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Poverty Looms: How 50 years of EU-ACP co-operation is threatened by new Trade Agreements

1. Introduction

The Africa Caribbean Pacific (ACP) group of countries is made up of 78 states that include 28 small island developing countries and 40 of the world's 49 Least Developed Countries (LDCs). For the majority of these countries, the European Union (EU) represents their most important trading partner. International trade can play a powerful role in reducing poverty and promoting sustainable development in these countries. Harnessing this potential depends on the 'quality of trade'. Practical strategies matched to countries level of development have to be worked out if this potential is to be realised. As the EU seeks to conclude a new trade regime by the end of 2007 with the ACP, concerns are mounting that the Economic Partnership Agreements (EPAs) as configured will contradict their intended purpose by locking countries into poverty.

Co-operation between the EU and the ACP goes back to the Treaty of Rome in 1957. Since then successive agreements starting with Yaoundé in the early 1960s followed by the Lomé accords established the basis of the current agreement governing EU-ACP trade, known as the Cotonou Partnership Agreement (CPA). While the CPA continues the traditional aid regime, it does foresee a major change on trade. This change will have to be compatible with World Trade Organisation (WTO) rules[i]. The CPA gives as the preferred - but not only - option the creation of EPAs.[ii]

In September 2002, the EU and the ACP initiated negotiations on EPAs. Following a one year initial phase of negotiations at the all ACP level, EPA negotiations have been carried out at the regional level, with the six self determined EPA regional groupings.[iii] The negotiations are due to be concluded by 31 December 2007, so as to enter into force by 1 January 2008. Until 2008, the trade regime under Cotonou continues.

As the negotiations have progressed, the differences between the European Commission (EC) and ACP regions on the process of agreeing a future trade agreement as well as the content of such an agreement have become starker. This briefing paper seeks to draw attention to how the EC is undermining the long respected principle of partnership between the EU and ACP and how using its economic and political power to force its own vision of EPAs onto the ACP threatens to undermine sustainable development in many of the world's poorest countries, including all Irish Aid's priority programme countries in Africa[iv]. The second part of the paper explains how urgent the situation now is and considers what Ireland should do to ensure the EU delivers on its commitments to the ACP.

Acronyms

ACP	Africa Caribbean Pacific
CET	Common External Tariff
CPA	Cotonou Partnership Agreement
EBA	Everything But Arms
EC	European Commission
EPA	Economic Partnership Agreement
ESA	East and Southern Africa
EU	European Union
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GSP	Generalised System of Preferences
LDC	Least Developed Country
ODI	Overseas Development Institute
RTA	Regional Trade Agreement
SADC	Southern Africa Development Community
WTO	World Trade Organisation

i Under the WTO's 'Enabling clause', the EU can only provide preferences to developing countries as a whole or just to LDCs and not to other groupings such as the ACP. The WTO granted a temporary waiver to the EU while it negotiated a new trade regime with the ACP. That waiver expires the end of 2007.

ii Article 37 (b) commits the EU to consider providing states that do not join an EPA with a 'new framework for trade which is equivalent to their existing situation…' and which would would be 'in conformity with WTO rules'.

iii From 4 October 2003 with Central Africa, 6 October 2003 with West Africa, 7 February 2004 with East and Southern Africa (ESA), 16 April 2004 with the Caribbean ACP, 8 July 2004 with the Southern Africa Development Community (SADC) and 10 September 2004 with the Pacific ACP.

iv Ethiopia, Mozambique, Tanzania, Uganda, Zambia and Lesotho.

PART ONE

1. Undermining Partnership

The EU - ACP relationship has been characterised by a commitment to partnership. Agreements have been reached on the basis of mutual understanding, respect and responsibility. The CPA set the framework for conducting negotiations on a new trade agreement, explicitly acknowledging the importance of policy space for ACP countries to identify their priorities and the overall aim of fostering sustainable development and poverty reduction.

The CPA stipulates the principles informing the negotiations on a new EU-ACP trade regime. Article 34 states that:

' economic and trade cooperation shall aim at fostering the smooth and gradual integration of the ACP states into the world economy, with due regard for their political choices and development priorities, thereby promoting their sustainable development and contributing to poverty eradication in the ACP countries.'

It would be reasonable therefore to assume that when proposals from either party are tabled that they would receive a hearing. However, the EC's repeated dismissals of ACP proposals while forcing their own agenda, despite clear and consistent opposition from ACP regions, clearly contradicts the partnership principle. There are many examples of the EU's dismissive approach, but to illustrate the point two affecting Irish Aid priority countries in the SADC and ESA configurations are referenced.

In March 2006, SADC sent a proposal to the EC requesting amongst other things that the Singapore Issues i.e. competition, investment, government procurement not be included in the negotiations[v]. Nine months later the EC response revealed that the Commission was not only pushing for negotiations on these issues, but also that any improved market access was dependent upon SADC agreement on their inclusion.[vi]

When ESA submitted pro development provisions that they would like discussed, including the exemption of LDCs from tariff liberalisation commitments in the EPA and the binding of their market access under the current Everything But Arms (EBA) scheme, the EC's curt response was simply 'not acceptable'.

EC responses to ACP proposals designed to protect their peoples food security, livelihood security and development needs fail to recognise the right of ACP countries to devise their own policies and policy priorities while also violating the partnership principles and development objectives of the CPA.

2. Undermining Sustainable Development

The EC and ACP both stress that EPAs are 'tools for development', but as the negotiations have progressed, fundamental differences have emerged as to how they understand development is to be achieved. EPAs as currently shaped, demanding inappropriate levels of liberalisation, inflicting serious fiscal revenue losses and including the Singapore Issues, look set to deliver high costs and few benefits.

The EC's ambition to conclude an agreement which oversees reciprocal market access is highly inappropriate for a trade agreement between two such economically disparate parties. Even within the context of the WTO's treatment of liberalisation in RTAs, it offers no precise definition of what is meant by the liberalisation of 'substantially all trade' or what is a 'reasonable length of time' for meeting liberalisation commitments. This vagueness provides the EC with a license to interpret WTO compliance in a very flexible manner. However, the EC has not clarified the percentage of ACP products that might be excluded and has informed the ESA group to reduce its sensitive product list. Finding regional positions on which products to liberalise or protect in order to arrive at a common external tariff (CET), which is the EC's aim in EPAs is a very difficult task as individual countries have different priorities.

Cost benefit analyses of the EC market access offer reveal significant gains for the EU and losses for ACP countries. For example, in the case of Malawi, quantitative studies show that the EU stands to gain significantly in terms of increased exports into Malawi's market[vii]. Increased imports from the EU are likely to have significant impacts on Malawian producers as EU imports displace local producers who have not yet built up their capacity to produce competitively. In addition to the negative impacts on local producers and industries reciprocal trade agreements have serious implications for national government revenues.

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v The ACP have consistently rejected negotiation on these issues within the multilateral negotiations at the WTO.

vi According to WTO rules there is no requirement for EPAs or any other FTA to cover anything except trade in goods. WTO provisions governing RTAs are covered under Article 24 of the General Agreement on Tariffs and Trade (GATT).

vii See Tearfund 2007 report titled 'Much to lose, little to gain. Assessing EPAs from the perspective of Malawi

Irish Aid commissioned studies on the potential fiscal effects of an EPA. The final report concluded 'it is clear that the vast majority of ACP countries will experience budgetary difficulties as a result of the loss of trade tax revenue under an EPA'[viii]. For Zambia, the loss is estimated at $ 15.8 million, a sum equivalent to that country's annual HIV/AIDS spending.

The EC's focus on agreeing EPAs which are essentially Free Trade Agreements (FTAs), including liberalisation of ACP goods, services and investment markets goes far beyond anything being discussed in the World Trade Organisation (WTO).

This strategy reflects the EC's broader vision for FTAs as set out in its 2006 communication, *Global Europe: Competing in the World*.[ix] This document makes clear that the Singapore Issues are central to achieving increased market access and promoting EU competitiveness around the world. The EC is indiscriminately pushing these issues in FTA negotiations be it with the ACP, small Central American states or large Asian economies.

The impact of such far reaching FTAs on poverty and poverty eradication, on ACP regional integration processes and on the coherence of EPAs with the ongoing WTO Doha Round negotiations have been repeatedly raised by ACP Ministers and civil society organisations.

Given the economic disparities between the EU and the ACP the questions that need to be at the heart of these negotiations are how can a future trade arrangement provide at least equivalent value access to EU markets for ACP countries?[x] How can a new trade regime respond best to the ACP countries development needs, including the protection of small farmers, local markets and infant industries, job creation and the promotion of rural development? How can the principle of partnership be honoured so that ACP countries have the policy space to pursue their own development strategies?

Designing a new trade regime from this perspective creates the opportunity to address issues which currently limit ACP countries from maximising their trade with the EU under existing preferential schemes, including the restrictive rules of origin under the EBA initiative. These rules have restricted the growth and diversification of exports to the EU from ACP-LDCs. This approach would also facilitate the development of a Special Safeguard Clause (along the lines of the Special Safeguard Mechanism being discussed in the current Doha Round[xi]) to protect ACP domestic agricultural markets from sudden cheap and subsidised imports which might threaten and cause injury to domestic agriculture and agro-industrial processed food products.

EU-ACP Agricultural Trade

Agriculture is a key sector in the economy of most of the ACP regions in terms both of the share of GDP for which it accounts, and employment and trade. Except in the Caribbean region, over 65% of the labour force are employed in agriculture. This percentage rises to 74.6% in the case of Zambia, 82.7% in Mozambique, 84.4% in Tanzania and 86.6% for Malawi.[xii] *The EU is the main trading partner in all four African negotiating regions.*

Many ACP countries derive more than 20% of their export earnings from a single agricultural commodity. These products are often unprocessed like cocoa beans, raw tobacco, coffee and tea or slightly processed products like cocoa butter or cut flowers. While many of the leading export products face no or very low tariffs in the EU market, agro food products tend to face higher tariffs as the degree of processing increases. Increasingly, non tariff barriers in the form of sanitary rules and rules of origin are more important in restricting ACP imports.

No EU products dominate exports to ACP countries in the way that some products do as regards the EPA regions exports to the EU. However, EU exports to a large extent consist of processed agri-food products, such as dairy products and poultry meat. In terms of ACP countries ability to compete with these products in their domestic markets, in almost all cases, the EU products receive specific domestic support as well as export subsidies. Since EPA negotiations on market access are about the removal of applied tariffs, ACP countries will lose their ability to protect their markets from low prices or sudden import surges.

A development friendly agricultural EPA would need to facilitate the diversification of ACP agricultural economies. This could be facilitated through long-term additional development finance which would also play a key role in addressing supply side constraints but would also require a relaxation of the EU's market defenses including tariff escalation and use of restrictive rules of origin. In parallel with these measures, while subidised EU products continue to distort local markets, developing countries must be given recourse to protect food and livelihood security through the use of Special Product and Special Safeguard Mechanisms.

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viii Addressing the Fiscal effects of an EPA by San Bilal and Vincent Roza (ECDPM, May 2007)

ix On 4 October 2006 the EC released a new communication entitled Global Europe:Competing in the World see http://ec.europa.eu/trade/issues/sectoral/competitiveness/global_europe_en.htm

x Provides an agreement that guarantees the ACP access to EU markets that at least matches what applies under the CPA

xi See Trocaire's research paper 'Elaboration of a Feasible Proposal for a Special Safeguard Mechanism for Developing Countries' November 2005

xii FAO 2005

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PART TWO

Why the urgency?

With the formal deadline looming, the EC is putting tremendous pressure on ACP countries to sign EPAs by the end of the year, including threats to reduce development aid and increase tariffs on their exports into the EU market. Given the divergence of opinion which exists between the EC and the ACP countries, there is an increasing consensus that it is too late for detailed agreements to be in place by the end of the year. By refusing to recognise this reality, the EC sees no reason to elaborate on what happens to EU-ACP trade come 2008.

Without clarifying a fall back position, European importers and investors in the ACP have to try and decide what they will do from 2008. With no clarity forthcoming from the EC, and importers and investors having to make decisions now there is a real danger of serious negative social and development costs being incurred. One possibility is replacing Cotonou with the EU's 'next best' trade regime whilst EPA negotiations continue, that would be the application of the Generalised System of Preferences (GSP).

But what would happen export orders if importers believe they will have to pay GSP duties from 1 January? Such a trade regime would for example discriminate against Kenyan horticultural produce, which would find it next to impossible to continue exporting under GSP while its main competitors face zero tariffs. 135,000 Kenyans are employed in this sector, its collapse would not only have severe social consequences, but as a recent ODI paper highlights would also undermine EU development aid programmes which are supporting the horticultural business service market development programme[xiii].

The EC accepts that this would be a bad outcome but unless it takes positive action to avoid this then the threat is very real.

Recommendations to the Irish Government

The uncertainty surrounding EU-ACP trade relations from the end of 2007, together with the aggressive negotiating approach adopted by the EC if unaddressed in the near future, threaten to overshadow the December EU-Africa Summit. This predicament can be avoided. A window of opportunity exists for EU political leaders to engage directly with the EC. Along with other Irish development organisations Trocaire is calling on the Irish Government to:

- Urge the EC to end their demands for reciprocal trade agreements
- Urge the EC to stop demanding ACP states signup to agreements in areas they have already rejected
- Urge the EC to provide alternatives to EPAs, in order for ACP states to be able to choose their form of economic partnership with the EU
- Urge the EC to prevent any disruption to ACP exports at the beginning of 2008 by treating how imports will be dealt with in the absence of any detailed agreements being concluded
- Ensure that regardless of the outcome of the EPA negotiations, EU member states make and follow through commitments on additional aid to address the supply side constraints of the ACP countries.

[xiii] Economic Partnership Agreements: What happens in 2008? ODI Briefing Paper Number 23, June 2007

Take Action!

Visit Trocaire's website **www.trocaire.org** for actions you can take calling the Irish Government and EU leaders to address these development concerns as a matter of urgency.

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