take place, both within and outside the ACP-EU institutional framework at national, regional and ACP level. It will also encompass peace-building initiatives, and conflict prevention will be addressed in the partnership using regional and local capacities.

Increased Participation

The partnership aims to encourage greater participation by local governments, civil society, the private sector and trade unions. This new approach will help advance democratic processes and transparency, while fuller information and consultation should ensure that co-operation projects prove more viable than in the past. Non-state actors will be given more direct access to funds. ACP countries will be expected to identify those eligible for such support, which could include actors such as private sector, trades unions, civil society in various forms and local government representatives.

Economic and Financial reform

Through Euro 13.5 billion European Development Fund support in the Agreement's first five years, the EU will help the ACP governments in their attempts to achieve economic growth, improve both the quality and coverage of social services, and expand the private sector. In addition, Euro 9.5 billion of uncommitted monies from previous EDFs will supplement the new fund. There is a 7-year deadline for its disbursal. The EDF will be further boosted by up to Euro 1.7 billion pledge of loans from the European Investment Bank's (EIB) own resources. A Euro 2.2 billion EDF Investment facility will also be managed by the European Investment Bank, and will support the expanding ACP private sector.

New programming provisions for EDF monies will allow quicker and more flexible disbursement and will reward good performers with the promise of additional funds if initial amounts are well spent. Allocations will no longer be automatic, but will be subject to revision in the light of developments in need and performance. Resources will not be frozen in countries which do not put them to good use. There will be an annual operational review, summarising the results of regular dialogue and extending programming for the following period. There will be a detailed assessment case-by-case every two years.

Trade Relations

The system of trade preferences which the EU granted the ACP states under the previous Lomé conventions will gradually be replaced by a series of new economic partnerships based on the progressive and reciprocal removal of trade barriers. These agreements will be defined as part of a broader strategy to improve the ACP States' ability to attract private sector investment.

3.1 The Economic Partnership Agreements (EPAs)

The EC is proposing the gradual introduction of reciprocity in the trade relations between the EU and the ACP states. The proposal is put with the prospect of improved financial and technical assistance and political partnership attached. It further stated that the ultimate objective should be to create Economic Partnership Agreements, which would be based on establishing a Free Trade Area with Africa, along with similar arrangements for the other two ACP regions. The proposal envisages the

establishment initially of Regional Economic Partnership Agreements (REPAs) at the sub-regional level within Africa. SADC is one such sub-regional grouping identified for such arrangements because SADC aims to establish a regional economic space. The proposal tabled by the EU are:

- ACP LDCs that are members of economic integration regions will continue to have Lomé preferences in their access to the European market, but that they will eventually have to give reciprocal free trade access to EU exporters into their markets;
- ACP LDCs outside of, or opting out of regions will continue to receive non-reciprocal Lomé preferences into the EU market but - whether with or without their own specified time limits - such margins of preference are predicted to face increasing erosion by the broader trade liberalisation expected to be extended within the EU and globally, which would provide free(r) access for all exporters into the EU markets;
- Non -LDC members of the ACP which are not part of regions, or which do not wish to become part of inter-regional reciprocal free trade agreements with the EU, could have the option of access to the EU's GSP, although (a) it is not clear precisely what this system will be, until the GSP review is completed by 2004, and (b) it is not clear whether such non-LDC ACP countries will receive 'enhanced' GSP close to, or very similar to the Lomé preferences they have had hitherto. But, in any event, like Lomé preferences, it is predicted that GSP terms will be eroded by broader ongoing trade liberalisation.

3.1. 1. Controversial Aspects of EPAs

Optimists stress that EPAs would bring prices down in the ACP -benefiting consumers and importers -, foster trade and other economic reforms, and make the economic environment more conducive to domestic and foreign investment. EPA sceptics, however fear that they would lead to the closure of many companies in ACP countries. They also suggest that unemployment would rise and revenues from import duties would fall. However, it will not be easy to introduce a EPAs with African countries, considering the difference in the level of development between the EU and African countries.

Justification for EPAs by the EU

The EU argues that Lomé trade preferences have failed, on the basis that, the ACP's share of the EU market has fallen dramatically, and that the ACP trade performance has been poor when compared to other developing countries in Latin America, the Mediterranean and Asia. The comparison is however improper, considering the political situation in ACP countries. As rightly acknowledged by the EU, most African ACP economies are war drained and it is improper to compare them with rapidly growing East Asian tiger economies.

Counter-arguments (Why Non-reciprocal Trade Failed)

It is more appropriate to compare the trade performance of individual ACP economies in areas where no preferences are enjoyed, with their trade performance in those areas where significant preferences are enjoyed. For instance, while ACP exports to the EU by about 4% from 1988 to 1997, compared by a growth of 76% for non-ACP developing countries in the same period, in those products where the Lomé Convention provides margins of preference greater than 3%, the expansion in exports in volume terms was about 62%. Some African countries, notably Zimbabwe and Kenya in cut flowers, fruits and vegetables and Mauritius and Madagascar in textiles were able to realise exports growths greater than other developing countries. This suggests that Lomé trade preferences have played an important role in slowing down the marginalisation of ACP economies within the world economy. What is important here to determine success or failure is the size of preferential margin.

Erosion of preferential margins

It must also be noted that there was a continuous erosion of preferential margins of ACP products to the EU due to concessions made by the EU to other non-ACP developing countries in the Generalised System of Preferences. For instance, the ACP preferential margin on coffee which was 10 percent in 1997 is now zero.

Competition from Eastern Europe due to unilateral preferences

The poor performance of ACP states can also be ascribed to the growing competition for the EU market by preferences extended unilaterally by the EU to countries of Eastern Europe acceding to the EU. For instance, exports by Poland, Estonia, Slovenia, Hungary, Czech and Cyprus has increased from US$13.4 billion in 1991 to US$27 billion in 1994. During the same period, exports from non-ACP countries to the EU have grown from US$1.5 billion to US$1.6. These developments have eroded ACP's preferences to the EU.

Non Trade Barriers

Non-trade barriers to market access technical standards and rules of origin have also contributed to poor trade performance by ACP countries

Lack of complementary instruments

Non-reciprocal trade preferences can work effectively if there are complementary instruments put in place. This has not been the case in ACP-EU co-operation. The lack of these instruments has significantly

contributed to the poor performance by ACP countries.

Supply side constraints
The supply side constraints, emanating from the underdevelopment of human capital, limited capacities in research and development, science and technology, inadequate infrastructure, communication, transport information etc. have formed formidable impediments to the realisation of non-reciprocal trade preferences.

Inadequate flow of FDI

The flow of European FDI to ACP countries has been low and this has failed to stimulate the ACP economies, unlike the catalytic effect of Japanese Investment in the Far East and the American in Latin America. There has been very little strengthening of ACP capacities in Processing, Marketing, Distribution and Transport.

Lack of political will

Given the special trade relationship between ACP and EU, the could have shown political will to seek amendments and flexibility in the WTO to make non-reciprocal preferences acceptable, at least for a period long enough to enable African countries develop their capacities to participate effectively on global trade.

In any case, the FTAs allowed under Article 24 of GATT relate to arrangements between countries of the same level of development. The FTAs as being proposed by the EU are contrary to the spirit of Article 24.

The radical approach proposed by the EU appears to be motivated largely by the desire to secure benefits in the form of accessing ACP markets in exchange for aid. The EU proposal will radically change the nature of ACP-EU cooperation, which was a role model for North-South co-operation. It is clear that trade not development aid to ACP lies at the heart of EU's future strategy and engagement with ACP. Failing to reach agreement on trade thus, posed a real threat of termination of the ACP-EU special relationship. ACP countries agreed to this trade agreement, not because they feel that its good for their development needs, but because they were under pressure. ACP were reminded once again that the *EU was not created to assist ACP* , but its in existence to further among other objectives its trade interests by securing and expanding market access in the ACP.

It is also important to note that decisions on EPAs were not always based on study results. For example, impact studies of REPAs were commissioned after the decision to adopt the REPAs. Yet the studies indicated a number of problems with REPAs for the ACP. The EU lacked political will to reverse their decision. Further without research, negotiations on trade were exploited by EU to advance issues that developing countries are otherwise questioning within WTO.

3.1.2. Implications of EPAs on Southern and Western Africa

1. Regional trade groupings in Africa have not yet reached a high level of integration and the institutional structure currently is not conducive to negotiating regional trade agreements. Unlike the EU (of today) trading groupings in Africa are still at an embryonic stage of integration. Not only do these groupings not yet have the institutional capacities, but they have barely begun the process of policy convergence amongst their members that the EU has achieved (after many difficult decades of negotiation and experience). For instance, the member states of SADC do not have a common approach to their external trade policies, let alone a common external tariff (CET), that would enable them to jointly negotiate their trade relations with the EU.

2. EPAs will involve the fragmentation of ACP-EU trade relationship, fragmentation of African regional groupings and weakening the bargaining power of ACP countries

- EPAs are divisive for Africa considering that African countries can be categorised into different groups. Taking the example of SADC, member states can be divided into three groups according to their levels of development. South Africa is categorised as a developed country. Mauritius, Namibia, Seychelles, Swaziland, Botswana and Zimbabwe) are developing countries. The rest i.e. Angola, DR Congo, Lesotho, Malawi, Mozambique, Tanzania and Zambia are least developed countries.
- The EU is proposing the Lomé type of preferences to imports from LDCs, a benefit not offered to developing countries and South Africa. A major problems arising from this treatment is that the LDCs will not find it worthwhile to negotiate for a REPA with the EU because they qualify for the Lomé type of preferences. They have to negotiate with the EU on bilateral terms or as one group of LDCs, leaving the rest members of SADC.
- Non-LDCs ' are offered the choice between non-reciprocal national GSP access into the EU markets or reciprocal regional free trade with Europe. Given such a choice, many countries, that might otherwise favour a multilateral regional approach , would be pushed towards the bilateral option with the EU in order to avoid reciprocity. The EU thus, could be exacerbating existing policy differences and economic divergences between the SADC states, not reinforcing regional integration that it has long supported. At worst, this would literally divide SADC and other regional trading blocs in half and could weaken it as a regional entity.

3. The unilateral selection of African Regional economic Communities and countries for REPAs by the EU undermines African Union's (AU)

current efforts at regional integration.

4. The level of development and competitiveness of partners in the REPAs are unequal, posing problems of adjustment costs, de-industrialisation, loss of jobs and incomes.

5. The introduction of FTAs and the abolition of customs duty will have serious budgetary implications for African countries

6. There is strong possibility of trade diversion.

7. The EU's CAP will have serious trade distortions on ACP agriculture

8. Due to its high level of development, the EU is going to benefit more from EPAs than Africa.

9. Lessons learned from the EU-South Africa Trade, Development and Co-operation Agreement

South Africa and the European Union signed early 2000, an Agreement on Trade and Co-operation whose primary objective is to establish a free trade area in conformity with WTO provisions over a transitional period of 10 years maximum for the EU and 12 years maximum for SA. The free trade area covers free movement of goods in all sectors and also liberalisation of trade in services. This agreement will certainly have profound implications particularly for SADC industry as well as on the outcome of several trade negotiations in which SADC is a part: the bilateral trade talks between Zimbabwe and South Africa, SADC Trade Protocol negotiations, the renegotiations of the Lomé IV Convention and the WTO Millennium round.

A situation could well arise whereby, as a result of institutional weaknesses in national customs services, ACP /SADC countries effectively find themselves embroiled in a de facto EU-Southern Africa free trade area arrangement. Once free trade has been established between SADC countries, it will be very difficult to prevent goods imported duty free in to one country, being re-exported to fellow SADC countries. While nominally rules of origin will prohibit the duty free re-export of such goods and will require the application of the standard duties applied on imports from the original country of origin, the reality is that the monitoring of such re-exports and the collection of the necessary duties is likely to be beyond the capacity of national customs services in the vast majority of SADC countries.

Given the weakness of national customs services in SADC, this effectively means that, if only one SADC country accepts a reciprocal free trade arrangement with the EU, sneaking in of EU goods to the whole SADC market is a reality. Unless all SADC countries agree to continue with non-reciprocal trade relations under the various EU GSP schemes, none will be able to continue to trade with the EU on a non-reciprocal basis in the long term, without undermining regional integration efforts. This means that in reality the EU-South Africa Trade, Development and Co-operation agreement is likely to become the determining basis for future EU-Southern Africa trade arrangements. This is already a reality for 4 ACP countries who are members of SACU Botswana, Lesotho, Namibia and Swaziland.

3.2 Political Strategies During EPAs

1. African countries can consider EPAs if development-oriented reforms are undertaken in the form of:

2. Provision of long term transitional period for the introduction of reciprocal preferences

3. Provisions for a wider product coverage and asymmetrical tariff reduction

4. Provisions for free mobility of labour between ACP and EU countries

5. Introduction and implementation of measures to address supply side constraints and improve competitiveness of ACP countries

6. Adoption of measures to deal with problems of adjustment costs, including appropriate compensatory measures

7. Ensuring that the EU's EPAs and FTAs with RECs and countries in Africa do not conflict with the EU's for African Economic Integration.

8. African countries must create strategic alliances within WTO and lobby particularly influential members to seek necessary flexibilities and amendments to WTO rules, especially those relating to waivers.

9. Africa must seek long transitional periods beyond the standard 10 years in WTO. This is possible considering that Canada and Chile signed a 17 year transitional period while NAFTA had a 15 year implementation period and the current EU-SA FTA has a 12 year period. A minimum transition period of25 years is needed to make the ACP-EU FTA, considering the difference in the level of development of the partner countries.

In negotiation with the EU for future co-operation, African countries must push for conditions that enhance the development of the continent according its needs and aspirations. What is needed in the EU-ACP co-operation is:

Private Sector and Investment Development

Both the EU and ACP countries agree on the leading role of the private sector in transforming the economies of developing countries. The development of the private sector will also facilitate an smoother integration of African economies on the global trade. The private sector in African countries must also include the informal sector because it plays a crucial role in employment creation in Africa. In order to promote the development

of the private sector, key steps that must be taken are:

Improving the investment climate

- Strengthening the organisational capacity for private companies to enhance their effectiveness in providing services and in engaging in dialogue with the government
- Increasing the productivity and international competitiveness through financial, technical and professional support services
- Catalysing additional flows of private finance for enterprises
- Mobilising the EU's private sector as one of the actors of development in ACP countries, in particular reinforcement of ACP-EU private sector co-operation

Supporting Social and Human Development

The strengthening of the private sector must be complimented by developing the social and human capacity, including the promotion of women participation in the productive sector. There is also need to set up appropriate training infrastructure and facilities. National policies should include the establishment of an efficient social services infrastructure providing education, healthcare and social security.

Developing Institutional and Political Framework

In developing the private sector, there is need for a positive dialogue and consultation between the sate and the private sector. The state must put in place relevant policies to encourage EU-ACP co-operation to generate transfer of technology, joint ventures and investment by EU firms. Support measures should also be targeted towards eliminating the supply side constraints and strengthening the capacity of both formal and informal SMEs. Finally, a code of practice for foreign enterprises should be established in conformity with WTO guidelines.

Ensuring Sustainable Management of the Environment and Natural Resources

The private sector investment must be done in an environment friendly way to ensure sustainable development and the protection of forestry, marine, wildlife, freshwater and biodiversity resources. It is essential that the EU and ACP states promote environmental friendly technologies. An appropriate regulatory and inspection framework must be put in place in ACP countries.

4. ALTERNATIVE ARRANGEMENTS NEGOTIATIONS

4.1 The Status Quo or enhanced status quo

The status quo remains Africa's best option. Its key elements rests on nob-reciprocal preferences. The major strength of this option is that it takes into account the different levels of development between the EU and Africa. It recognises that the playing field is not level.

4.2 The Generalised System of Preference (GSP) Option

The Generalised System of Preference (GSP) Option can be the third fall back option for ACP countries for the following reasons:

First: the Lomé Agreement will cease to operate as a special co-operation agreement between the EU and ACP. The ACP group will be divided into LDCs and non-LDCs. LDCs will be incorporated into the super GSP, whose preferential margins are very close to those of Lomé. Non-LDCs will be incorporated into the standard GSP.

Second: the scope of GSP product coverage is limited compared to the of Lomé. For instance, a number of major agricultural exports by ACP countries are not on the EU GSP system. In addition, the EU can unilaterally withdraw the GSP because there are no contractual obligations. Finally, the margins of preferences on those products placed under GSP is inferior as compared to those under Lomé.

Generally, the loss of margins of preferences resulting from a shift from Lomé to GSP would be about 7% of total ACP exports. The losses would be much lower for LDCs since they will benefit from the super GSP. For non-LDCs, the loss margins range from 25% to 75% of their total exports to the EU. In some sectors, the reversion from Lomé to GSP will push some ACP countries out of the EU market, reduce profitability and investment. For instance, the beef quota and the 92% rebate on agricultural levy charged on beef imports into the EU has induced development of industry in Southern Africa. There is investment in abattoirs and other related industries. Reversion to GSP thus will mean loss of investment.

Reversion to GSP will have serious disadvantages for non-LDCs considering that many non-LDCs had special trade agreements with the EU. For instance, the recently concluded EU-SA FTA will mean that SA will have higher preferences to the EU than non-LDCs.

4.3 The most Favoured Nation (MFN) Option

In the case of no special trade relation between ACP and EU and for those goods not covered by GSP, trading relationship will be regulated by the multilateral trade arrangements (WTO).

It must be noted that despite trade liberalisation, there remains an important number of products and sectors where developed countries have tariff peaks (above 12% of ad valorem) and tariff escalation for export products of interest to ACP countries. They range between 12 – 30% but can even go up to 350%. The problem of peaks occurs in agricultural products, food industry, fruit and vegetables, automobiles, transport and consumer electronics,

textiles and clothing, foot wear and travel goods.

5. Conclusion

The EU trade policy towards African countries is not being driven by the development needs of African economies, but by the EU's economic interests, particularly that of accessing the African Market. This is a strategy that fits well to the increasingly competitive global economy. Considering that many developing countries still maintain high protective tariff barriers around their markets, through EPAs and reciprocal preferences, the EU is clearly pushing developing countries to eliminate their high tariffs against EU's exports. This will give the EU a competitive edge against its strong competitors such as the USA and Japan.

African countries at the same time are reminded that the EU is not there for charity but to further its economic interests. There is thus need for the African countries to resist trade proposals that are detriment to its development needs. EPAs as currently suggested by the EU are improper for Africa because the continent is not yet prepared for reciprocal trade preferences and will tend to lose from the trade arrangement. The continent must take the initiative to come up with proposals that, in the long term do not compromise the needs for its people.

References

Botswana Institute of Development Policy Analysis. Study to Asses The Economic Impact of Proposed EU-SA Free Trade Area on BLNS. July 1998.

ECDPM; Lomé negotiating briefs; The EC's Impact studies on Regional Economic Partnership Agreements (REPAs). Maastricht, 1999.

Goodison, P. & Tekere, M.; Rethinking Post Lomé IV Renegotiations. Friedrich-Ebert-Stiftung, Harare, 1999.

Goodison, P.; Post Lomé Trade Arrangements: What Are the Issues and what can be done? (undated).

Imani Development; Study of the impact of introducing reciprocity into trade relations between the EU and SADC region. Prepared for the European Commission, September 1998.

Keet, D.; The Implications of the Proposed Regional Economic Partnership Agreements with respect to Regional Integration and Development in Southern Africa, (undated).

Kennan J. and Stevens C.; 'From Lomé to the GSP; Implications for the ACP of losing Lomé trade preferences' Report prepared for Oxfam UK. IDS, 1997.

Masiiwa, M.; Agricultural-Related World Trade Organisation (WTO) Agreements vis-à-vis Problems and Strategic Interests for Africa, Trades Centre, Harare, 2001.

Masiiwa, M.; The Role of Non-State Actors in Regional Integration in Southern Africa. Trade and Development Studies Center/Friedrich-Ebert-Stiftung, Harare, 2001.

Mayer, M.; Importance and Benefits of Lomé IV. In Expiry of Lomé IV: Let's get prepared for the negotiations. Seminar Proceedings; SADC & Friedrich-Ebert-Stiftung, Harare, 1998.

Page, S.; Helping the ACP Integrate into the World Economy. Setting the Agenda for Practical Research and Support. ECDPM/ICTSD expert meeting, Sept. 2000, Geneva.

Solignac Lecomte H.-B.; 'Options for future ACP-EU trade relations. Working Paper 60 Maastricht ECDPM, 1998.

Stevens C. McQueen, M. and Kennan, J.; 'After Lomé IV – A Strategy for ACP-EU Relations in the 21st Century. IDS Sussex, 1998.

Tekere, M.; Helping the ACP Integrate into the World Economy. Setting the Agenda for Practical Research and Support. ECDPM/ICTSD expert meeting, Sept. 2000, Geneva.

WTO, Regionalism and The World Trading System. Geneva, 1995.

■

FUTURE ACP-EU TRADE RELATIONS

Issues, Debates and Approaches

PAUL GOODISON
EUROPEAN RESEARCH OFFICE

The Challenge

How to ensure that the EU's commitment to the promotion of sustainable forms of poverty focussed developed is reflected in the conduct of future trade negotiations with the ACP and the establishment of successor arrangements to the current non-reciprocal trade preferences

The Tendency

Once trade negotiations begin the tendency in the EU is to let member states concerns over particular market access issues (be it for specific EU exports or the arrangements for "sensitive" imports) dominate over the wider development objectives established under the European development co-operation policy.

There is a strong tendency towards under-estimating the very real supply side constraints faced in ACP countries in enhancing their competitiveness and reorienting their production into areas not directly competitive with European patterns of production.

There is also a tendency to over-emphasis the policy constraints on economic growth and development, with government led policy reform being seen as the principal area where change needs to be brought about.

The Current Commission Approach

Under the Cotonou Agreement a commitment was made to launching in September 2002 negotiations over the trade arrangements to succeed the non-reciprocal preferential trade agreement. Throughout the negotiation of the Cotonou Agreement the European Commission has favoured the negotiation of regional economic partnership agreements (effectively regionally negotiated free trade area arrangements). Many ACP government have substantial reservations about both the viability of such regionally negotiated economic partnership agreements and the appropriateness of establishing WTO compatible free trade area arrangements between countries of such radically different levels of development.

The European Commission for its part has been trying to force the pace of ACP decision making. The European Commission established a timetable for progress in decision making in the run to the September 2002 opening of trade negotiations, based on its own internal bureaucratic concerns and its political desire to secure a firm and irreversible ACP commitment to the negotiation of reciprocal preferential trade arrangements. It is then sought to secure the agreement of the ACP Secretariat to this timetable.

With negotiations scheduled to begin in September 2002, the Commission estimated that it would take 6 months to secure a mandate for negotiations from the EU Council of Ministers and 3 months for the Commission to draft the mandate. On this basis the European Commission has called on ACP Ministers to determine the geographical basis for the conduct of economic partnership agreement negotiations by December 2001.

Given that the definition of the geographical basis for the conduct of economic partnership agreement negotiations will involve some fundamental choices for ACP governments and commit them to a process of negotiations which will determine the long term basis for the trade relationship with what, for many of them, is their major trading partner, there is considerable concern that ACP governments be allowed to make informed choices.

To this end considerable emphasis has been placed on conducting impact assessment studies on the likely implications of moves towards free trade area arrangements with the EU on the economic and social development prospects of ACP countries.

While at the time of the conclusion of the Cotonou Agreement it was agreed that Euro 20 million would be made available for this purpose, it was only last month that these funds were released.

Shortcomings in the Commission's Approach

Currently, the EU is trying to force the pace of ACP decision making on the geographical basis for negotiations, without a systematic analysis of the issues faced and without

addressing a number of substantive issues of concern to a wide cross section of ACP countries, which are likely to have profound effects on the actual impact of any reciprocal preferential trade arrangements in ACP countries.

The significance of addressing these issues of common concern before the launch of detailed negotiations on the establishment of transitional arrangements for the establishment of free trade areas, lies in the fact that once negotiations are launched, the focus will primarily be on detailed tariff negotiations and the broader developmental objectives will be largely lost sight of.

Issues To be Addressed Before the Opening of Geographically Based EPA Negotiations

As a result of the very different economic structures and levels of development of ACP and European countries a number of issues can be identified which will need to be addressed under any moves towards reciprocal preferential trade arrangements. These issues include:

- clarification of the underlying objectives to be addressed through future trade negotiations;
- the impact of the introduction of free trade with the EU on the fiscal revenues of ACP governments;
- ensuring respect for the rights of least developed countries to non-reciprocal trade preferences;
- addressing the adverse effects of a reformed CAP on the development of ACP agricultural and value added agro-processing sectors;
- addressing the challenge of designing and implementing programmes of support to addressing supply side constraints in ACP countries, so as to enable ACP producers to exploit any new opportunities emerging as a result of the introduction of free trade with the EU;
- establishing the scope for the consolidation and expansion of duty free access for all ACP countries in the light of the EBA regime established for least developed countries (including the future of the commodity protocols in the light of the reform of the CAP and the growing significance of stricter EU Sanitary and Phytosanitary Standards);
- addressing through the structure, form and time tables for negotiations the capacity constraints facing ACP countries and regions, in the conduct of negotiations on complex tariff reduction questions and trade related areas.

Implications of this Approach

- The requirement for the EU to address these issues need not delay the launch of the trade negotiations in September 2002 to which both sides are committed under the Cotonou Agreement. It will however:
- change the nature of the negotiations launched in September 2002;
- change the content of the negotiating instructions the Commission requires from the EU Council before September 2002;
- alter the time frame within which ACP governments need to take a decision on the geographical basis for the conduct of detailed trade negotiations;
- provide time for the conduct of substantial impact assessment studies which can then provide the basis for informed discussion in ACP countries of the issues to be addressed in the development of future trade relations with the EU in order to ensure the promotion of sustainable forms of poverty focussed development in ACP countries.

Proposal

Addressing the issues of common concern, rather than the launching of geographically based economic partnership agreement negotiations, should form the first phase of ACP-EU negotiations launched in September 2002 on future trade arrangements.

All in all, the conduct of future ACP-EU trade negotiations should be divided into 3 distinct phases:

Phase 1 - addressing issues of common concern through the establishment of principles to be followed, issues to be addressed and approaches to be adopted;

Phase 2 - negotiating regionally specific trade and economic cooperation arrangements based on the principles and approaches commonly agreed;

Phase 3 - a review of the conduct of the regional negotiations on the basis of the principles and approaches commonly agreed under phase 1.

What ENGOs Can Do

ENGOs should lobby their governments to adopt an approach to future ACP-EU trade relations which ensures that the EU's commitment to the promotion of sustainable forms of poverty focussed developed is reflected in the conduct of future trade negotiations with the ACP and the establishment of successor arrangements to the current non-reciprocal trade preferences.

ENGOs should lobby their governments to ensure that no further

pressure is placed on ACP governments to define the geographical basis for negotiations prior to the conduct of impact assessment studies and intensive discussion of the issues raised in ACP countries and between ACP governments and concerned non-state actors.

ENGOS should lobby their governments to address the issues of common concern to ACP countries through a process of pan-ACP-EU negotiations prior to the launch of geographically based trade negotiations.

ENGOs should support and promote the drafting and adoption of a Declaration of Principles to be Followed, Issues to be Addressed and Approaches To Be Adopted in the Conduct of Future ACP-EU Trade Negotiations in Order to Ensure the Promotion of Sustainable Forms of Poverty Focussed Development.

ENGOs should canvass support for the adoption or endorsement of this declaration by as wide a range of both European and ACP institutions and civil society bodies as possible prior to the formal launching of ACP-EU trade negotiations in September 2002.

ENGOS should support and promote the establishment of appropriate institutional mechanisms to monitor the progress of trade negotiations over the period from 2002 to 2008 to seek to ensure that the principles to be followed, issues to b addressed and approaches to be adopted are fully respected in the conduct of detailed trade negotiations.

LIST OF PARTICIPANTS

Name (First, Last))	Organisation	City	E-mail
Barabas, Johannes		Gladbeck	johannesbarabas@gmx.de
Bissio, Roberto	Third World Institute	Montevideo	rbissio@chasque.apc.org
Drillisch, Heike	Weed	Bonn	heike.drillisch@weedbonn.org
Eisenblätter, Peter	terres des hommes	Osnabrück	vernetzung@tdh.de
Finke, Dirk		Bonn	dirk_finke@web.de
Goodison, Paul	ERO	Brussels	2pg@pandora.be
Hermanns, Uwe	Universität Kassel	Kassel	hermanns@student.uni-kassel.de
Jaura, Ramesh	Inter-Press-Service	Bonn	r.jaura@ipsnews.de
Kerkow, Uwe		Bonn	uwe.kerkow@t-online.de
Laryea, Guggi	Eurostep	Brussels	glaryea@eurostep.org
Lauber, Johannes	Weltladen Marburg	Marburg	lauberj@mailer.uni-marburg.de
van Luijken, Anneke	IRENE	Tilburg	avluijken@irene-network.nl
Martens, Jens	WEED	Bonn	jens.martens@weedbonn.org
Masiiwa, Medicine	Trades Centre	Harare	feszim@africaonline.co.zw
Reimer, Jule	Deutschlandradio	Köln	jule.reimer@dradio.de
van Reisen, Mirjam	Nedworc	Brussels	mvreisen@xs4all.be
Schilder, Klaus	WEED	Bonn	klaus.schilder@weedbonn.org
Simon, Dieter	KOSA / Welthaus	Bielefeld	welthaus@aol.com
Vinnai, Volker	Friedrich-Ebert-Stiftung	Bonn	volker.vinnai@fes.de
Wahl, Peter	Weed	Bonn	peter.wahl@weedbonn.org
Wellmer, Gottfried	KOSA	Bonn	gwellmer@magia.bn.shuttle.de