



Making EPAs work for the Poor

Economic Partnership Agreements
(EPAs) and Political Alternatives

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Imprint

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Economic Partnership Agreements (EPAs) and Political Alternatives

Expert meeting in Bonn, October 21st 2005

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Abbreviations

ACP	African, Caribbean and Pacific Countries
AU	African Union
BLNS	Botswana, Lesotho, Namibia and Swaziland
BMWA	German Ministry of Economics and Labour
BMZ	German Ministry for Economic Cooperation and Development
CAP	Common Agricultural Policy
Cariforum	Caribbean EPA-Negotiation-Group
CEMAC	Common African Economic and Monetary Community
COMESA	Common Market of Eastern and Southern Africa
CPA	Cotonou Partnership Agreement
DG	Director at General
EAC	East African Community
EBA	Everything But Arms Initiative
EPA	Economic Partnership Agreements
ESA	EPA-Negotiation Group of Eastern and Southern African States
EU	European Union
GATS	General Agreement on Trade in Services
GATT	General Agreement on Trade and Tariffs
GSP	Generalized System of Preferences
IMF	International Monetary Fond
LDC	Least Developed Countries
MDG	Millennium Development Goals
NEPAD	New Partnership for African Development
RPTF	Regional Preparatory Task Force
RTA	Regional Trade Agreement
SACU	Southern African Customs Union
SADC	Southern African Development Community
SDT	Special and Differential Treatment
TDCA	Trade Development and Cooperation Agreement
VAT	Value Added Tax
WTO	World Trade Organization

“Free trade as a means of poverty eradication”? The leading question of the Bonn Conference of 21 October 2005 addressed the following crucial issue in the current EU ACP trade negotiations within the framework of the Cotonou Partnership Agreement (CPA): Does the CPA’s trade component in its envisaged form of “Economic Partnership Agreements” (EPAs) effectively foster the CPA’s central objective, that of reducing and eventually eradicating poverty, “...consistent with the objectives of sustainable development and the gradual integration of the ACP countries into the world economy”? (Article 1) In short, will EPAs work for the poor?

The answers to this question as recorded in the present documentation reflect the positions and interests of the three main stakeholders present at the Conference. While the German government views EPAs as the relatively best WTO-compatible trade arrangement that will lead to sustainable development if the existing flexibility inherent in WTO Article XXIV is strategically explored, official ACP voices remain sceptical with regard to EPAs as potential tools for development. ACP countries

are increasingly frustrated by the dichotomy between the development rhetoric of EU officials and the offensive interests pursued by DG Trade, which is heading the negotiations. The ACP side is equally dissatisfied with the EU position in the current negotiations, which fails to adequately address the serious supply-side constraints of structurally weak ACP countries. This is expressed in the Declaration of the ACP Council of Ministers of 21-22 June 2005 in Brussels, in which they voice their “grave concern that the negotiations have not proceeded in a satisfactory manner having failed to start addressing most issues of interest and concern to the ACP regions, in particular the development dimension and regional integration priorities”.

The representatives of civil society from Africa and Europe present in Bonn focused on the potentially devastating effects of EPAs in their present form on vulnerable and largely uncompetitive ACP economies as compared with the economic giant EU and called for economic and political alternatives to EPAs in their current planning that do justice to the development needs of ACP countries.

Analysis from a southern African civil society perspective

The two initial contributions of Tendai Makwavarara and Angela Mulenga summarise the anticipated negative impacts of EPAs as presently envisaged by the EU. Their estimates of the likely results if EPAs were to be implemented according to the current understanding of the EU in the framework of the provisions of WTO Article XXIV are only partly based on impact studies which are generally restricted to measuring quantitative and static changes in trade flows and expected revenue losses. Both their assessments of the

static and dynamic social effects of EPAs on structurally weak economies derive primarily from the negative outcomes of trade liberalisation and privatisation in the course of Structural Adjustment Programmes (SAPs) imposed on practically all countries of Southern Africa in the 80s and 90s.

Another more recent precedent is provided by the Trade and Development Cooperation Agreement (TDCA) concluded in 1999 between the EU and South Africa. Since deeper requirements of liberalisation have been back-

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loaded for South Africa in the TDCA, it is too early to draw conclusive evidence on the impact of this Free Trade Agreement (FTA). Yet there are already clear indications of job losses and the destruction of vulnerable sectors of South Africa's economy as a result of the premature opening of markets to the EU. But whereas a relatively strong South African economy is able to absorb some of these shocks, how will the economy of a much more vulnerable country, such as Zambia, be able to stand up to the economic heavyweight EU?

The specific value of Angela Mulenga's contribution on the potential impact of EPAs on the rural poor in Zambia lies in the fact that she relies largely on oral evidence of the most vulnerable sector of Zambia's economy, which is going to be particularly hard hit by EPAs: small producers and farming collectives which will be unable to compensate the competitive threat presented by EU imports once they are exposed to a duty-free access of highly subsidised agricultural and value-added food products from the EU.

In summary, the following are among the crucial questions raised by Makwavarara and Mulenga with regard to the likely negative impacts of EPAs in their present form:

- EPAs are based on a flawed neoliberal macro-economic theory claiming that trade liberalisation creates more trade and thus stimulates economic growth, increased growth in turn attracts investment and creates more jobs and increased market access leads to economies of scale and to reduced prices for ACP consumers. What sounds good in theory overlooks the effects of free trade within unequal power relations and has been falsified by the disastrous experience of most Sub-Saharan countries with SAPs since the 80's.
- Adjustment costs of EPAs will be higher for ACP countries than for the EU. Losses of revenue due to reduced tariffs particu-

larly affect the budgetary space of small poor countries.

- Due to overlapping memberships in various regional constellations, especially in the ESA and SADC groupings, and the dilemma faced by ACP LDCs whether to join a regional EPA and forfeit EBA-preferences or to maintain EBA preferences and thus jeopardise regional integration and their own economy, EPAs in their present form of reciprocal free trade agreements tend to undermine autonomous regional initiatives rather than building on them.
- EPAs without additional resources overstrain the limited capacities of small ACP-states at three levels: 1) the capacity to negotiate complex EPAs alongside other bilateral and multilateral trade negotiations; 2) the capacity to produce and trade competitively; 3) the capacity of addressing the resulting adjustment costs and revenue losses.
- The Singapore issues and further liberalisation in services ought to be excluded from the EPA negotiations; as experience has shown, the privatisation of public and financial services, for instance in Zambia, has had adverse effects, especially on the rural poor.
- The guaranteed right of civil society participation in the Cotonou process has to be made effective, especially with regard to the inclusion of the voices of rural women, since they are the most heavily affected groups of any forced pace of trade liberalisation.
- In order to guarantee meaningful participation of all stakeholders and to provide for a transparent and democratically controlled Cotonou process, the unrealistic timeframe up to late 2007 for the negotiations should be reviewed as soon as possible.

Alternative(s) (to) EPAs

The major part of the Bonn Conference was dedicated to the presentation and discussion of possible alternative(s) (to) EPAs. In a non-partisan approach, Francesco Rampa of ECDPM in Maastricht presented a list of twelve alternatives, while Karin Ulmer

of APRODEV elaborated on Development Benchmarks as a monitoring tool to ensure that EPA negotiations keep focused on the development objective. Although development benchmarks, covering the three main aspects of market access, development resources and

policy space, do not represent an alternative by themselves, they can however play a useful role in assessing the state of play of the EPA negotiations and be instrumental in realising more development-oriented alternatives.

Development benchmarks were first introduced as a frame of reference for the EPA negotiations by the Cape Town Declaration

adopted by the ACP-EU Joint Parliamentary Assembly on 21 March 2002 in Cape Town, South Africa. On account of the importance of the objectives, principles and strategies contained in the Declaration for the critical assessment of EPAs and the development of alternatives, the text of the Declaration has been attached to this report.

Alternative EPAs

In discussing alternatives, the fundamental bone of contention is the issue of reciprocity between very unequal partners at the negotiating table with the EU on the one side and the six ACP groupings on the other side; reciprocity also determines the dividing line between two sets of alternatives in the EPA negotiations. A first set, or series, of options is composed of “*alternative EPAs*” as measured against the standard understanding of the meaning of “reciprocity” in the EPAs currently envisaged by the EU. This standard has been set by the TDCA with South Africa, which was the first Free Trade Agreement to be negotiated under the new WTO regime and set the precedent for all subsequent FTAs. Thus a standard EU EPA is maintained to comprise 90% of the reciprocal trade of the negotiating partners (allowing for a certain asymmetry in favour of the weaker partner). The implementation period is said to extend over a period of ten to twelve years (again including a possible asymmetry to the benefit of the weaker part), and has to cover all sectors of trade.

“Alternative EPAs” vary in their degree of reciprocity as measured against the EU standard, ranging from EPAs with very strong

asymmetry tending towards “non-reciprocal” EPAs, to forms of “EPA light” with smaller divergences from the EU standard. While the EU maintains that the existing formulation of article XXIV of GATT regulating FTAs implies sufficient flexibility to allow for enough asymmetry in favour of the ACP, the all-ACP position favours an amendment of article XXIV introducing a legal basis for “special and differential treatment” (SDT) in order to guarantee a legal basis for development-oriented EPAs under WTO rules.

Rampa’s third scenario for alternative “EPAs with development benchmarks” refers to a more sophisticated form of an “EPA light” which is favoured by some NGOs and ACP negotiators. In this scenario the implementation of tariff dismantlement and other forms of liberalisation would not be determined by a rigid timetable fixed in advance but by the attainment of certain development indicators. This would prevent poor countries from having to open up their markets at a time of insufficient development of their productive and social base, thus running the risk that the ensuing adjustment costs would by far outweigh the potential benefits.

Alternatives to EPAs

A second series of alternatives consists of non-reciprocal options that are situated outside the framework of EPAs, which by definition and design are reciprocal FTAs. These alternatives to EPAs serve two purposes. First they provide a fall-back position for ACP countries, especially the LDCs among them, should they opt out of the EPA negotiations on account of the development risks reciprocal EPAs present for small and poor countries with a largely agrarian base. Secondly, they serve as a concrete reference frame against which to assess the potential gains or losses of the negotiated EPAs.

Different modalities of alternatives to EPAs

are based on two established trade schemes between the EU and developing countries (DCs), both of which guarantee trade preferences to the DCs and are WTO-compatible: the Generalised System of Preferences (GSP) in its presently amended form of a GSP plus, and the “Everything But Arms” Initiative (EBA) which the EU grants to all LDCs. The WTO compatibility of both rests on the “Enabling Clause” of the 1979 Tokyo Round of GATT negotiations. It allows for a differentiation between developing countries in derogation of GATT’s Most Favoured Nation principle.

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One set of alternatives to EPAs derives from an extension of the EBA initiative to a wider circle of developing countries (EBA for all ACPs, EBA for the G90, EBA for all DCs); another from an extension and enhancement of the GSP plus system of preferences. GSP plus could be extended to all ACP countries based on their vulnerability; the GSP plus system could be enhanced to make it contractual and to increase product coverage. However, the risk all these extended modalities of both EBA and GSP entail is their potentially being challenged by the WTO.

The GSP plus system deserves special attention. For in the view of the EU, it represents the only realistic alternative for those ACP countries unwilling or unable to conclude an EPA. But in the judgement of EU trade officials like Commissioner for Trade

Peter Mandelson, compared with the EPA scheme, it is only a “second-best” option. As an enhanced GSP plus offers some attraction for ACP states, a brief presentation of this alternative to EPAs by the Institute of Development Studies (IDS) is therefore enclosed as an annex to the papers of the Conference.

A final option presented by Francesco Rampa is the continuation of the status quo. Status quo refers to the maintenance of Lomé-type preferences guaranteed by a WTO waiver until the end of 2007. In the event of the EPA negotiations collapsing, the continuation of the present trade preferences would require a new waiver in the WTO. To obtain such a waiver seems politically unlikely, and would certainly be costly for the EU. But it does remain possible.

Strategies

Although the discussion of strategies to be adopted by civil society in the ACP countries and the EU member states was reserved for a later point in the discussions of the various contributions, strategic challenges constantly emerged. Here, in summary, are some of the common lines of understanding and strategic direction among civil society participants present in Bonn as they surfaced during the Conference:

- EPAs in their present form as envisaged by the EU are clearly unacceptable since they undermine the two main legitimate priorities of ACP countries: the development needs of structurally weak and poor countries and the autonomous home-grown initiatives of regional political and economic integration.
- Therefore, as a matter of urgency, the issue of alternatives both as “alternative EPAs” and “alternatives to EPAs” has to be addressed as the priority issue for the forthcoming decisive phase of EPA negotiations in 2006.
- While no single alternative was identified during the Conference as a common focus for further action, it was evident that those alternatives were favoured by the majority of participants that give priority to the needs of poverty eradication and of interregional trade and development. The effects of the negotiated trade agreement on the mostly rural poor were pointed out as a prime yardstick for the assessment of any final outcome of the Cotonou process.
- There was broad consensus among civil society participants that the review process of the state of play of the EPA negotiations in 2006 should be turned into a visible, transparent and democratically controlled effort that will do justice to the provision contained in Article 37.6 of the CPA for the non-LDCs, which opt against concluding EPAs, to “*examine all alternative possibilities, in order to provide these countries with a new framework for trade which is equivalent to their existing situation and in conformity with WTO rules*”.

Over the last few months, the debate on the interlinkage and coherence of development and trade policy agendas under the umbrella of negotiations on new trade agreements between the ACP countries (African, Caribbean and Pacific) countries and the European Union (EU) has gained some impetus. In June 2000, as the successor of the Lomé treaties, the CPA was signed between the ACP and EU. This agreement foresees negotiations on new trade arrangements. Currently, ACP regions and the EU are negotiating so-called “Economic Partnership Agreements” (EPAs) – in essence free trade agreements – which aim to substantially liberalize all trade between the EU and the ACP group in agreement with WTO free trade principles. In addition, EPAs aim to open ACP economies in areas such as services, investment, public procurement, competition policy, trade fa-

cilitation and intellectual property rights to European economic interests.

In 2006, according to the Cotonou provisions, the EU is bound to offer - upon request - alternative trade arrangements to those ACP non-LDC countries (or regions) that are not in a position to conclude an EPA with the EU. Originally in 2004 ACP countries were supposed to indicate whether they would want to negotiate an EPA. This date has now been deferred to coincide with review of the negotiations due to take place in 2006. To offer these countries a real choice, meaningful trade alternatives that take the economic and social needs of ACP countries into account need to be developed without any further delay. The European Commission has been reluctant to do so up front, although the negotiating timetable as currently foreseen is very tight and pressure on the ACP side



Joining forces - Photo: Fanie Jason

to agree to what is on the table will probably rise. Demands for the urgent development of alternatives have recently been raised in public discussions within the ACP and the EU including some of the EU member states. While some trade alternatives have already been outlined, much more effort is needed to understand the implications and potential benefits to ACP countries in closer detail. Unless all possible options are sufficiently clear, ACP countries will not be able to make an informed choice. Even though some of the debates might appear to be quite technical in essence, they do in fact deal with the future livelihoods of millions of people in the ACP countries.

Negotiations in the WTO round shortly after the minimal compromise reached in Hong Kong as well as the current EPA negotiations with the EU are far from addressing the fundamental concerns of ACP countries regarding the effects of further liberalization policies – both at multilateral and regional level. Contrary to the prevailing neoliberal dogma, and supported by a growing wealth of evidence, the effects of trade liberalization on weak economies and, in particular, on the rural poor tend to devastate the productive structures of the countries. Local producers are being pushed out of the market by cheaper imports, government revenues are likely to be falling due to massive declines in import tax revenues. As a consequence, public spending for basic social services will decrease, unemployment is rising and fewer resources are disposable for development programs directed at overcoming growing poverty levels in ACP countries, particularly in Africa.

Civil society organizations from the ACP and the EU have therefore been highly critical of the new trade deals proposed by the EU. The international “StopEPA” coalition – presently supported by more than 160 organizations and individuals – is calling for the development of concrete alternatives to the EPA proposal as currently presented by the EU. This documentation aims to provide a closer understanding of the needs and challenges for ACP countries, discuss in more detail some of the options, advantages and limitations of some of the alternatives to EPAs currently under debate. What are their social and economic implications and what is their political feasibility? What scope for action

is there for civil society and trade unions to take action against an EU-led market access strategy within EPA free trade agreements? Which political strategies need to be adopted by civil society both in the ACP and the EU to jointly contribute to radically changing the EPA approach as currently adopted by the EU towards a sustainable alternative?

Civil society representatives from Africa and Europe have been invited to exchange their points of view on the current state of the EPA negotiations with officials from the ACP and the German government, to assess alternatives within the ongoing ACP-EU trade negotiations and to develop further strategies. Tendai Makwavarara from Zimbabwe questions the link between trade and development from a civil society perspective while underscoring that EPAs are not addressing the concerns of the people in rural areas. Angela Mulenga from the Civil Society Forum Trade Network of Zambia discusses the effects of EPAs on the rural poor in the country emphasizing the situation of rural women in particular. Maasticht-based researcher Francesco Rampa from ECDPM provides an overview on the variety of EPA alternatives from a European perspective ranging from proposals requiring less than full reciprocity to preferential scenarios. Karin Ulmer from APRODEV introduces a concept of development benchmarks jointly prepared by APRODEV and ICTSD to establish that development considerations are built into the whole negotiation process and the development impact of EPAs or its alternatives is monitored during the implementation period. The final section draws together perspectives and comments on whether free trade can be an effective means for poverty eradication in ACP countries and which political alternatives exist vis-à-vis EPAs. These questions were discussed at an international expert meeting organized by the Ecumenical Service for Advocacy Work on Southern Africa, the Coordination Southern Africa, the Network Africa Germany, terre des hommes and World Economy, Ecology & Development in Bonn on October 2005. They are now reflected in the contributions to this report. With this publication, we intend to contribute to broadening the debate around EPAs and development-friendly alternatives in Germany and beyond.

II Trade and Development in One Boat?

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The EPA Concept from a Critical Civil Society Perspective

Tendai Makwavarara-Makanza, Swaziland

As EPAs have to embrace the three pillars of trade, good governance and development, there is a need to look at the background of the African situation. What does poverty look like in Africa? What is the shape of economic performance, economic development and poverty in regions like Southern Africa? Africa's economies have remained largely undiversified. Agriculture forms their backbone, while the manufacturing base is small and there is no industrialization. This characterizes the type of trade and the types of commodities and products that Africa sells on the international market. Agriculture represents

70 percent of African countries' economies. The continent has been criticized for failing to conform to ISO standards and meet SPS regulations. Africa does not have the capacities to meet the high EU standards. Any trade policies will affect both these products and people's livelihoods.

Since 1980, Africa has largely been integrated into the global economy. But it remains weak and has not managed to increase its trade flows. In 1970, COMESA held 1.6 percent of the global trade market, while today, its share is a mere 0.4 percent compared to the EU's 35.9 percent. SADC held 2.2 percent



Children on rail tracks - Photo: Fanie Jason

of the global market which meanwhile has shrunk to 0.6 percent. There are no advances in trade, no matter how much liberalization is undertaken.

Social and development indicators are worsening. Mortality levels have been deteriorating severely, also because of the impact of HIV in Southern Africa. On average, Swa-

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ziland's population is 33 years old, while the average age in Africa is 47 years. Sub-Saharan Africa has 66.2 percent of the total HIV positive population. It is not promiscuity or a special genetic disposition that encourages this virus there. Antiretroviral drugs do exist, but international trade rules impede access

to them. Finally, infrastructure is poor, and access to information and communication technologies is generally low. For instance, it takes a person in Southern Africa four and a half years to successfully apply for a telephone line. Clearly, none of these countries have the same level of development as the EU.

Poverty in Africa

Of the world's 315 million people considered poor, one in two is found in Africa, accounting for more than half of the world population living in poverty. Thirty-three percent of the African population are suffering from malnutrition, while less than 50 percent have access to hospitals and doctors.

One in six children dies at the age of five, and children account for half of all civil casualties in warfare. Less than one person out of five has access to electricity, only 15 in a thousand have telephone lines, and just 3 in a thousand can surf the internet. That is the broader picture of poverty in Africa today.

Food Crisis in Southern Africa (as percent of total population)

Country	People in Need of Food Aid	Wasting Malnutrition in Children under 5 Years of Age	Severe Malnutrition in Children under 5 Years of Age
Lesotho	34	7.5	34.7
Malawi	31	6	49
Mozambique	3	5.5	43.8
Swaziland	28	2.2	40
Zambia	28	4.4	39.9
Zimbabwe	52	7.3	49.3

Source: Trades Centre Harare

The food situation is not better. The food crisis statistics shown above are from 2002, but the situation has worsened since then. Zimbabwe used to be the bread basket within the SADC, but today, the country is begging for food. Malawi has just declared a national crisis because it is facing starvation and has

asked for international food aid. Talking about trade liberalization does not include talking about food crops or food sovereignty. Europe wants cash crops, which can't be consumed locally. These are some of the development issues that EPAs pretend to address effectively through EU-ACP negotiations.

Will EPAs eradicate poverty?

Faced with a choice to say "Stop EPAs" or renegotiate and change some of their adverse implications it clearly has to be said that there is no space for EPAs because they are not a development tool. Unfortunately, the negotiations are going ahead because ACP ambassadors have decided to negotiate and may sign an agreement in 2007. Economic theory tells

us that trade liberalization and the opening of markets will lead to increased production levels and, in the long run, a rise in employment and wages. But this theory is based on complex economic assumptions which do not hold in practice. Structural adjustment programs have been applied all over Southern Africa. But they have been largely unsuccessful.

ful. Poverty has deepened, while neoliberal policies have failed drastically. The negotiators seem to fail to understand this fact.

EPAs were originally based on three pillars: trade, development aid and political dialogue. A visit to DG Trade gives the impression that EPAs are about trade only. Poverty does not feature in DG Trade. The EU sets out from the assumption that once trade has been liberalized, trickle-down effects will induce

economic development and everyone will be rich. Already in the 16th century, Sir Walter Raleigh observed that “*Who ever commands the trade of the world commands the riches of the world and hence the world itself.*” This principle still applies. Therefore, the EU has the power to remain ignorant of the ACP countries’ problems. But only cooperation can lead to better livelihoods of the people.

Fragmentation of the Continent

The fragmentation of the African regions is one of the very serious results the EPA negotiations have had. Caribbean and Pacific Countries have managed to build solid regional groupings, but Africa has been severely hit. A multiplicity of partly overlapping constellations of regional integration in Southern Africa such as the African Union, COMESA, SADC, EAC and, with the introduction of EPAs, ESA now exist alongside each other. This is no longer an African Community. SADC was moving towards its own regional economic initiative, the SADC Trade Protocol. But SADC won’t negotiate with the EU as a whole but has split up between some countries that have opted for COMESA and will negotiate together with the wider ESA group and the rest of seven SADC states that will negotiate their separate EPA with the EU. From a civil society perspective almost the same issues as in the current WTO round will be negotiated in the EPA regions. EPAs and the WTO are inextricably linked. The challenge is at both levels simultaneously. As the members of EU and ACP constitute the majority of WTO members thus there is a potential to change WTO rules for fairer results, provided the political will exists.

The remaining SADC group negotiating with the EU is facing its own dilemma (the so-called BLNS Dilemma). South Africa will not negotiate because it already has a free trade area with the EU, the TDCA, and there is a considerable danger that the remaining countries in the SADC negotiating group will almost automatically have to adopt the

existing TDCA with South Africa, which has several weaknesses. The BLNS countries, Botswana, Lesotho, Namibia and Swaziland, are linked with South Africa in the customs union SACU and therefore depend heavily on South Africa. They are not comparable to that country’s degree of development. Although officially only an observer to EPA negotiations, South Africa will try to gain what it has lost to the EU in the TDCA. But it is unlikely that the EU will give more concessions to the SADC arrangement than it already has given to South Africa in the TDCA. Since the TDCA came into existence, the other SACU members suffered a significant loss of revenue. Swaziland has lost 15.9 percent, Lesotho 12.9 percent, Namibia 8.6 percent and Botswana 5.3 percent. These percentages are not small for countries that are facing a serious debt crisis.

Civil society has been warning that the pace of negotiations is too fast and that African governments have neither the capacity nor the financial and technical know-how to negotiate successfully. Yet, there are not only EPAs but a number of multilateral and bilateral negotiations in which Southern African countries are participating: the current Doha round in the WTO, the SADC Trade Protocol, trade relations between SADC, COMESA and the EAC, the formation of the African Union, NEPAD and bilateral trade arrangements. Adding the EPA with their broad agenda of new issues to this situation is too much. There is no political breathing space.

Effects of Reciprocity in Terms of Revenue Losses in Southern Africa

Country	Tax <50% in 2012	Tax <30% in 2016	Tax <20% in 2020	Total Losses as % of Imports
Botswana	1.9	2.7	3.1	7.7
Malawi	4.2	5.9	6.7	16.9
Mauritius	9.9	13.8	15.8	39.5
Mozambique	7.0	9.8	11.2	28.0
Namibia	6.0	8.4	9.6	24.1
South Africa	2.6	3.6	4.1	10.3
Swaziland	2.5	3.5	4.0	9.9
Tanzania	9.4	13.2	15.1	37.7
Zimbabwe	8.3	11.6	13.3	33.0

Source: Trades Centre, Harare

These are serious revenue losses Southern Africa will have to reckon with due to EPAs. Calculation on total revenue losses is based on the assumption that SADC will become a free trade area by 2008, in the same year that an EPA is foreseen to be implemented. Thus by 2012, 4 years later, SADC could be facing tariff reductions of 50 percent of all trade with the EU exclusive of its sensitive products (assumed to be 15-20 percent of total trade).

Following the SADC trade protocol, the next reduction would be 80 percent, to be undertaken 4 years later, in 2016, followed by a 100 percent reduction by 2020 - hence the above scenarios of tax <50 percent, tax <30 percent and tax <20 percent. One can thus agree entirely with the EU in that there will be serious costs of adjustment. How these costs will be faced by these countries is completely unclear.

Participation and Gender

It has often been highlighted that the CPA promotes stakeholder participation. But real participation means that also civil society gives its input and that this is reflected in policies. So far, this has not happened. A few larger organizations such as SEATINI have been involved in the process, but many civil society actors and grassroots organizations have been excluded. Poverty is not gender neutral. Between 60 and 70 percent of the poor in Southern Africa are women. Nevertheless, there are practically no resources for their empowerment and participation. The Lomé I to Lomé IV treaties have been practically gender neutral. In comparison, Cotonou does contain an element of gender but fails to provide the resources needed.

Following macroeconomic policy prescriptions EPAs appear as neoliberal instruments. This suggests that they will never address a development issue. They may even worsen issues around governance because they remove

essential human rights. Once this is done, there will be civil unrest, and governance issues will no longer be addressed. The pillar of trade will then be all that remains.

Civil society is asking to stop the negotiations now and give African countries the leverage to look at their interests, to harmonize them regionally and then decide on what products they can reduce tariffs, when and how they want to reduce these and only then begin negotiations. Another way would be to extend the WTO waiver on current ACP preferences and refocus on new development strategies. African governments should remain firm with their insistence on further flexibility. Civil society has to play a part. Regional integration should come first. Countries in Africa are different, and this should be considered in their treatment. The StopEPA campaign is excellent. These issues have been talked about for a long time already. Now it is time for action.

Discussion

Actors and Strategies

In the subsequent discussion, it was noticed that the pillar of trade was dominating the current EPA negotiations, and that the development dimension is nearly missing altogether in the process. The question arose who the beneficiaries of the proposed liberalization of trade were and how strategies could be developed to slow down the pace of EPA negotiations or stop them until potentially adverse effects have been sufficiently dealt with. It was highlighted that sensitizing and informing parliamentarians in the ACP but also in Europe presented one of the major opportunities for civil society to intervene in the process. During the debate, a consensus emerged that even though democracy and governance had an impact on development and on human security, the problem of who defines democracy as a concept was what was threatening the linkage between governance issues and trade negotiations.

Civil Society Participation

Civil Society Participation was highlighted as one of the key issues in the debate, in particular regarding the conditions for including a broad diversity of stakeholder interests and bringing development-friendly actors together. Considering the broad variety of ACP stakeholders in the negotiating process, there were some who were also benefiting from further trade liberalizations. Taking these differences of stakeholder interests and opportunities for participation into account, the importance of effective means of participation was underlined.

Singapore Issues

Regarding the inclusion of the so-called Singapore issues within EPAs, the serious lack of consistency within the positions of ACP

countries and regions was critically pointed out. As various progress reports from regional negotiating groups indicate, the various ACP regions will negotiate on some or all of the Singapore issues to a certain degree. Thus these issues have finally made it into the negotiations through the backdoor. The European Com-



Together we're strong - Photo: Paul Grendon

mission was maintaining that rules about trade in goods as well as a predictable investment framework, a liberalisation of services, competition rules and intellectual property rights institutions were needed for a successful building of regional markets. Therefore, ACP governments were integrating rules on all of these issues into their regional architecture. Still, warnings were raised in the debate that the step from the inclusion of these issues within a regional framework to the application of these regulations vis-à-vis the EU was only a small one. Further warnings focused on the lack of negotiating capacity on the ACP side and the need for redefining issues like investment with the aim to encourage transfer of technologies and skills development in the ACP. Although welcome, the UK EPA statement rejecting the inclusion of the Singapore issues in EPAs should not be seen as a guarantee or binding commitment but ought to be made dependent on the positions other EU member states would take in the future.

III Awaiting Flames of Fires

EPAs and their potential impacts on the rural poor in Zambia

Angela Mulenga, Zambia

1. Trade and poverty

It is often presumed that poverty and trade are interlinked because of the role trade plays in economic development and in reducing poverty. Trade can generate static welfare gains by increasing allocation efficiency, raising capacity use, achieving economies of scale in production and making a wider variety of

deep liberalization in the early 1990s under World Bank Structural Adjustment Programs. In the same period, most ACP countries also received preferential market access from developed countries. Despite this situation, the lives of the poor did not improve but saw an increase in poverty. Productivity went down, access to social services such as education and health deteriorated, and the availability of food declined. Similar effects have been experienced in other FTAs concluded such as NAFTA (The North American Free Trade Agreement) which has hurt subsistence farmers in Mexico; the expected gains in jobs did not materialize; neither did it prevent real wages from declining and income inequality from rising. This picture concludes that trade liberalization and enhanced market access do not necessarily lead to poverty eradication, as most countries have been left poorer than they were before.

Trade liberalization tends to sideline the poor, who gain very little; increased free trade widens the gap between the rich and poor. This often leads to increasing poverty especially in rural areas. In the long run poverty, if not addressed, threatens the security of a country as it makes nations vulnerable to extremism, conflict and terrorism. Poverty also leads to ills such as crime, disease and environmental degradation. In addition, it retards open economic and political institutions, undermining democracy, effective governance, and sustained economic growth and development. (2004 LDC report) It is therefore crucial for trade liberalization to focus on development and poverty eradication.



Ploughing the field - Photo: Fanie Jason

products available for consumption. Trade thus contributes to poverty reduction in a number of ways, for instance through increased tax revenues hence assisting governments in their obligation to meet health, education and other social needs. Trade also creates employment opportunities for local people and thus contributes to income generation.

On the other hand, scholars have argued that trade liberalization increases poverty as is evident in most developing countries such as Zambia, Malawi and Ghana which undertook

1.1 Voices of the poor in Zambia on the effect of trade liberalization

Negative effects resulting from trade liberalization became evident in the responses gathered from rural communities and various institutions in Zambia during the workshops conducted by the Civil Society Trade Network of Zambia. Communities visited argued that trade liberalization was leading to a distortion of marketing systems and reducing productivity, as they were unable to compete with imported products. Most rural people complained of high poverty levels after liberalization in the process of the implementation of Structural Adjustment Programs since 1991.

Most communities also bemoaned the pace at which liberalization was taking place as it was too fast and there was no adequate preparation for the change. In the rural areas of Zambia where 90% of the people are small-scale farmers, the situation led to the deterioration of markets in the agricultural sector, and the markets in turn have influenced production. There has been a shift to commercial crops such as cotton in the rural communities. This is due to guaranteed markets and input supplies provided by intermediary companies. The decision to go into cash crop production is thus not so much determined by the price but rather related to market and input security.

The marketing of farm crops has also become a problem as most rural areas are inaccessible. This has made transportation costs incredibly high because government has more or less stopped grading the rural roads and rural public transport has become more infrequent.

„We were taken unawares by the liberalization and have become worse off than before 1990. As a result of the liberalization we have had a situation where the big buyers have monopolized and are dictating the prices of agricultural products. We, under the circumstances, have been left with no bargaining power.“¹

The farmers in most communities also complain of the growing cost of inputs. They argue that it has been rising faster than product prices. There is a perception that the availability of farming inputs has not increased, particularly for remote communities, e.g. fertilizer is no longer provided by state marketing agencies or the cooperatives.

The rural communities argue that their production levels for maize has fallen as a result

of the lack of availability of fertilizer. They say that this does not mean that they have stopped producing maize, but it has resulted in much lower yields.

Most agricultural and industrial inputs are imported. This means that local prices are also affected by the exchange rate, which has depreciated steadily as a result of liberalization. The case of maize is a slightly different example to the other crops because producer prices have not been totally deregulated over the period.

With regard to the industry sector, the Copperbelt province in Zambia, which had traditionally been the hub of major industrial and mining activities, has turned into a ghost area as most companies closed during the privatization period in the early 90s. This led to massive job losses and lower standards of living for most people. There was an emergence of new private company owners (both local and foreign) who were unable to employ more people; and those employed complained of poor working conditions. Most of the workers were actually employed on a casual basis. This strongly impacted on social security and pension schemes. Highly qualified persons left the country while the majority were pushed into the informal sector.

“Because of liberalization, co-operatives that were helping us went under. The government decided that they were not useful. Co-operatives used to offer good prices to us and purchased crops at the doorsteps. They were also able to deliver inputs to us.”¹

From the situation on the ground in most rural communities in Zambia, it is clear that the links between trade liberalization and impacts on small-scale farmers and poor people in general are complex and not easy to delineate. However, according to the LDC 2004 report, the failure of trade expansion to lead to poverty reduction has been related to weaker linkages between trade and economic growth.

Therefore, it is absolutely vital that trade liberalizations or free trade agreements include pro-poor development aimed at economic and social equity.

¹ These remarks were collected from a focus group which included the following participants, mostly aged between 25-40: Matambose Mbewe, single, 2 children; Elina Mbewe, single, 6 children; Christina Tembo, married, 9 children; Bernadette Phiri, single, 1 child; Alibate Mbewe, single, 3 children.

“Due to liberalization, the market for maize has become extremely difficult. We have to travel all the way to town for the maize to be sold. Due to transport problems, we use bicycles to transport our products. If the load is heavier, we face added costs of booking a vehicle.”¹

Therefore, serious measures and precautions should be considered before further trade liberalization as envisaged in the Economic Part-

nership Agreements (EPAs) is implemented. Rural dwellers in Zambia see these as further „flames of fires” that would be destructive to their lives.

To achieve poverty reduction, trade liberalization must therefore include measures to overcome supply-side constraints and improved technology for value-adding purposes in order to bring about a more balanced competition between developed and developing countries.

2. Economic Partnership Agreements

EPAs are part of the Contonou Agreement signed in June 2000 between the European Union and 77 African Caribbean Pacific (ACP) countries. They form the trade com-

ponent of the Agreement; they are supposed to replace the non-reciprocal trade system of the Lomé Convention. According to Chapter 2 Article 37 of the CPA these EPAs are basi-



Woman guards pigs - Photo: Fanie Jason

cally free trade agreements and are expected to be WTO compatible. The Economic Partnership Agreements which are currently being negotiated are expected to enter into force by 1st January 2008.

The overall objective of the Agreement is to enable ACP countries to play a full part in international trade and to advance poverty reduction and sustainable development. The trade agreements are based on four principles which are partnership, regional integration, development and compatibility with WTO rules.

Zambia is currently negotiating the EPAs under the Eastern and Southern African (ESA) configuration. The ESA configuration has drawn members from other regional bodies such as the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC)

¹ These remarks were collected from a focus group which included the following participants, mostly aged between 25-40: Matambose Mbewe, single, 2 children; Elina Mbewe, single, 6 children; Christina Tembo, married, 9 children; Bernadette Phiri, single, 1 child; Alibate Mbewe, single, 3 children.

and the East African Community (EAC). This process has tended to fragment the regional economic groupings and threaten their existence. These economic groupings have, however, been envisaged as building blocks for the eventual economic integration of Africa as envisioned in the Lagos Plan of Action of the African Union. The dream of an economically united Africa is thus under threat from the EPAs as they are undermining these home-grown initiatives of African integration.

EPAs have been under critique from the beginning, especially from CSOs both in the North and South. The anticipated adverse effects of EPAs emphasized by CSOs relate to the expected destruction of the livelihoods and jobs of the poor in ACP countries, revenue

losses and regional disintegration. These criticisms have increasingly been adopted by important institutions such as the UN in its 2005 Human Development Report, the World Bank and the AU ministers in their Cairo Declaration of 2005. The UK's position on EPAs has equally been critical on some of these points.

The Civil Society Trade Network of Zambia; a member of the Africa Trade Network, has highlighted the likely negative impacts of EPAs through its recent EPAs provincial sensitization workshops and focus group discussions with different stakeholders. It has become evident from the responses of the grassroots communities and different stakeholders that EPAs will not lead to poverty reduction.

Voices of the poor on the possible impacts of EPAs

The analysis of the effects of trade liberalization under SAPs, referred to above raises serious questions whether free trade arrangements under EPAs would do any good to the lives of the poor in developing countries, particularly in Zambia. The feelings of the poor people in Zambia and institutions representing the poor rural communities on EPAs are rather negative. It is feared that the possible impacts of EPAs would leave the poor worse off than they are now, after liberalization which took place under Structural Adjustment Programs in the early 1990s.

"The little that we are left with in terms of industries, mining and farming will be gone unless the government irons out all the hidden negative implications of signing an EPA, otherwise we are just poor people awaiting flames of fires and to be burnt to ashes."²

The effects of EPAs on the rural poor as highlighted by the focus group discussions during the workshops will be spelt out in the following chapters. They look at the potential impacts of reciprocal trade relations on market access, tariff elimination, regional integration, investment, agriculture and culture preservation.

Market access

The concern of the majority of interviewed rural people on market access is that Zambia

is not as advanced as most EU countries in terms of technology, which places it at a disadvantage in producing and processing quality products for export. In this regard, the timeframes discussed for concluding the EPA negotiations should be extended until supply constraints are addressed and non-trade barriers such as rules of origin and standards are resolved. This would enable fair reciprocal trade relations between EU and ACP countries such as Zambia; for one of the main causes of the growing poverty in developing countries is unjust trade relations due to an uneven playing field.

The imbalances are seen especially in agriculture. While farmers are subsidized in developed countries those in poor countries like Zambia are not. Additionally, in spite of their comprising the majority of farmers in Zambia, small farmers are the most marginalized stakeholders and have no voice in these trade talks. Issues addressing internal capacity constraints and the possible surge of imports in a post-EPA environment are discussed in their absence.

Imported products are likely to be cheaper than local products, leading to poor farmers losing their markets. Opening up markets to EU products would therefore weaken small-scale farmers' production and also lead to a closure of manufacturing companies and undermine the development of small entrepreneurs.

² Sentiments expressed by Mr. Charles Simon Kabana of rural Luapula province of Zambia. Mr Kabanda is aged 55 years.

“The EPAs arrangements can be likened to staging a fight between a heavy weight and a light weight champion. It is of course common sense that the heavy weight would take advantage over the light weight. How do you expect an LDC like Zambia to compete with a developed nation? Our production capacity will be weakened.”³

“We need adequate time to prepare ourselves in terms of addressing our supply and standard constraints. My vegetables are not bought by Shoprite (South African supermarket chain) because the quality is low. How will I see myself transporting my products to Europe?”⁴

The impacts mentioned above could be avoided if commitments in relation to Article 39 of the CPA were implemented. The article clearly states that financial aid to overcome supply constraints would be addressed before the implementation of EPAs.

“We call on the developed countries to stop dumping products onto our markets. We are tired. When will I and my family be able to stand up and be proud to wear Zambian-made clothes produced from Zambian cotton? We are forced to wear second hand clothes as they tend to be cheaper than local made clothes. If EPAs are about dumping, we say NO!”

“As much as we appreciate diversification into cash crop production, it is sad to note that small farmers are affected by food insecurity as they have neglected production of food for consumption. The situation will be worse should EPAs be implemented because you do not expect people to eat tobacco or cotton.”⁵

Even though diversification into cash crops is an important factor in economic development, recent trends show that food security priorities have been undermined. It is also anticipated that opening up the market would lead to increased production in cash crop farming which might result in food insecurity as well as an additional workload for women who might be required to work on commercial farms.

In conclusion, the possible social and economic impacts of EPAs with regard to

market access would be: increased competition; dumping would undermine production and industrial growth; supply and standard constraints would undermine exports and increase food insecurity.

Investment

The majority of interviewed rural people were also of the view that once EPAs were implemented, all natural resources would deplete as EU member countries would rush for raw materials in Zambia and that it was likely that the local poor communities would not benefit from foreign investment at all. This had already been Zambia's experience during liberalization under Structural Adjustment Programs. Privatization in the mining sector led to massive job losses and a casualization of many employed with no pension schemes. It is also feared that locals would not be able to afford imported goods and services from Europe due to their low incomes. Finally, promotion of foreign investment under EPAs would undermine local industry development, especially among small and medium enterprises.

“We are already having problems in the timber sector with South Africa because they set up timber processing companies because they have better machinery than us. They buy our timber at cheap prices and process it into furniture and later open up furniture shops in Zambia with exorbitant prices. In addition to this employees in the timber sector are poorly paid despite high skills in timber processing. In most cases these furniture shops close after tax holiday have expired. This implies that foreign investments are not sustainable and do not contribute to poverty reduction. We therefore need assurance from the EC that sustainable foreign investment would be guaranteed under EPAs.”⁶

However, locals do also foresee minimal positive social and economic impacts of EPAs

³ Mr. Jackson Ndllovu – Mukuba Chamber of Commerce and Industry in the Copperbelt Province

⁴ Mr. Philemon Phiri, Eastern Province, aged 70 years

⁵ The Chairperson of Zambia Small Scale Farmers' Association

⁶ A participant from Luapula Province of Zambia

which include price reduction for some imported goods and improvements in the range of product choice, as imports would come from various producers in the North.

Elimination of tariffs and losses of revenue

Like most developing countries, Zambia is heavily dependent on import duty charges as a source of government revenue. The revenues collected provide funds for health, education and social services. The estimated revenue losses for Zambia as a consequence of the reduction and elimination of tariffs would lead to a withdrawal or reduction of social service delivery e.g. in education and health, which would mean an increase in poverty. This would imply that the poor would be unable to pay user fees for services.

It is also feared that Zambia would be faced with difficulties to come up with an alternative tax. Government would be faced with options to increase income tax levels which already are at 40%. Another tax option would involve an increase of VAT.

"I am scared and at the same time wondering whether the EC have a solution to revenue losses expected. I am sure there would be a need for investment in an alternative tax system, but the challenge is: who will finance the new system? I am struggling to pay user fees at the moment and if government withdraws completely we will have an economy only for the elite. The drop out level would be high; most people would die."⁷

Regional Integration

Being a landlocked country, Zambia has a number of neighbouring countries with which it collaborates, and it is part of both the SADC and the COMESA Agreements. These protocols strongly emphasize the need for regional trade and regional integration. However, it is sad to note that regional integration is in its infancy and EU regional integration in EPAs would undermine efforts in the SADC and COMESA processes. The impact is also expected to be felt by small farmers who are engaged in cross border trade with neighbouring countries such as Mozambique and the Democratic Republic of Congo.

"The Luapula province is well located as it borders with Congo DR, which has a high demand for Zambian products. But due to lack of customs officials at the border posts, statistics are not known of how much is being exported and no export permits are being issued. This is coupled with a lack of Zambia border presence and police posts to monitor illegal trade. If this area were well managed it could generate a lot of income as well as revenue for the government. In this regard, government should concentrate on regional trade before implementing EPAs."⁸

"How can we, at the moment, think of trading with the EU when we are not even organized at regional or domestic level? This is worse in the province due to the barter system trading. Traders come from the urban areas with second-hand clothes in exchange for our grains such as maize groundnuts as well as fish. The system is not fair to us small farmers because we lose in the end."⁹

The views of local people on regional integration are clear indications that EPAs will not lead to regional integration but to a distortion of trade in the region. It is feared that trade amongst countries in the region would be undermined by EU imports as they would be cheaper than local products.

Services

Liberalization of trade in services has also been included in EPA negotiations. This would have adverse effects on sensitive service sectors such as health, education, water, distribution and financial services. The liberalization of financial services would be especially dangerous for the poor. Most foreign commercial banks tend to neglect lower-class people and concentrate on richer clients; hence poor clients are excluded from saving and credit facilities. And liberalization of financial services might result in more liberal capital flows, which in turn might lead to foreign exchange instabilities and unexpected financial risks for Zambia. The effect of financial

⁷ Mr. Alfred Boamah, Zambia National Farmers Union. Copperbelt Province

⁸ Mrs. Joyce C. Mulango, aged 43. Luapula Province

⁹ Edward Chilufya Village industry services. Luapula province

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service liberalization would be that the poor would be unable to acquire loans to boost production capacity especially of small-scale farmers and small and medium enterprises. Small-scale farmers' production is limited by lack of farming inputs and equipment.

"We are already in a crisis. Lima Bank, which used to assist us before 1990, has been closed, and we are left with Zambia Commercial Bank, which has few branches in rural areas, and we hear it is under privatization as well. We need local banks like Lima Bank which used to give us loans for farming inputs. With EPAs, will banks come to rural Livingstone?"¹⁰

Women

Women constitute the majority of people active in agriculture. Women fear that EPAs will have adverse effects as it would be difficult

for them to acquire land and micro-finance. Despite being as productive as male-headed households, female-headed households cultivate significantly less area, receive only about half of the medium credit amount and also use significantly less fertilizer. In spite of controls for access to credit, imperfect labour markets make it difficult for female-headed households to secure the resources to undertake crop production of the same scale as their male colleagues.

In the peri-urban areas, women are the majority in the informal sector and responsible for feeding their families as most men are out of employment. In most cases, women do not own land and depend on their spouses. It is feared that EPAs would worsen the situation when foreign investors come as they would be allocated land and women would be left with nothing. It is also anticipated that women will be overburdened with work as they would be expected to venture into new agricultural activities as well as trading. This would imply



Woman with hoe - Photo: Sipiwe Sibeko

that women would have to work harder, have less time to spend within the household and on subsistence food production. This can have possible negative effects on child nutrition. Furthermore, women do not always

have control over income earned as it is believed that the man in the family has to make the decision on how to spend the money.

¹⁰ ebd.

„As a woman I would like to be assured that EPAs would bring about more opportunities for us women; we want to have better access to land and financial services to be more productive. As you know, we play a major role in looking after our families, and we are actively involved in cultivating. If these EPAs will not make us better off, then we say no to them.“¹¹

“Our women play a critical role in feeding their families nowadays, especially since most men are out of employment. They are the majority in the informal sector. They normally sell perishable goods such as vegetables on roadsides and markets earning about US 2 dollars profit a day. In this regard, we press for increased micro finance services for them to be more productive.”¹²

Preservation of Culture

Culture plays a critical role in economic development and gives dignity to people. With the coming of EPAs, the rural communities fear that there would be distortions in their cultural set-up, values and norms. This would be caused by massive imports of services and goods from the European Union. This could eventually lead to stopping the growing of traditional crops to meet EU market demands; consumption habits would change as well. Cassava is among Zambia's traditional

crops, but due to demands by the EU market for crops like carrots, green beans and baby maize, locals would not have the capacity to cultivate various traditional crops. The rural people also fear that the young generation would be lost and adapt to new western habits; hence traditions and customs would be weakened and perhaps erased.

“I will not be forced to grow carrots. I foresee a situation where I am forced to grow crops like carrots, green beans for the European market and in the process forget about cultivating traditional crops for my family, who will then starve.”¹³

Agriculture

Agriculture plays a significant role in economic development and food security. Zambia has always depended on copper mining, until in recent years Government declared agriculture the number one priority in its economic plans. Additionally, the majority of rural communities are predominantly involved in agriculture. They depend on farming for cash as well as for food.

EPAs would have adverse effects on agriculture. Especially small scale farmers will have to face stiff competition from subsidized EU agricultural imports. EPAs would also undermine the government's efforts to develop agriculture. This would lead to food insecurity as there would be a change from traditional crop production to cash crops in order to suit the EU market.

3. Conclusion and final recommendations

It can be concluded that EPA negotiations need to be pro-poor if fears raised by local people are to be addressed. If their concerns were taken care of, then trade could lead to poverty reduction.

According to the findings after discussions with different rural communities, it seems plausible that EPAs would definitely undermine local production both in manufacturing and agriculture, as it would be difficult to compete with EU products which tend to be of higher quality and cheaper. Services sectors, culture preservation, the financial sector, and agriculture are sectors important to the lives of the poor as highlighted in the sentiments

expressed. EPA negotiations have to take them seriously. Investment initiatives should therefore aim at promoting local investors.

Fears have been expressed that the reciprocal trade relations proposed in EPAs would lead to the EU exploiting Zambia's national resources. EPAs are likely to make Zambia perpetually dependent on exporting raw materials. Communities on the copperbelt fear that EPAs would not lead to a revamping of

¹¹ A woman in North Western Province

¹² Mr. Matthew Mulungu, Copperbelt Cooperative Union Limited. Copperbelt Province

¹³ Mr. Philemon Phiri, aged 70. Eastern Province

companies that were closed during SAPs but further exacerbate unemployment by a further closing of existing companies. The voices expressed clearly show that it is incorrect to assume that trade liberalization will automatically yield outcomes that are pro-poor, pro-jobs and pro-growth.

On the other hand, Zambia, being an LDC, is not obliged to negotiate EPAs because of the Everything But Arms Initiative (EBA). This could be an alternative for Zambia. However, EBA is not contractual and can be withdrawn by the EU at any time. Most ACP LDCs have not raised their exports despite the EBA initiative. However, as Zambia will not permanently remain an LDC the concern arises as to what would happen if it were left out in the current EPAs negotiations.

In this regard, the following recommendations are essential:

- Zambia underwent deep liberalization during the 90s, with severe effects especially on the poor in the country side. Therefore the Zambian government needs to avoid further liberalization. This would give space for poor small scale farmers and other sectors to adjust.
- The European Commission should live up to its commitment to promote development through trade. Equally, the World Bank and the IMF need to provide policy space for the Zambian Government to implement trade policies that are pro-poor and can lead to sustainable development.
- There is need to stop or to slow down the pace of the EPA negotiations so as to assess the direction and to create alternatives.

- There is need for a more detailed study of the impacts of economic and trade liberalization in Zambia especially on specific social and economic groups such as workers, farmers, women and youth.
- As financial services, investment policies and agriculture are sensitive sectors to the lives of the poor, they should not be part of a further liberalization agenda through EPAs.
- Trade agreements should be coherent with national poverty reduction strategies and national plans of ACP countries.
- Increased and effective international financial and technical assistance should be provided for developing domestic production and trade capacities. This has also been emphasized by UNCTAD's 2004 LDC Report "Linking International Trade with Poverty Reduction":

"Action is required now on three fronts: a two-way mainstreaming of both trade and development within national poverty reduction strategies; increased and effective international financial and technical assistance for developing domestic production and trade capacities; and an enabling international trade regime, which includes (i) phasing out by OECD countries of agricultural support measures that adversely affect LDCs, (ii) new international policies to reduce vulnerability to negative commodity price shocks and to address the special challenges facing mineral economies, (iii) more effective market access preferences for the LDCs complemented by new supply-side preferences, and (iv) enhanced South-South cooperation in the field of trade and investment."

Discussion

Evidence on the impact of liberalization

It was pointed out that in the negotiations, it was far from clear how much liberalization was required by an EPA. A discussion seemed to be going on between the Zambian Trade Department and the COMESA secretariat and civil society groups as well as inside these groupings to identify what products were vulnerable and what degree of scope the agricultural and non-agricultural sector would have in terms of protection. So far, COMESA has come up with a paper on which products should be safeguarded, but

the document has not been launched yet. The Zambian government has not taken any steps in this regard.

The Civil Society Forum Trade Network of Zambia has just finished its impact study, which included a study on some of the sensitive products. The study as well as the gender study done by APRODEV for Zimbabwe had fed into the VIA Project (Voices, Influence and Access Southern Africa) and have been handed to several ambassadors in Brussels, to DG Trade, DG Development, to other NGOs in the EU. There is often no consistency in the positions of different gov-

ernment ministries. For instance, in Zambia the Minister of Trade was opposed to EPA while the Minister of Finance favoured the approach. Thus, there was no coherence at national level.

Who to target and how to be successful?

Various speakers raised the question of how to organize campaigns and who to speak to. Even though there might be a high consensus between civil society actors, conflicts in the relations between Southern and Northern actors, such as the CAP reform, still remained. Nevertheless everybody considered it important to influence the decision-makers. The example of the Zambian Minister of Trade, Mr. Dipak Patel, was reported to have thought initially that the “Cotonou Agreement” was an agreement on “cotton” when he took office. Today, he is standing for a “No to EPAs” position. There was a pilot project planned in Zambia in January 2005 which attempted to reach the broad public through workshops in seven of the nine provinces. The general problem was still that most of the people were not aware of EPAs. The only group that was not opposed to EPAs were commercial farmers and, very often, foreign investors. It was pointed out that it was hard to convince these actors

of the negative consequences of the EPA trade liberalizations.

Regional Integration: Getting closer?

The European Commission considered EPA negotiations already a success as they were pushing African countries to decide to which regional organization they want to belong. The EU was using regional integration to defend claims that EPAs were bringing tangible results. On this position, much evidence had been found contradicting the EU’s argument. Zimbabwe, for instance, was negotiating within ESA, a regional grouping for negotiation comprising both SADC and COMESA members, but it had withdrawn neither from COMESA nor from the SADC. And it was still within the African Union (AU). None of the countries had withdrawn from any of their memberships in regional groupings, and none of them were choosing one permanent group for integration. Additionally, it had to be appreciated that some level of integration had already been attained within the SADC region, as another example. But with the introduction of EPAs, SADC as political integration unit is falling apart. Not only is it not negotiating EPAs as complete SADC, but the process is beginning to affect other political activities of SADC as well.



Cabbage harvest - Photo: Fanie Jason

IV From Reciprocity to Preference

Scenarios for Alternatives to EPAs

Francesco Rampa, Maastricht

EU and ACP officially both recognize that trade will not happen without accompanying measures and that there is a need to strengthen the production capacities of the ACP side. Peter Mandelson and the European Commission acknowledge that market liberalization alone is not enough. In Art. 37, the CPA sets out the procedures for EPA negotiations. In case there are any non-LDC countries that are not ready to enter into an EPA, the European Commission will have to provide a meaningful alternative that is at least equivalent to the current trade preferences. There is a lot of controversy on the exact interpretation of this article. The European Commission does not feel obliged to offer alternatives unless there is a non-LDC country requesting it. Providing a meaningful alternative for the ACP side means a moral obligation at the least. There is another mechanism that will be undertaken in 2006: a formal and comprehensive review of the arrangements planned for all countries (Art. 37.4).

Presently, at a crucial moment within the negotiations, various EPA impact assessments are being undertaken. NGOs are trying to involve civil society, the European Commission has paid for a number of regional impact studies and many ACP countries have been assisted with undertaking national studies.

But impact assessments based on quantitative methodologies can be very loose, and one has to be careful with definite statements derived from such assessments. One common observation arising from this is the massive revenue loss that causes pressure on regional integration. There is a high risk that even within the same region, different countries will have different interests in terms of tariff reduction. So the question arises how they can develop a regional position?

The development dimension of EPAs is the key focus in the negotiation process. ACP negotiators are criticizing that currently, there is no development dimension and DG Trade officials are refusing to recognize this. The June 2005 declaration of the ACP countries was very strong and detailed in highlighting this criticism. The relevance of the debate about alternatives is easily overlooked, but the debate is important. Looking at the WTO round, the current negotiations serve as a status quo. This is not helpful in the EPA negotiations because the existing ACP waiver is not legal and both parts are committed to change the status quo. For that reason the reference point negotiators should start talking about is an alternative in terms of a benchmark to measure EPA implications.

Alternatives to EPAs or Alternative EPAs?

Basically there are two options: the alternative to EPAs and the alternative EPAs. The current debate revolves largely around market access. The European Commission and public debate stress the importance of regional integration and WTO conformity. Another debate focuses on the interpretation of the term "substantially all trade" as defined by GATT Art. XXIV. In the case of the group of developing countries, this can be

an average of 90 percent of the tariff lines and products; if the arrangement is asymmetric this can mean 80 percent for ACP countries and full liberalization for the EU. This is what European Institutions are probably aiming at. But access to European Markets is not the key question. The Everything But Arms - initiative (EBA) still offers duty-free access for ACP LDCs to European Markets even if they don't sign an EPA.

EPA Market Access and reciprocity

- Current debate: ACP need to know more clearly what reciprocity might mean in practice (i.e. inclusions, exclusions, timetable, 'alternative arrangements' in 2006)

Recent research (i.e. IDS) suggests:

- Fundamental market opening is not inevitable;
- Differences in 'exclusion lists' will create problems for ACP regional integration;
- Trade-offs will be made (balancing revenue raising and protection roles of tariffs)
- Need for stimulating national debates, financial support by EU for adjustment

More important is the aspect of reciprocity. Research from the Institute for Development Studies (IDS) says that reciprocity can be cut but that much more has to be done at the national level (see annex). Regional secretariats like the Caribbean or COMESA do have good analytical capacities, but some national governments are still struggling. More has to be done through European development assistance. More assistance should be directed at the national levels to help governments assess what reciprocity really means. So far, it has largely been an ideological debate, and not much convincing data is available at national level.

Development is a key issue but DG Trade is not behaving properly. The development spending will be put in line with the implementation of EPAs through the regional (RIPs) and national indicative programs (NIPs), but there won't be negotiations on the European Development Fund itself. That is in the CPA, and DG Trade does not have the mandate to change anything here.

In terms of WTO compatibility, GATT Art. XXIV requires reciprocity and this is the

only reason why the Cotonou trade preferences are not legal. Talking about regional trade agreements first of all means looking at reciprocity. Focusing on preferences for developing countries means looking at WTO rules, the Enabling clause for developing countries in particular covering the Generalized System of Preferences (GSP) and the EBA for LDCs.

The definition of "substantially all trade" is the second element. There is a legal uncertainty on what this precisely means for trade liberalization of the two parties. In the EU, it is perceived to mean 90 percent of the total volume of bilateral trade involving elements of asymmetry. This is obviously affected by the balance of trade and level of protection. Other countries like Australia would like the definition to substantially include all tariff lines in a tariff schedule and liberalize the nominal tariff lines.

A third element regards the transition period. It is normally intended to be ten years, but it as a matter of fact, in some cases, it is extended to up to 15 or even 20 years and more.

Scenarios for alternative(s) (to) EPAs**1. EPAs with strong asymmetry**

EPA in the sense as DG Trade perceives it means on average 90 percent of liberalization (80 percent for ACP countries and 100 percent for the EU). This is the benchmark scenario against which other options need to be compared. Many ACP countries will need to protect more than 20 percent for various reasons like food security, employment, policy space or the protection of infant industry. Therefore, negotiations could aim at EPAs with stronger asymmetries liberalizing not more than 50 percent of ACP trade or try to negotiate tariff rates higher than zero at the end to keep a minimum level of protection.

2. EPAs with Special and Differential Treatment

Another scenario includes EPAs with a very strong element of Special and Differential Treatment (SDT): Sufficiently long transition periods, strong back-loading which means liberalizing only at a later date and special safeguards for certain sectors in order to have mechanisms to protect and strengthen some sectors e.g. in the case of import surges, massive disruption of the economy or increase in prizes could represent reasons to stop to liberalize further.

3. EPAs with development benchmarks

EPAs could be negotiated with development benchmarks (see Chapter VI). Liberalization will not take place according to a timetable, but the implementation of liberalization will depend on attaining certain development aims, for example the MDGs. Of course this is not WTO-compatible in the sense of Art. XXIV regarding the transitional period, but there are positive elements for discussion.



Woman working on the field - Photo: Fanie Jason

4. EPAs for ACP-non LDCs, EBAs for LDCs

Then there is an EPA option solely for non-LDC countries while keeping the EBA duty and quota free treatment for LDC countries. This option has serious implications at regional level and includes the danger of splitting the regions apart.

5. EPA Most Favoured Nation treatment

Another option, named after Bernard Hoekman at the World Bank, is an EPA based on the Most Favoured Nation principle (MFN). This option sets out from the idea that developing countries making an effort to liberalize should not only liberalize towards the EU but, at the same level of commitment, towards all countries to a uniform 10 percent tariff level in order to get the most efficient supply and therefore the best deal.

6. Country-specific EPAs

Country-specific EPAs are another option. They are flexible since each ACP country decides on the content and merit of its own EPA. But they are very costly at the level of negotiations and create immense challenges for regional integration.

7. EBA for all ACP

EBA could be extended to include all ACP countries. But what would then happen to the competitive advantages of LDCs if treated equally with non-LDCs? Levelling the differences between LDCs and non LDCs would clearly not be development friendly for the disadvantaged.

8. EBA for G90

EBA treatment for all members of the G90 (all African countries, the ACP countries and the LDCs), essentially the EU's "Round for Free" proposal for all poor WTO-member countries, would be another option. This would clearly strengthen multilateral solidarity and the cooperation of developing countries. But it remains unclear whether a round for free for the G90 would be compatible with the positions of China or Brazil.

9. EBA for all DCs

The option of EBA treatment for all developing countries does not explain how, for example, a country like Zimbabwe would compete with India or China. So it is not feasible either.

10. Extending the GSP to all ACP countries

The EU's Generalized System of Preferences (GSP) could be extended to all ACP countries by simply including them into the existing scheme for trade preferences the EU is granting to all developing countries (see report by Chris Stevens in annex). It is not clear whether this is WTO compatible. If it is, the GSP is unilaterally granted by the EU, it is not negotiated and thus can be withdrawn at any time. Probably, the most disadvantageous aspect of this option is that there isn't any development component at all. The EU would not have any obligations to discuss a development package. In addition, the LDCs already enjoy free market access to the EU which they wouldn't sacrifice. Finally, the GSP is not compatible with the CPA itself. As no country should be worse off in terms of existing preferences, the ACP still would face an increase in tariffs, which would mean adjustments in certain sectors and tariff lines.

11. GSP plus

Another possibility proposed by Chris Stevens is the GSP plus (see report by Chris Stevens in annex). The new GSP that the European Union has agreed upon has several new elements. Most notably, it was found to be WTO-compatible to distinguish between developing countries on the basis of objective and transparent criteria and additional development considerations. The problem that the old GSP has been facing is that it has been challenged by two non-favoured developing countries (India and Brazil), as the WTO only discriminates between LDCs and developing countries (DCs). Thus one could define ACP-specific indicators that could pass a possible dispute settlement process at the WTO.

This option also includes the perspective to renegotiate specific tariff lines and integrating and adjusting preferences to provide "Lomé equivalent" treatment for the ACP countries. This would be compatible with the provisions under Cotonou. In this case, the complete trade dimension can be taken out of EPAs, and the GSP plus can be reformed to cater for the interests of these very specific ACP countries and sectors. This would be WTO compatible since it falls under the Enabling clause. As a final step,

flanking developmental spending can be negotiated and the question of market access will be left out of EPAs - which is exactly the opposite of what the European Union is intending to do.

12. Status quo

Finally, parties could seek to maintain the status quo (Lomé type preferences) by requesting another waiver at the WTO. If EPA negotiations collapse, the Cotonou trade regime will end in 2007 unless there is a reform or another WTO waiver. For that case the EU and the ACP would have to convince the US, Canada, Japan and the G20 developing countries. This does not appear to be a politically realistic option either since it may be costly for both parts in terms of what they have to grant to other WTO parties in exchange. Additionally, there is the complex issue of the commodity protocols (bananas, veal and beef, sugar), and it is not certain how they are going to be dealt with as part of an EPA. Generally, the trend is that commodity protocols will be phased out.



Step by step - Photo: Paul Grendon

Discussing Alternatives

In the end, EPAs can take different forms, differing mainly at the level of reciprocity. Other arrangements for EPAs with no reciprocity could be another alternative, but non-reciprocal EPAs are currently not WTO-compatible and would require that EU and ACP change the WTO rules before 2008. Viewed realistically, this won't happen. Sequencing several aspects into one legal agreement is another way forward. For the first ten years, the ACP would only deal with regional integration and achieve full integration. After that,

the ACP could start liberalizing according to a predefined schedule accompanied by a developmental package. That is what ECDPM believes the ACP countries are thinking about: a continuum from non-reciprocity to reciprocity rather than alternatives.

Impact assessments of the different alternatives and empirical scenarios are now needed that look into the trade flows between the EU and ACP countries, the balance of trade and the macroeconomic impacts of the given imbalances, the impact on government revenues

and the aspect of regional integration. In this regard, is it realistic to expect a common offer, which means compromising within the region to come up with a common external tariff offer to the European Union? A serious empirical analysis of the regions is still required. Another concern under each of the possible scenarios is the development component. If the ACP countries are opting for a GSP non-reciprocal solution, there is the risk

that DG Trade will not attach the possibility of developmental measures. The risk of not having reciprocity is that while you receive trade preferences you reduce your market access and lose development packages that would address challenges to regional integration or address non-tariff barriers. Finally there may be a trade-off between reciprocity and regional integration. As they may be conflicting objectives, this needs to be further researched.

Dimensions of the 'Alternatives' Debate

The alternatives presented could be divided into groups according to several dimensions: whether or not the ACP countries would liberalize their markets, or whether one group would contain a strong element of Special and Differential treatment. As development levels between the EU and the ACP differ considerably, this could result in the EU giving a lot and the ACP very little. Then there is the question whether you focus exclusively on trade-related measures or on accompanying components such as non tariff barriers or development support as well. DG Trade strongly focuses EPA negotiations on the trade aspects and leaves development objectives to the Regional Preparatory Task Forces to be dealt with under the EU development cooperation programs. Civil society and researchers like Chris Stevens are suggesting just the opposite: Leave trade rules to the multi-lateral system and concentrate EPAs on the elements of a development package. Lastly,

there is a fracture on whether further differentiation according to the level of development should be introduced beyond the LDC versus non-LDC dichotomy and whether the concept of developing benchmarks would be helpful in this respect.

In other words, could an EPA be acceptable for the ACP, if

- there were sensitive products that could be excluded from liberalisation,
- the EDF were to compensate for the fiscal fallout and other revenue effects,
- countries could apply a special safeguard mechanism so that they could temporarily/ permanently exclude certain sectors,
- the transition period was 12, 15, 18 or 20 years and completely asymmetric vis-à-vis the EU,
- there was a binding commitment by the EU on a development aid package and development benchmarks?

What can be done specifically in the negotiations?

EPAs will need to comprise all three dimension of development in every single aspect: trade and trade-related rules, accompanying measures and policies and the improvement of support delivery of EDF resources. Europe could seek greater coherence and complementarity between the trade-related content of EPAs, the necessary accompanying and adjustment measures and the timely and effective delivery of support, for instance with a binding commitment that RPTF could be formally included in the EPA negotiations structure and have its role strengthened. Similarly, the EU could effectively fulfil its promises on development as a key objective of EPAs, notably by taking into consideration the most appropriate sequencing for the development objective.

Thirdly, the transparency and accountability of the EPA negotiations process could be strengthened, especially with regard to the integration of the development dimension. A new monitoring mechanism could be set in place – as has already been announced – that would include ACP and EU Member State representatives. It would guarantee that ACP development concerns are properly addressed in the context of EPA negotiations, possibly through the use of explicit development benchmarks. In the end, we will have to assess each of the possible options regarding their impacts on exports, adjustment costs and the nature of the aid package attached. This will be the basis for the ACP governments to concretely decide what to do with EPAs in the future.

Discussion

WTO compatibility and scenarios for reform

In the debate, it was recalled that the WTO compatibility was the prevailing argument used to argue for the signing of EPAs. But as it was uncertain when EPAs would be signed, it was equally unclear how the WTO rules on regional trade agreements would look like at that time. If ACP and EU were to put their forces together in the WTO, they might achieve a two thirds majority and change the rules of Art. XXIV. The latest proposal of the EU for the reform of Art. XXIV was very development-oriented in terms of allowing longer transitional periods and less than full reciprocity. But it came at the price of reopening negotiations and possibly tightening the Enabling Clause, i.e. tightening the rules regarding South-South agreements. And it was reported from unofficial sources that Art. XXIV reform could well result in less flexibility for developing countries.

Alternatives and power relations

The European Union had a very ambitious trade agenda and was trying to raise its profile internationally. The EPA negotiations had to be seen in the context of these wider international ambitions. While it was emphasized that there would not be enough time for negotiations on alternatives, the debate had to be opened now and the alternatives had to be spelled out in detail. Civil society should start to identify the view of the poor in the negotiations and not only call for a stop to EPAs.

Asymmetry was an important point in the discussion on alternatives. At the moment, the debate on the degree of asymmetry was stuck in the positions of reciprocity versus non-reciprocity. There might not be a reason for the G20 or other developing countries to challenge a future EU ACP agreement covering only 50 percent of trade and including a strong developmental aspect that would fall in line with the current dispute settlement rulings. This would require the maintaining of good interaction between development countries in the WTO, making the non-ACP countries aware of what the aims of the debate were. In this way, Bangladesh or India would not be offended by seeing that

an ACP-LDC was trying to strike a better deal than EBA.

The debate on alternatives should not be reduced to the technical level but should include discussions on political alternatives. But how far was the EU prepared to discuss alternatives? What the European Commission had in mind were comprehensive EPAs that had all the trade-related subjects in them to create a comprehensive enabling environment in ACP countries by creating economies of scale at the regional level. Following that EU conviction, this would attract investment and lift ACP countries out of poverty. Parallels could be found in development policy. There was great coherence on what the EU was doing in the WTO, the World Bank and the IMF with regard to debt, structural adjustment and EPAs. The ways to obtain this big package were debt relief, aid and trade. The fact that the waiver was expiring in 2007 was the lever for the EU to make ACP countries accept this comprehensive new package. Doing away with reciprocity, for instance through an enhanced GSP as proposed by civil society, would take away the leverage from the EU's hand to get this comprehensive liberalisation package realized.

Renewal of the ACP Waiver

Some held that the EU was very afraid of having to ask for another WTO waiver. Last time when the waiver was finally accepted in Doha the EU had to grant thousands of tons of tuna imports from Thailand, Indonesia and Philippines which caused small countries like Papua New Guinea many problems in terms of job losses and rising poverty levels. The cost of granting a new waiver was assumed to be substantial and therefore, it appeared to be out of the question for the EU.

NGO strategies for alternatives

It was critically observed that in the past, civil society might have focused too much on the market access implications while the comprehensive trade-related package of the EU would need to assume a central position in the further strategy. This would imply that as a basis for any political strategy, one had to accept that there was no political will on the part of the European Commission to investigate any alternative.

Taking into account the economic interests of the EU, alternative proposals should be cheap. The enhanced GSP was frequently proposed, but this would also give more market access to other developing countries thereby costing the EU a lot. The EU was not even willing to pay additional aid to the ACP countries either. If the political will on the part of the EU was there, several options would be feasible. But currently there was a deadlock for the discussion on alternatives. Still, the whole point about getting an alternative to EPAs was to change the political dimensions in Brussels.

Differences between EU member states

In the debate, the important role of the EU member states was emphasized. It was defended that not only the European Commission had to be blamed for a mandate that did not permit to change its approach radically as it was in the competence of Member States to do so. Clearly, Member States could take far more initiative, for example regarding the monitoring mechanism. The like-minded group around the UK government was concerned about the development outcomes of EPAs. They should voice their concern to the European Commission more forcefully.



Tobogganing without snow - Photo: Fanie Jason

V Development Benchmarks as Reference for EPAs and Alternative Trade Arrangements

Karin Ulmer, Brussels

The benchmark approach refers to the Cape Town Declaration of the EU/ACP Joint Parliamentary Assembly (see Annex) which was adopted in 2002. Benchmarks are an open tool for monitoring and assessment, calling for political accountability that can be measured. They suggest transparent processes and monitoring mechanisms, inclusion of *non state actors* and the ensuring of wider human and sustainable development objectives. Official declarations agree that EPAs should be tools for sustainable development, enhance the competitiveness of ACP economies, contribute to poverty eradication, recognize the principle of asymmetrical liberalization and contribute to structural transformation and financial assistance. The supply side constraints need to be addressed and public and domestic policies should promote equity, gender equality and economic opportunities for poor people. That is the consensus.

On the other hand, there is divergence. Will EPAs deliver by themselves by putting the right rules in place or is there a need for more comprehensive programs to address the supply-side-constraints? The developmental expectations remain formal and diverge from the needs, while the official goals stated diverge from the reality in EU policy.

The objective of Benchmarks is to establish consensus on the development dimension and provide ways how to assess the development impact of EPAs (APRODEV and ICTSD 2005). ICTSD states that the main challenge is to establish a positive link based on new trade rules between national and regional development and trade. Therefore, policy space for national development strategies has to be maintained. Closing areas of potential growth has to be avoided. This refers both to the Singapore issues and to economic opportunities in twenty years.

There should be sufficient space for these countries to shape their own policies. Reciprocity is a contagious issue as it may affect core strategies on development.

Benchmarking as a monitoring mechanism is a tool for capacity building for negotiators as well as for non-state actors within the EU and the ACP and aims to create consistency between different interests, for example between the Council, the European Commission, DG Trade and DG Development. It is a tool that goes beyond the clear divide between being in favour of and against EPAs. It should embrace parliamentarians, academics, non-state actors and negotiators. Politicians come and go, but the academics will stay and contribute to long-term processes. In their current state, the development benchmarks are an initial proposal including market access and fair trade, policy space, equity and competitiveness and the development resources, while regional integration is missing.

The concept foresees that the ACP regions will identify the benchmarks they need, and this framework only provides a broad description of the areas that would have to be addressed. Improving market access through the traditional ways is one angle and contains preferences, rules of origin or residual tariff barriers. It is necessary to promote commodities through their insertion in global value chains, antidumping measures, CAP reform and sanitary and phytosanitary standards. It is central to maintain the Lomé Aquis, which is based on non-reciprocity and duty-free access for all ACP countries. Additionally, adjustment costs and appropriate safeguard mechanisms must be provided. Sensitive products in national and regional forums have to be identified. The core theme is the asymmetrical liberalization and special and differential treatment (S&D) in trade and services.

The supply-side policies have to focus on diversification, creation of enterprise networks, innovative clusters and, finally, government procurement and investment rules favouring domestic enterprises and promoting technical transfer. The danger that trade rules could negatively affect the development course has to be surveyed closely, and areas of potential growth have to be identified to allow new and innovative actors to benefit from economic opportunities.

Development is based on long term strategies. First the development policies must be defined and then the tools designed. Equity and poverty reduction do not have to be tackled by aid; trade and development strategies can be designed that ensure efficiency and growth. Regional integration has to be added. It is important to understand that there will be difficulties to engage in regional integration when negotiations with a third party are in progress. Regional integration first needs to consolidate its markets before being pushed into commitments with the EU. The benchmarks do not contain fixed

objectives but serve a tool to frequently assess progress in the negotiations as an ongoing monitoring exercise.

In June 2005, the ACP council declared an interest in establishing benchmarks, and DG Trade responded rather positively, as well. In phase three of the negotiations, the focus has to be on not losing the developmental objectives in the technical debates, obliging



Woman carrying kettle - Photo: Fanie Jason

the EU Council to take responsibility at the moment of the review at the latest. Concrete input has to be introduced in the preparation. APRODEV hopes it will be an opportunity to get back on a developmental track.

Dicussion

In the discussion, doubts came up about the benchmark concept:

- 1) The multitude of benchmarks could lead to confusion and a loss of the developmental content.
- 2) It remained unclear what development was about.
- 3) The model ignored the serious divergence in interests and power differences between the negotiators. Given past experience with the TDCA process, this appeared to be unrealistic.

- 4) Value-free concepts did not exist, and benchmarks were not value-free either. In their current form they could be used for divergent aims.
- 5) It was not clear that those to set the criteria for benchmarks would be chosen in a democratic manner.

In defence, it was outlined that it was not the role of APRODEV or others to define development but to prove that EPAs were delivering the objectives of the CPA.

Monitoring

It was proposed to present the paper in the RPTF because DG Trade had agreed to discuss development goals there and there were reports made that Mandelson had announced

a new mechanism on EPAs monitoring. The benchmark concept should serve to oblige the Commission to go for a developmental course.

VI Panel Discussion

Free Trade as a Means of Poverty Eradication? Economic Partnership Agreements and Political Alternatives¹³

Viewed from an ACP perspective, at the end of the last decade, the ACP countries and the EU concluded the CPA which required the negotiation of EPAs whose main objective was to promote the development of these countries and eradicate poverty. ACP countries supported EPAs because EPAs were meant to be about development. So there was no issue over EPAs as such. EPAs were supposed to contribute to growth and devel-

opment of ACP countries. Still, certain questions arose as to the process and the course the negotiations were taking. There was consensus that EPAs had to make a positive contribution to development in the ACPs. However, in the negotiations on EPAs, almost unwittingly, there was an artificial distinction between trade and development - to the great detriment of the ACPs.

An ACP government perspective on EPAs

Voices from the ACP group underlined the fundamental problem that ACP countries were currently not producing the range of goods and services on a competitive basis that would permit them to participate in the multilateral trading system on a viable and a sustainable basis. The purpose of the EPAs was to help them overcome, firstly, their inability to produce competitively, but secondly, and of equal importance, to strengthen their ability to access the overseas markets in a sustainable way. The ACP countries needed to analyze why preferences were important because there were still many preferential arrangements in the world. If access to foreign markets on a preferential base was not important, why would so many countries want to keep their preferences? And why was it that the Commission would accept ACP countries to make concessions in order to secure preferences? That was what EPA negotiations were about. Basically, EPAs were a trading arrangement. In an exceedingly cynical but rather true analysis in a recent article in the *Guardian* by Commissioner Mandelson, the question was raised as to the European Commission's true motivation. It was an absurdity to believe that the ACP would develop as if

it was following the model of integration in the European Union. The Central African Republic was not Austria and never would be. The difficulties faced in the Pacific had nothing to do with the experiences of Europe. These policy suggestions were flawed anyway. But even if they were to work, this was not what EPAs were about. As Mandelson himself said, as he was not seeking any benefit for Europe, why would ACP countries have to pay for this advice through reciprocity? Why not give it for free instead? After all, it was only the advice that if one wanted to develop, one opened up one's markets, one removed tariffs on imports, one removed restrictions and one integrated with one's neighbours in the way that Europeans had done over the past 50 years, and in a very short time one would be developed. If that was what the Commission had in mind, EPAs would not be needed. On the other hand, the Commission's concept of development seemed to be to provide fund-

¹³ Summary of arguments presented by Angela Mulenga (Civil Society Trade Network of Zambia), Tendai Makwavarara (Mananga Training Center, Swaziland), Ivin Lombardt (One World Action, Namibia), Alexis Valqui (Ministry for Economic Cooperation and Development (BMZ), Germany) and from the ACP group.

ing. Funding was central to addressing the supply-side weakness to produce goods and services to export. External funding was an essential part of the process of enabling ACP countries to be more competitive. But again, this could not be the purpose of EPAs. If the European Commission considered that what the ACP needed was money, it could just provide the ACP with the necessary funds,

Still, ACP countries had decided to negotiate EPAs. Any new trade agreement was supposed to facilitate the trade of ACP countries and to ensure that the ACP countries would be able to participate in the multilateral trading system. Eventually, this was what the EPA must be judged on: whether it would improve the conditions of the ACP countries for participation in international trade.

Searching for the true meaning of development was often used to evade addressing the real issues as there was quite a clear understanding of what development was. Development was, first and foremost, about improving the ability of ACP economies to produce in order to enhance the wellbeing of the population. So any new arrangement needed to be judged in terms of what it did to help the populations, particularly to help the poor people in ACP countries.

One of the concerns from an ACP perspective consisted of the fact that civil society groups and ACP governments had moved apart. It was essential for an effective assistance to the ACPs that civil society find some ways of working more closely with the ACP governments. Certainly, there were several problems within individual countries where there might not be the proper channels between the civil society and the governments and there might even be more serious problems at regional level, where some of the regional organizations had negotiated more or less in isolation. But unless civil society suggestions were integrated into the negotiation process, they would not make a meaningful contribution. A lot of the work done by civil society in the context of the Stop EPA campaign had been excellent because it had raised awareness on EPAs within a wider public. But more importantly, both within the EU member governments and many ACP governments, it raised awareness of the incoherence between the objectives enshrined in the 2000 CPA and the current negotiating process. Now that civil society had achieved this, it was most important that it also contributed to concrete solutions for the negotiations.

The German Government's view

The German Federal Ministry for Economic Cooperation and Development held that EPAs were an important development instrument because they were holistic, connecting trade and developmental tools, and thus contributed to their coherence. Additionally, in contrast to the unilaterally accorded EU trade preferences, they contained a cooperative element. Although EPA negotiations were undertaken between a strong and an as yet weaker partner, they were negotiations between partners. EPAs were supporting the ACP countries' efforts towards further integration in the world economy. The German government was concerned how ACP trade policy needed to be shaped to maximize their developmental impact and minimize their risks. The first priority was to reinvigorate regional integration efforts. For the first time, EPA negotiations were bringing technical experts of ACP countries together to identify their needs and articulate their problems. This was not to negate that e.g. in Southern Africa the EPA constellation was not designed

to support regional integration efforts. EPAs aimed at improving market access not only by lowering tariff barriers but also by improving supply side constraints and by helping ACP countries to meet European standards.

EPAs had to comply with WTO rules, so that reciprocity was necessary, the German government underlined. Still, within EPAs, asymmetrical trade relations were possible including long transition periods, exemptions of sensitive products and monitoring of the liberalization process. Reciprocity set a positive impulse resulting from further trade liberalization. Negotiating parties now needed to identify which *sectors* had to be opened so that investments, technology and know-how would flow into ACP countries and which sectors needed to be protected against threats to food security or rural development. Europe was aware of the crucial importance of agricultural products for the ACP countries. But the CPA also included other trade-related subjects such as investment, competition, trade facilitation and so forth. High costs and

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lack of security were a hindrance preventing investments to flow to Africa and rather encouraged them to move to Asia and Eastern European Countries. Therefore, conditions for an investment-friendly climate needed to be considered in EPAs as well.

Within the discussion on alternatives to EPAs one needed not only to focus on market access but also on the questions of regional in-

tegration, supporting ACP countries in overcoming their supply-side constraints and the other trade-related themes. The Caribbean, for example, was in favour of a framework agreement on services in order to compete with its pharmaceuticals and other services in the European market. This was raising challenges for European consumers and industries as well.



Farmer with cabbage - Photo: Siphiwe Sibeko



Mending the fence - Photo: Sipiwe Sibeko

A central pillar of EPAs was developmental cooperation. And surely there was room for improvement, mainly concerning the pace of implementation of EU aid. After all, this was a positive contribution to the conditions under which trade liberalization would lead to developmental outcomes. The German

Ministry was aware of a certain need of directing the implementation of EU aid and was therefore supporting the idea of a monitoring system for EPA negotiations. There was broad consensus amongst partners on the developmental character of EPAs but not on what this exactly meant.

The civil society perspective

It had been generally accepted by civil society that ACP governments signed up to EPA negotiations because they saw them as an opportunity to foster development objectives. On the other hand, they recognized unequal power relations between the negotiating parties and pointed out the fact that some of the ACP countries were participating because there was a strong link with their economic dependency on the EU. In the EPA process, ACP countries were negotiating with their backs to the wall, being faced with the choice of signing an EPA in its current form or losing remaining trade preferences. The CPA included a couple of provisions that might provide a way out of this dilemma. Partners agreed that no ACP state should be worse off as a result of negotiations even if it did not enter into an EPA. There had to be

a review process. The EU was supposed to offer an equivalent alternative to those non-LDCs not in a position to conclude an EPA. In the discussions it was stressed that viable alternatives needed to be put on the table as soon as possible.

Still, comments from civil society questioned the willingness of the European Commission to listen to what ACP countries wanted out of the negotiations. There should not be any illusion on this point as in 2005, the ACP had negotiated in the first five-year review of the CPA with the European Union, which refused some themes of importance to the ACP in the revised CPA. At a crucial moment shortly before the agreement was to be signed, the European Commission forced the ACP side to an agreement by threatening to review existing trade preferences.

Regional integration

Although adverse effects on regional integration had generally been accepted and were shared by the German government so far, there was no strategy on how to bring regional integration efforts back on track. The German government had commissioned a study to develop concrete proposals on how to solve the dilemma that Southern African countries were facing with their current negotiating configuration.

Regional governments and the European Commission had addressed questions of barriers to trade in the various regions and were looking into the possibilities that EPAs provided to further strengthen regional markets. It was noted that EPAs might result in considerable disruption of domestic and regional markets because of trade diversion effects in goods and services from Europe and other countries that would become competitive because of lowered import restrictions. Several regions, among them the Caribbean and Southern and Eastern African countries, had expressed their doubts on the EU vision for regional integration as foreseen in the current EPA negotiating configurations.

Supply-side constraints

Supply-side constraints were identified as one issue of concern for ACP countries that could not only be tackled by additional funding. Possibilities to raise the value addition of ACP commodities and the level of competitiveness of these products on the EU market had to be taken into account. Key to overcoming supply-side constraints was targeted support for ACP countries to fulfil the norms and standards set by European authorities to enter the EU market. In order to achieve this, technical assistance had an important role. During the negotiations, it was up to the Regional Preparatory Task Forces (RPTF) to elaborate a support agenda in which these problems and possible solutions needed to be defined.

The meaning of partnership

With regard to the much-cited notion of partnership enshrined in the CPA, one had to be aware that due to the level of development assistance, the ACP depended on the EU much more than vice versa. Thus the fact that negotiations were showing a strong imbalance

in the capacity of the two sides needed to be kept in mind. This imbalance could not simply be compensated by technical assistance because it was deeply rooted in economic and political power relations between the ACP and the EU. Thus negotiations should be built on the age-old notion expressed by Aristotle in his *Nicomachean Ethics* that reciprocity between unequals cannot be just.

The free trade paradigm

In economic theory, free trade resulted in full freedom of movement of all of the production factors. In the real world, however, it was unlikely that the political will would be there to liberalize the free movement of labour between the developed and the developing world. Liberalization experience of developing countries during the past two decades underscored that market opening by a country not producing competitively would result in severe economic losses. Thus there was strong concern that free trade relations with the EU would lead to distortions of the ACP economies. Trade diversion effects would result as a consequence of the removal of import duties on goods from the EU but not on imports from the region or third countries.

Looking at the case of the Solomon Islands, the threat of trade diversion became clearer. The Solomon Islands applied import duties of 45 percent on imported cars. As a consequence of an EPA between the EU and the Pacific, European cars would enter the country duty-free. So there would be a diversion of imports from Japan, which was supposed to be the most efficient source of supply. The costs of trade diversion were considerable. The EU would have to make a substantial contribution in other areas in order to compensate for this. Meanwhile, the ACP countries did not have the range of goods and services to supply to the EU. Investments needed to strengthen production levels and supply of services would not come overnight. So as a net effect of EPAS, there would be diversion of trade in favour of the EU with little additional benefit for the ACP.

In September 2005, African countries assembled in Nairobi to examine potential effects of EPAs for the ACP regions. As a result of further market openings, the EU would win about 1.5 billion euros worth of trade in each of the regions. ACP countries would lose 250 million euros worth of trade, mainly due to trade diversion effects. Regional trade

would suffer e.g. in Eastern Africa as countries like Kenya would lose some of their share on the regional market to the EU. Also, interregional trade between Western Africa and Central Africa would decrease because of increased imports from the EU. As a consequence, government revenues would fall.

Macroeconomic studies praised the positive effects on consumer's welfare due to the import of cheaper products. They largely failed to address the adverse effects of liberalization policies on the employment and income base resulting in a serious lack of purchasing power in ACP countries.

Alternatives and the 2006 review process

The lack of discussions on alternatives to EPAs was not explained by the fact that WTO compatibility had been treated as a static concept but not a moving target. A closer look at the CPA revealed that it proposed that the two parties would jointly defend whatever agreement they negotiated in the WTO. Thus WTO rules should not be perceived as cast in stone but as something the EU and ACP had jointly committed themselves to improve. The review process on the progress of EPA negotiations scheduled so far for the second half

of 2006 would fall under the Finish EU presidency.

The German government still needed to develop a position on how this process should be structured. However, it remained confident that the European Commission would install a monitoring system for EPAs as announced by Peter Mandelson. The German BMZ might develop its own proposal. More broadly, the German government was developing an EPA position paper which had been delayed due to the changing positions in the new government.

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Cape Town Declaration on the forthcoming ACP-EU Negotiations with a View to New Trading Arrangements¹

ACP-EU Joint Parliamentary Assembly

I. Preamble

- A. The purpose of this Declaration is to establish developmental benchmarks against which to assess the conduct and outcome of the forthcoming ACP-EU trade negotiations mandated under the CPA to begin in September 2002.
- B. This initiative is undertaken in recognition of the importance of engaging all those bodies in the ACP and EU concerned with the promotion of sustainable development which focuses on poverty reduction, in the debates and discussions around future ACP-EU trade relations.
- C. The Declaration gives consideration to: the main objectives which should determine the conduct and outcome of the negotiations; the principles which should inform the negotiations; the major issues which will need to be addressed within the process of negotiations; and the approach which should be adopted to the forthcoming process of ACP-EU negotiations.
- D. The Declaration seeks to stimulate debate and discussion on the wider development concerns which will need to be addressed if any future ACP-EU development, economic co-operation and trade arrangements are to promote poverty-focussed forms of sustainable development, in the diverse realities facing ACP countries.
- E. The Declaration seeks to support the open and transparent conduct of trade negotiations in ways which are coherent with the objectives of the Cotonou Agreement and the development policies of ACP states, taking into account the regional integration processes and programmes under way within the ACP.

II. Objectives

- 1. The principal objective of any future ACP-EU development, economic cooperation and trade arrangements should be to promote sustainable forms of development which assist in reducing poverty in ACP economies. 1 Adopted by the ACP-EU Joint Parliamentary Assembly on 21 March 2002 in Cape Town (South Africa) 2/6 APP/3382
- 2. The aim of any future ACP-EU development, economic co-operation and trade arrangements should be to contribute to the structural transformation of the economies of ACP States, as well as the basis of the integration of ACP countries into the world economy.
- 3. Any future ACP-EU development, economic co-operation and trade arrangements should support and promote the structural transformation of ACP economies, so that their production structures shift away from goods with low demand growth and stagnant or declining price trends towards the production of goods and services with higher demand growth and favourable price trends.

¹ AKP / EU (2002) Cape Town Declaration on the Forthcoming ACP-EU Negotiations with a View to New Trading Arrangements. ACP-EU Joint Parliamentary Assembly (ACP-EU 3382/02/fin), Cape Town, 21. March 2002.

4. Any future ACP-EU development, economic co-operation and trade arrangements should support and promote increased levels of local value added processing in ACP countries of products for domestic, regional and international markets.
5. Any future ACP-EU development, economic co-operation and trade arrangements should be structured in such a way as to reduce gender gaps in access to economic resources, opportunities and outcomes.

III. Principles

1. Any future ACP-EU development, economic co-operation and trade arrangements should ensure that no ACP country is left worse off in terms of conditions of access to the EU market than under the current trade arrangements. This should apply both to the tariffs and the taking into account of rules of origin.
2. Any future ACP-EU development, economic co-operation and trade arrangements should ensure full respect for the rights of least developed countries to non-reciprocal trade preferences.
3. Any future ACP-EU development, economic co-operation and trade arrangements should seek to comprehensively address the needs of small island and single-commodity-dependent economies and should seek to ensure that they are not disadvantaged by the introduction of any WTO-compatible trade arrangements.

Market Access

4. Any future ACP-EU development, economic co-operation and trade arrangements should endeavour to substantively improve the real market access opportunities enjoyed by ACP exporters.
5. Where no major disruption to the functioning of EU markets can be demonstrated the EU should remove all remaining residual tariff and market access restrictions currently placed on ACP exports in those areas where ACP countries have an immediate or potential production and export interest.
6. While respecting underlying EU concerns with regard to third-country abuse of preferential trading arrangements, the application of the arrangements for rules of origin should be examined so as to encourage new investment in ACP countries. 3/6 APP/3382
7. While respecting EU concerns over food safety and animal disease control, regulatory measures should be established and implemented in ways which minimise the extra economic costs placed on small-scale ACP producers and exporters.
8. Upon the request of ACP governments, the EU should initiate consultations on the application of sanitary and phytosanitary standards and other regulations, which act as an impediment to ACP exports, with a view to facilitating exports from ACP countries, whilst respecting underlying EU concerns.

Addressing Supply-Side Constraints

9. Any future ACP-EU development, economic co-operation and trade arrangements should seek to comprehensively address the various supply side constraints which diverse ACP countries face on the competitive production of internationally traded goods and service.
10. If future ACP-EU development, economic co-operation and trade arrangements are to facilitate the structural transformation of ACP economies, then they must be accompanied by co-ordinated and integrated programmes to address the major supply-side constraints which inhibit the competitive production of internationally traded goods and services in ACP countries.
11. This calls for the establishment of co-ordinated and integrated country specific programmes of assistance to address supply-side constraints, which reach beyond the current instruments and approaches applied under existing ACP-EU cooperation arrangements.

12. This calls for a systematic review of the successes and failures of existing programmes intended to address supply-side constraints, with a view to ascertaining the effectiveness of various types of interventions under different circumstances.
13. This calls for a review of existing institutional arrangements for extending assistance to addressing supply-side constraints, so as to determine which institutional delivery mechanisms have proved most effective.
14. In many ACP countries women face particular problems in accessing the economic resources essential for their effective participation in a liberalised trading environment.
15. This calls for the establishment of programmes designed to address supply-side constraints which are gender-sensitive and seek to systematically improve access of women to economic resources.
16. While addressing supply-side constraints, account will have to be taken of the effects of the introduction of any reciprocity in trade relations with the EU on infant industries in ACP countries, so as to avoid the closing-off of areas of potential growth and structural development. 4/6 APP/3382
17. Consideration must be given to extending assistance with the structural adjustments which will be necessary in ACP countries to meet the increased competitive challenge from the EU under any moves towards free trade.
18. Additional assistance will also be required to enhance the human and institutional capacities of ACP countries to deal with trade-related issues, through the provision of secure and predictable financial and technical assistance.

The Fiscal Dimension

19. Any future ACP-EU development, economic co-operation and trade arrangements which involve the introduction of reciprocal preferential trade arrangements will have implications for ACP government revenues.
20. These fiscal effects will vary greatly from ACP country to ACP country depending on the importance of the EU as a source of imports; the structure of imports and current tariff levels; and the importance of customs duties within overall government revenues. In certain ACP countries the fiscal implications of the introduction of free trade with the EU will have a significant impact on total government revenues.
21. It needs to be recognised that the government revenue implications of programme of tariff reductions and programmes for the elimination of tariffs are quite different, with the latter inevitably leading to a decline in customs revenue.
22. Any future ACP-EU development, economic co-operation and trade arrangements involving the introduction of reciprocal preferential trade arrangements should make provision for the extension of assistance with fiscal adjustments in ACP countries.
23. Such assistance should include, as appropriate: a) identifying expenditures of greatest importance to the poor and women with a view to insulating these areas of expenditure from budget cuts; b) support for revenue incidence analysis to identify the impact of new revenue measures on the poor and women; c) the extension of budgetary support where necessary and appropriate; d) support for training of ACP States personnel in cost-effective forms of alternative revenue collection; e) support for institutional reform of government revenue collection.

External Effects of the Common Agricultural Policy 5/6 APP/3382

24. Any future ACP-EU development, economic co-operation and trade arrangements should recognise that current programmes of reform of the common agricultural policy designed to enhance the price competitiveness of EU agricultural production have diverse implications for ACP countries. This calls for comprehensive assessments of the likely implications of the on-going process of reform of the common agricultural policy for diverse ACP countries.

25. Where the external effects of reform of the common agricultural policy impinge upon the essential trading interests of ACP countries, consultative mechanisms should be established so as to minimise the negative effects of reform on ACP economies.
26. Future ACP-EU development, economic co-operation and trade arrangements should be designed in ways which fully take into account the impact of the internal process of reform of the common agricultural policy on ACP countries and seek to minimise adverse effects on the development of agro-based value added processing activities in ACP countries.

IV. Approach to be Adopted

1. Any process of ACP-EU negotiations on future development, economic cooperation and trade arrangements needs to recognise the discrepancies in the human and institutional capacity for negotiations which exist between the partners.
2. Smaller ACP countries face particular problems in dealing in parallel with trade negotiations at the regional, multilateral and inter-regional levels. This calls for a careful structuring of the negotiating process, so as to clearly identify and systematically address the issues of major concern to ACP countries within realistic and clearly defined time frames.
3. Wherever possible, the process of negotiations should be structured in ways which allow the collective expertise of the ACP Group to be brought to bear on the major issues of concern.
4. In the context of the human and institutional constraints facing many ACP countries it is necessary to bring all concerned stakeholders into trade policy debates, so as to ensure that a clear assessment can be made of the likely impact of specific trade measures on economic operators in ACP countries.
5. The process of negotiations should be open and transparent with concerned stakeholders throughout the ACP having access to all relevant information and data. This calls for both parties to the negotiations to make a commitment to open, transparent and inclusive processes of trade negotiations.
6. The Joint Parliamentary Assembly will seek to establish appropriate mechanisms for ongoing monitoring of ACP-EU trade negotiations with a view to promoting an open, transparent and inclusive process of trade negotiations, geared towards ensuring that future ACP-EU development, 6/6 APP/3382 economic co-operation and trade arrangements lay the basis for sustainable development which focuses on reducing poverty, involving the structural transformation of the basis for the integration of ACP economies into the world economy.
7. For this purpose, the ACP-EU Joint Parliamentary Assembly supports the initiatives of the European Parliament to establish a worldwide WTO Parliamentary Assembly.

Creating a Development Friendly EU Trade Policy

Christopher Stevens, Institute of Development Studies

The EU has literally dozens of agreements governing trade with developing countries, which often overlap.¹ The differentiation between these agreements does not correspond to varying development needs: richer countries are frequently treated better than poorer ones. It has been described for over two decades as a 'pyramid of privilege' and, more recently, has become a source of controversy in the WTO. The most recent WTO dispute was brought by India in 2002, upon which a judgement was reached in 2004.

This Briefing Paper uses recent IDS research² to explain the type of change required to make EU trade policy more coherent for development and less contentious for the WTO. It outlines the steps that should be taken in 2005 and 2006, and the preparations needed to underpin support for a fundamental change in 2008 (Box 1). It argues that the effective integration of the African, Caribbean and Pacific (ACP) countries in the Generalised System of Preferences (GSP) would represent a substantial step towards creating a single, coherent framework for development trade policy.

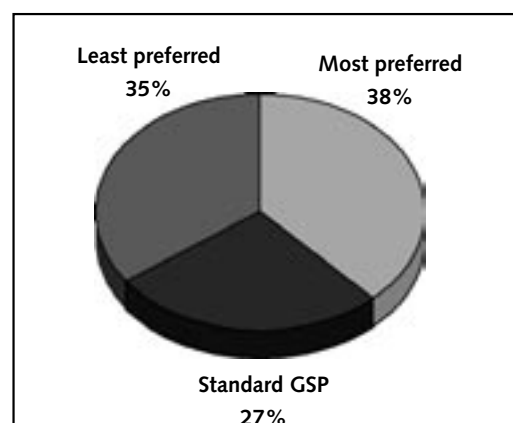
Levelling the 'pyramid of privilege'

The EU's trade partners fall into three broad categories:

1. The most preferred – that benefit from a trade agreement that is superior to the standard GSP.³
2. The middle group – that are party to the standard GSP but to no other regime.
3. The least preferred - mainly industrialised countries that trade on the so-called 'mostfavoured-nation' (MFN) terms.⁴

The regime is now less of a pyramid, more an hour glass. The number of 'most preferred' has grown, as has their share of EU imports. Of the three groups, it is now the middle one that accounts for the smallest share of EU imports (see Figure 1).

Figure 1. Share in total EU import value, 2002 ²



Source: UNCTAD

Box 1. Key dates

The next opportunity for change is a commitment made by the EU that in 2006 it will 'assess the situation' of nonleast developed ACP states that decide 'they are not in a position' to enter Economic Partnership Agreements (EPAs) in order 'to provide these countries with a new framework for trade which is equivalent to their situation and in conformity with WTO rules'.⁵

There will be a further opportunity to change the GSP in 2008. Whilst the new GSP is scheduled to last until 2015, a detailed implementation regime has only been provided until 2008. This is also the year that any 'new framework' with the ACP would begin.

The GSP straddles the top two groups as it provides an umbrella for different tranches. There are special, more favourable, tranches not only for the least developed countries (LDCs), but also for countries fighting illicit narcotics and those with favourable social and environmental policies. These states fall into the 'most preferred' group. The standard GSP applies to the rest which are favoured by the EU when they compete with members of the third group, but disfavoured when competition is with a member of the first.

The GSP as an umbrella

It is this differentiation that causes the WTO disputes. The case with India demonstrates the need and provides the possibility for the EU's multifarious schemes to be integrated developmentally under the GSP umbrella. The ruling of the WTO Appellate Body has confirmed that:

- The EU's existing preferences within the GSP (apart from those for LDCs) are illegal, but
- differentiation within the GSP is acceptable provided
- it is related to objective and internationally accepted differences in developing country circumstance.

A renewed GSP is due to come into effect on 1 April 2005. The renewal process provided a key opportunity to implement change, an opportunity that was missed by the Commission. But there are two further pegs for action (Box 1).

How far would the GSP need to be changed to become a viable trade umbrella? Although the new GSP contains only two major innovations (see Box 2) the creation of GSP+ could be important:

Neither of the innovations by itself will have a direct and systematic effect of altering the impact of EU trade policy in favour of poorer and vulnerable countries as opposed to richer ones. The incidence of graduation does not unambiguously favour poor countries over rich countries across the board. For example, under the new formula, Algeria is graduated out of the GSP for mineral products for the first time, but Kuwait, Libya, Russia and Saudi Arabia are reintegrated. Nor does GSP+ necessarily favour poor countries: Kuwait may be eligible for GSP+ although it has a per capita income almost forty times that of Pakistan and Vietnam, which are ruled out from the start.⁶

Box 2. What's in the new GSP

Though billed as a fundamental review, these latest reforms to the GSP pale in comparison with those introduced in the last 'mid-term review' of 2001. The two major innovations are:

- A special trade regime, to be known as GSP+, that will be available to many developing countries (but not all of the poorest) and provide improved access to the EU (but not as good as is available to LDCs under 'Everything but Arms' – EBA).⁷
- A revised graduation mechanism under which preferences are withdrawn for a particular group of products once a country accounts for a pre-set share of EU imports from developing countries.

In addition, around 250 items have been added to the list of products for which standard GSP preferences are available. Just under two-thirds of these are fish and fisheries products, with the remainder being mainly fresh or processed fruits and vegetables. The new products account for about one percent of EU imports from the countries for which the extension will represent a change to the status quo.⁸ The main beneficiaries seem likely to be Argentina, China, Ecuador, Russia and Thailand.

The new GSP+

So further change is needed, but what? This section describes GSP+, the next how it would need to be changed.

The new GSP+ regime will replace two very different types of arrangement.

- Deep but geographically restricted preferences under the special anti-narcotics regime that provided substantial additional preferences to nominated countries. They have been well used by the beneficiaries.
- Shallow but geographically unrestricted preferences under the special regimes for protection of labour rights and the environment, that provided modest additional preferences and have not been much used. Only two countries (Moldova and Sri Lanka) currently benefit under the former, and none under the latter.

GSP+ will be both deep and potentially wide geographically. It offers substantially improved preferences over the standard GSP, and covers a broader range of products.⁷

The development effect of the new regime will be heavily determined by the number of countries that apply and are accepted. Not all developing countries are eligible. A basic requirement is for a country to ratify and implement effectively 16 core human and labour rights UN/ILO Conventions and at least seven (of 11) conventions related to environment and governance principles.

In addition, countries must satisfy 'vulnerability' rules related to the value of their exports. A country is considered vulnerable only if it meets both of two criteria:⁹ a diversification criterion and a smallness criterion. These criteria do not relate directly to level of development. Larger countries and those with a broader spread of exports are more liable to fail the vulnerability test, even though they may be very poor. IDS research suggests that 21 states fail, including all of the tsunami-affected states other than Sri Lanka. Three of the excluded states – India, Pakistan and Vietnam – are classified by the World Bank as low income. Five states that are eligible have per capita GNI higher than all of the excluded states.

Will the eligible states apply or will GSP+ lie on the shelf like the environmental and labour regimes that it supersedes? Two possible (linked) reasons for the low take-up of the old schemes are, first, countries have been unwilling to accept the conditions which are considered contentious in the WTO especially, second, when the gains from so doing are modest. Since the GSP+ benefits are far from modest the take-up may be higher.

The take-up rate is vital because GSP+ will produce three different types of effect, the balance between which will depend partly on the number and type of countries that are covered. They are:

- Trade creation. The number of countries and products facing no tariff barriers in the EU would increase, resulting in more trade.
- Trade diversion. Countries elevated from the 'middle' to the 'most preferred' group would find that because they pay less import tax they have a competitive advantage over more efficient states that remain in the middle group.
- Rules of origin. If take-up were widespread, the origin rules would become a less

important determinant of trade.¹⁰ At the extreme it would mean that only inputs from the 21 states excluded a priori from GSP+ would cause potential problems with the origin rules.

The ACP link

If large numbers of states are accepted the trade creation effects will be enhanced; if few states are accepted trade diversion is more likely. The most obvious route for creating a regime under the GSP which is equivalent to the Cotonou provisions is to extend GSP+. If this were feasible it would not only provide an alternative to EPAs for the ACP but also increase the chances of GSP+ having a positive, trade creating rather than a trade diverting effect.

An extension of GSP+ to cover all ACP exports would have beneficial economic effects. Indeed, the economic effects could be superior to those likely to arise from EPAs. The EU, a large economy, would liberalise substantially and quickly. Under EPAs liberalisation by the small ACP states is likely to be partial and long drawn out. This is because the ACP will have to liberalise on only 'substantially all' of their imports (which means they could exclude entirely 20% or so of their most sensitive imports) and can defer some liberalisation for at least 12 years (and up to 20 years if an Africa Commission recommendation were accepted).

Table 1. Non-LDC ACP exports to EU, 2003

	Value (\$ bn)	Share ^a
Total	23.3	
'Significant' items ^b	22.0	100%
Of which:		
MFN zero	15.4	70%
Standard GSP zero	1.0	5%
Standard GSP not zero (GSP+ zero)	3.4	16%
Not covered by GSP or GSP+	2.1	10%

(a) Column does not add up owing to rounding.

(b) Any item accounting for 5% or more of any individual non-LDC ACP country's total exports to the EU in 2003 (89 items) or not meeting this criterion, but which the 36 non-LDC ACP countries in aggregate exported to the EU to a value of \$10 million or more in 2003 (105 items).

(c) Other than 4 items – see note 11.

Source: UNCTAD, January 2005.

A basic requirement for a GSP providing treatment equal to Cotonou is that it cover all of the products that the ACP currently export to the EU with a preference. A second, practical requirement concerns the relative treatment of the ACP and their competitors. This section summarises IDS research on both points.²

Two changes would be needed to GSP+:

- To include in its ambit any products that the ACP export to the EU now or in the foreseeable future which it does not cover.
- To improve access terms to the Cotonou level in any cases where GSP+ is currently deficient. Table 1 summarises the scale of the task, which is modest. It classifies the most significant ACP exports to the EU (accounting for 94% of the total) according to the EU's trade regime. Seventy five percent are unproblematic: they are already given duty-free treatment either under the EU's MFN tariff or under the standard GSP. A further 16% are already covered by the new GSP+ and, except for four items, are given duty-free access.¹¹

It is these four items plus the remaining 10% that require further attention. Giving these products duty-free status in GSP+ would also improve the access to the EU of other scheme beneficiaries. This would spread the gains but might also lead to preference erosion for the ACP. Clearly, the EU should not agree simply to freeze current trade policy in order to maintain the ACP margin of preference. But it is not sensible to use considerable political capital extending GSP+ if, in so doing, ACP preferences are entirely eroded.

IDS research suggests that in most cases the inclusion of these products in GSP+ would not significantly erode ACP preferences (Table 2). This is because some competitors will either be excluded from GSP+ or already enjoy duty-free access (now or within a few

years) under one agreement or another. The main problems will be with sugar, bananas and rum – all of which face serious difficulties regardless of the future EU-ACP trade regime. Until more is known about the way in which these difficulties are to be handled – and, crucially, which ACP countries decide not to join EPAs – it is not possible to determine whether or not any 'solution' may be accommodated under a GSP+ umbrella.

Will it fly?

Extending the product coverage of GSP+ is not sufficient. Cotonou is a negotiated agreement (as will be any EPAs). The GSP is an autonomous EU action: not only can it be reversed at any time, but the new regime has created great uncertainty over what will happen in 2008. Any acceptable reform would need to introduce certainty and dispute settlement into the GSP+.

There are ways to achieve this. Some involve parallel action in the Doha Round. The GSP tariffs, for example, could be bound into the WTO.¹² Or a link could be made with Cotonou, to provide the ACP with a contractual guarantee that the EU's tariffs would not exceed the GSP+ level.

In all cases the new regime would need to fly in the WTO – which means that it has at least the tacit consent of other members. And herein lies possibly the greatest challenge: GSP+ may not survive even until 2008 (Box 3).

In the litigious environment that has developed in the WTO no trade regime that offers some members better treatment than others is entirely safe. This applies equally to EPAs (Stevens 2000). The strategy must be to move EU policy gradually along a route in which sufficient developing countries gain (or can see gains around the corner), so that it is in their interests not to derail the process (Stevens 2005). If GSP+ survives WTO challenge, it will be a good vehicle for such a strategy.

Product description (HS6/CN8 code)	No. ACP exporters to EU ^a	Liabile to erosion? ^b
Beef (02013000, 020230)	9	No
Bananas (08030019)	14	Yes
Oranges (ex 080520)	11	No
Fresh table grapes (ex 08061010)	3	Yes
Brown rice (10062098)	3	No
Wheat/meslin flour (110100), malt (110710)	1	No
Sugar (17011110/90, 170199), molasses (17031000, 170390)	27	No
Rum (22084051)	7	No
Rum (22084099)	9	Yes
Residues of wheat (230230), preps used in animal feed (ex 230990),	1	No
Salts (250100)	7	No
Aluminium oxide (28182000)	2	No
Skins of sheep/lambs (41051010)	4	Yes
Skins of sheep/lambs (410530), skins/hides of goats/kids (41062110/90, 41062290)	11	No
Unwrought aluminium (76011000), aluminium alloys (760120), zinc (79011100)	7	No

Sources: UNCTAD, January 2005; UK Tariff 2005.

(a) Exporter/product combinations.

(b) 'No' denotes either that no main competitors (i.e. non-LDC, non-ACP GSP beneficiaries supplying 10% or more of the EU market in 2003) currently have access that is the same as

or better than the ACP, or that any that do are not eligible for GSP+. 'Yes' denotes that some or all competitors whose access is currently worse than the ACP's will be eligible for GSP+.

Box 3. Will GSP+ survive a WTO challenge?

The EU Commission claims that GSP+ responds to the unfavourable WTO ruling on the special 'anti-narcotics' preferences in the old GSP (WTO 2004(a)). It argues that the eligibility conditions for GSP+ satisfy the Appellate Body requirement that different preferences may be given provided that the difference responds 'to a widely recognized "development, financial [or] trade need"...' (para. 164).

But it remains to be seen whether the a priori exclusion of some 21 states that have little in common will lay the scheme open to a further WTO challenge. India, for example, which brought the last challenge, is still excluded from the 'more preferred' group since it can never make itself eligible for GSP+, no matter how good its social and environmental conditions or how needy its workers.

Next steps

The first step is to launch a debate teasing out whether or not the political will exists in Europe to make the modest changes needed to create a GSP+ that would be a feasible foundation for an alternative to EPAs. This commitment is needed to support the technical work required for introducing contractuality, finding solutions for the main 'problem commodities', and fine tuning the transition to minimise preference erosion. Assuming that a political will exists, the EPA negotiations need to take account of the GSP+. As well as the 'pure' options of 'full, reciprocal EPAs' and 'no EPAs', there could be a hybrid: the EPA would cover all the developmental issues currently under negotiation (including contractuality and dispute settlement) but not trade; the trade regime would be as set out in GSP+.13

The main formal step to make this a live option would be needed by 2006. This is when

the EU is committed to consider alternatives to EPAs. It would be wise, though, to flag it earlier at the WTO Hong Kong Ministerial

of December 2005 as part of the EU's special and differential treatment for developing countries.

Notes

- ¹ Almost all developing countries are covered by the Generalised System of Preferences (GSP) but those that are parties to more preferential accords do not use it (one reason why the GSP is 'under-utilised'). Lower tariffs are often paid by parties to the EU's older preferential trade accords (such as the CPA) and the more recent free trade agreements, such as those with Mediterranean countries, South Africa and Chile. Kenyan exporters, for example, would pay tariffs of up to 10.1% on sales of fresh/chilled peas if they chose to have them imported into the EU under the GSP. It is no surprise that they instead chose to import under the Cotonou Agreement and enter duty free.
- ² 'GSP Reform: a longer-term strategy (with special reference to the ACP' (available online at www.ids.ac.uk/ids/global/glonew.html).
- ³ The term 'standard GSP' is used throughout this paper for what is termed in the Regulation the 'general arrangement', i.e. the basic scheme excluding any more favourable 'special arrangements'.
- ⁴ The MFN is the highest tariff that the EU may levy on imports from WTO members. It applies to all of the exports of countries in the least-preferred group and to any items from other countries that do not receive a concession under their trade accords with the EU.
- ⁵ The CPA presages an end in 2007 to the current trade regime, under which they enjoy preferences on their exports but need offer the EU only MFN treatment in return. The EU and ACP are currently negotiating EPAs to take over in 2008, but Cotonou Article 37:6 raises the possibility of alternatives if EPAs cannot be agreed.
- ⁶ Kuwait's gross national income per capita in 2003 (Atlas method, current US\$) was \$16,340, Pakistan's \$420 and Vietnam's \$430 (World Bank, www.worldbank.org/data/dataquery.html).
- ⁷ Under the proposed GSP+ simple ad valorem or specific duties will be suspended on all products covered by the GSP. For items subject to an ad valorem and a specific duty, the ad valorem element will be suspended. Duty suspensions will not apply to sections from which any given country has been graduated.
- ⁸ i.e. excluding imports from LDCs, countries that will be graduated, and those that may already be receiving a preference because they benefit from bilateral/regional free trade agreements with the EU.
- ⁹ Articles 9.2(a) and (b) of the Regulation. The descriptive names have been coined by the author of this paper.
- ¹⁰ The additional reform of agreeing full cumulation for purposes of the rules of origin between all GSP+ beneficiaries would clarify the situation still further.
- ¹¹ The four exceptions to duty-free access under GSP+ are chocolate (for which the ad valorem duty is suspended but the agricultural component (AC) remains), and three shrimp items (for which the GSP+ tariff is 3.6%).
- ¹² This means that the EU would be obliged not to charge higher tariffs on GSP beneficiaries.
- ¹³ Consequently the WTO justification for the EU to offer preferences to the ACP would not be found in Article 24 but in the Enabling Clause. There would be no WTO need for ACP reciprocity.

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Timeline: Key developments in ACP-EU trade - 2000 and beyond

Date	Negotiations	Trade Regime
Spring 2000	The EU asks other WTO members for a derogation to allow them to maintain the Lomé trade preferences until 2008.	Maintaining the actual Lomé trade regime of non-reciprocal tariff preferences for all 76 ACP countries – excluding South Africa.
23 June 2000	Signing of the new Cotonou Partnership Agreement in Cotonou (Bénin) between the members of the ACP group and the European Community and its members	
26 February 2001	Launch of the unilateral EU initiative for LDCs (including the ACP LDCs) called “Everything- but-Arms” .	Everything-but-Arms Initiative allows almost all products from LDCs to enter the EU free of tariffs or quantitative restrictions.
14 November 2001	All WTO members agree to accord a limited derogation for the Cotonou Agreement during a transitory period (2001-2007).	
September 2002 - December 2007	The EU negotiates „Economic Partnership Agreements (EPAs)“ (Free Trade Agreements) with the ACP countries, by regional groupings, or country by country.	
27 September 2002	Launch of the EPA negotiations between the EU and the ACP group (All-ACP) = Phase 1 of the negotiations	
October 2003	Launch of the regional EPA negotiations between the EU and the regional ACP groupings = Phase 2 of the negotiations	
4 October 2003	Official launch of the EPA negotiations CEMAC-EU	
6 October 2003	Official launch of the EPA negotiations ECOWAS/UEMOA-EU	
7 February 2004	Official launch of the EPA negotiations ESA-EU	
16 April 2004	Official launch of the EPA negotiations Caribbean-EU	
8 July 2004	Official launch of the EPA negotiations SADC-EU	
10 September 2004	Official launch of the EPA negotiations Pacific-EU	
October 2004	The EU revises its GSP unilaterally (without negotiations).	New GSP of the EU
2006	The EU will examine the situation of those ACP non-LDCs that are not in a position to negotiate an EPA, and study possible alternatives, that are equivalent to their existing situation (Art. 37.6 of the Cotonou Agreement).	
From now – 31 December 2007	„Formal and complete examination“ by the EU of all the EPAs „so as to ensure that no extra delay is necessary for the preparations or the negotiations“ (Art. 37.4 of the Cotonou Agreement). December 2007: End of the negotiations with the conclusion of EPAs	
1 January 2008 - 2018-2020 ?	Implementation of the new Economic Partnership Agreements The LDCs that decide not to conclude an EPA will maintain their non-reciprocal trade preferences under EBA. The non-LDCs that have chosen not to conclude an EPA will benefit from the GSP or an alternative trade regime (that still needs to be defined).	End of an all-ACP trade regime of Lomé-Cotonou. The ACP countries that have signed an EPA will gradually open their markets to EU products.
2018 –2020 and beyond		End of the transition period; full implementation of the Free Trade Agreements between ACP and EU, signatories to an EPA.

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| www.bilaterals.org | www.tralac.org |
| www.epawatch.net | www.uneca.org |
| www.ictsd.org | www.stopepa.org |

KASA

KASA, the Ecumenical Service for Advocacy Work on Southern Africa in Heidelberg, Germany, is a coalition of at present 18 church groupings working on issues of socio-economic justice in Southern Africa. The coalition comprises the four major German Church Aid Agencies, some catholic dioceses and protestant federal churches, catholic missionary orders and protestant mission societies operating in Southern Africa as well as grassroots organizations with traditional links to Namibia and South Africa. KASA is involved in four main areas of political lobbying and campaign work: 1) EU trade policies and their impact on Southern Africa; 2) Apartheid debt and reparations; 3) alternatives to neo-liberal globalization in Southern Africa; 4) the land question in Southern Africa. KASA has been working in close partnership with church-based agencies for economic justice in Southern Africa, especially in Zambia, Zimbabwe, Namibia and South Africa.
www.kasa.week.de

KOSA

KOSA (Co-ordination for Southern Africa) is a network of organizations, groups and individuals involved in development policy and working on Southern Africa. Since the end of August 2001, KOSA has also been the successor to the association „Afrika-Süd Aktionsbündnis“ (AAB) [alliance for action on Southern Africa], the former Anti-Apartheid movement. Over the last years, KOSA has focused on the economic relations between the region of Southern Africa and the European Union, on the „International Apartheid Debt and Reparations Campaign in Southern Africa“ and on „water and privatization“ in Southern Africa.
www.kosa.org

Network Africa Germany

The Network Africa Germany „Faith and Justice“ is an association of 45 Catholic missionary orders working in Africa. It has been established in 1999 and is represented in offices in Bonn as well as in Berlin. The commitment for a world order based on justice is the result of the will to promote the mission of Christ. In the context of the Africa Europe Faith and Justice Network (AEFJN), Brussels NAD lobbies Parliamentarians in Brussels concerning world economic order and sustains various campaigns as the StopEPA campaign and a project for food security in Africa.
www.netzwerkafrika.de

Terre des Hommes

Terre des Hommes Germany is an aid organization focusing on children and supporting about 350 projects in 28 countries. These include school and training projects, initiatives for street children, working children, child prostitutes and refugee children. It also runs food security and healthcare programs. Terre des Hommes helps people to liberate themselves from oppression and economic hardship. It seeks to empower them to try out their own ideas about a life lived in dignity. We do not send out field workers but prefer to promote local initiatives with money, advice and networking facilities instead. In French, Terre des Hommes means earth of humanity. Through campaigns, lobbying and publicity, Terre des Hommes endeavours to influence German political and business circles in the interest of children suffering from hunger, exploitation or the aftermath of war.
www.tdh.de

World Economy, Ecology & Development (WEED)

WEED was founded in 1990 to boost the advocacy in the Federal Republic of Germany of alleviating global poverty and resolving international environmental problems. WEED campaigns for a course correction in international economic and development policies that would put more emphasis on social justice and environmental sustainability. Its aim is to create more awareness in this respect and develop and implement concrete political alternatives. WEED systematically analyses global economic, environmental and socio-political issues, linking the vision of a socially equitable and environmentally sustainable society to action and policy reform.

WEED is active in the following areas:

- the international debt crises
- IMF & World Bank policies, projects and programs
- reform and democratisation of international financial markets
- international trade and investment policy (WTO)
- corporate accountability
- international and European environment and development policy

www.weed-online.org



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