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## **The Economic Partnership Agreements (EPAs): a threat or an opportunity for sustainable development?**

### **Abstract**

The ACP (African, Caribbean and Pacific) countries are facing trade negotiations on several fronts simultaneously over the next few years. These include the Economic Partnership Agreements (EPAs) with the EU under the Cotonou Agreement, the Doha Round of the WTO launched in 2001, and those within economic groupings in their own regions.

In particular the EPAs are considered to be the most important trade talks faced by the 76 ACP countries which represent 750 million of the world's poorest people. The EU is not only their largest export market, but also their biggest aid donor.

Negotiations for the EPAs began in September 2002 and as the talks advance, it has become apparent that ACP governments face a dilemma.

EPAs secure market access for traditional exports which form the cornerstone of their economies, but the 'reciprocal' nature of the agreement means that they may also represent a threat. The experience of trade liberalisation under WTO rules provides ample evidence that the benefits of more open markets are not spread evenly - there are losers as well as winners.

EPAs would give powerful corporations based in the EU greater access to ACP markets, thus undermining poor countries' industries and local laws protecting workers and the environment. Government revenue would also fall because of reduced taxes on goods and services imported from the EU. This would compromise investment in health and education and threaten the achievement of the MDGs.

A vigorous international campaign to stop the signing of the EPAs has emerged in 2004 which has brought together trades unions, farmers' organisations, civil society and business groups in the ACP countries.

They claim that the the EPAs would mean major losses of total government revenues - unless alternative non-trade based forms of revenue collection are established and effectively implemented in ACP countries - the threatening of agricultural policy space and the pre-empting of national and regional policies.

As a consequence, although EPAs negotiations had to be concluded by 31 December 2007, only the Caribbean grouping has been in a position to initial a comprehensive EPA.

As the EPA negotiations draw to a close, the whole protracted process provides insight into the difficulty of trying to create a world economic system which produces a more equitable distribution of the world's resources.

Based on these premises, my paper proposes an analysis of development benchmarks that could be useful in the development-focused monitoring of the EPA negotiations.

The aim of my paper, along providing a scientific overview of the EPAs, is to stimulate debate on EPAs and to use development points of reference for assessing their progress and the obstacles they face.

## 1. EPAs' framework

Since the EU's initial proposal in 1996 to negotiate EPAs with ACP regional groupings, all parties have stressed the necessity for EPAs not be standard reciprocal free trade agreements (FTAs), but instead to be instruments for development furthering poverty reduction, sustainable development, regional integration and integration into the world economy.

These objectives were reaffirmed in the Cotonou Agreement and in numerous declarations since, including the Cape Town Declaration and the EPA negotiating mandate and guidelines of the EU and the ACP.

Liberalisation of trade in goods, services, investment and government procurement, together with disciplines on competition, were mentioned as means to improve access to quality goods, inputs and services, create export opportunities and attract investment that improve essential infrastructure and competitiveness and bring about economic growth.

There is nothing, however, in the conventional economic theory that guarantees such outcomes<sup>1</sup>, especially in poorer less-developed economies, or in the face of the multiple food, climate, financial and economic crises.

EPAs, as they are right now, are meant to oblige ACP governments to undertake significant reforms and to design and create new policies and institutions, which will have significant costs attached. According to some estimates, such compliance costs would amount to at least €9bn for all ACP countries<sup>2</sup>.

In addition to these costs, during the first stage of liberalisation alone, African countries are expected to lose \$359m per year due to tariff elimination<sup>3</sup>.

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1 M.Cruz, *Can Free Trade Guarantee Gains from Trade?* UNU WIDER Research Paper No. 2008/97 or B.Gavin, *The EU-ACP Economic Partnership Agreements: What Impact on Development?* Dublin, Trinity College, International Institute of Integration Studies (IIIS), 2007.

2 C. Milner, *An assessment of the overall implementation and adjustment costs for the ACP countries of EPAs with the EU*, in R.Grynberg and A. Clarke, *The European Development Fund and Economic Partnership Agreements*, Commonwealth Secretariat, 2006

3 S.Bilal and C. Stevens, (Eds.), *The Interim Economic Partnership Agreements between the EU and African States: Contents, challenges and prospects*, (Policy Management Report 17). Maastricht, ECDPM-ODI, 2009.

Therefore, ACP countries are concerned that while their weak economies will be unable to face increased competition at home and abroad, EPA obligations will also place a heavy strain on government budgets.

The EU has little to offer to address these concerns.

On the one hand it continues to insist that ACP countries make decisions now that will lock in vast policy reforms for the next 15 to 25 years. On the other hand, the EU is not able to prove that these reforms will bring development, nor willing to guarantee that EPA costs will be met with additional finance.

The EU resisted ACP requests for EPAs to contain development cooperation provisions for four long years (from the start of the negotiations until November 2006) and since then has only accepted non-committal language. Beyond the regular funds foreseen for the ACP countries by the Cotonou Agreement via the European Development Fund (EDF), there are no real guarantees for additional finance, not even under the so-called Aid for Trade promise of 2 billion Euros per year by 2010 by the European member states and the European Communities<sup>4</sup>.

For many ACP countries this is a crucial element.

In early July 2009 the Eastern African Community postponed the signature of the EPA because “the EC has consistently been non-committal and non-responsive on economic and development issues” and “given the sensitivity and impact the EPA is likely to have on the EAC Partner States economies it will be difficult to effect the ratification of the [IEPA] through the National legislatures without in-built economic and development safety nets to support the required economic adjustments”<sup>5</sup>.

ACP countries have tried to link liberalisation commitments to EU aid delivery and benchmarking, arguing that each step of the liberalisation and reform schedule can only be undertaken when certain results or benchmarks are reached and the promised aid is delivered. The EU has resisted such conditional liberalisation, claiming that this would not be WTO-compatible or would not provide sufficient certainty to businesses – however, this leaves the risks entirely with ACP governments and – worse still – the populations of these countries which are among the poorest in the world<sup>6</sup>.

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<sup>4</sup> According to the European Commission’s Aid for Trade monitoring report 2009 (COM 2009/160 final, p.30), EU AfT commitments to the ACP have even fallen from 2,975 million Euros in 2005 to 2,097 million Euros in 2007.

The share of AfT for the ACP in the overall EU AfT has fallen from 50% to 36% over the same period.

<sup>5</sup> EAC-EC-EPA Ministerial Preparatory Meeting (Ministers for Trade Session), Report of the meeting (EAC/SR/37/2009), 3 July 2009.

<sup>6</sup> West Africa-European Community, EPA Negotiations, Technical meeting , Joint report. Brussels, 20-23 April 2009.

This discussion is also an important reminder that the overall objectives of the EPAs have never been specified in concrete, operational terms.

Questions like: What is “sustainable development”? What does “integration into the world economy” mean? What measure of “poverty reduction” is pursued? If the development objectives are not specified, it is impossible to determine what sequencing needs to be followed and, therefore, when will one be able to say that the EPAs are on the right track? have never been properly answered.

The EU has been so focused on achieving its negotiating objectives – i.e. to secure liberalisation of goods and the wide range of trade-related issues already outlined – that it hardly appears to have considered these questions. On the contrary, the EU has also tried to ensure that the EPAs conform as closely as possible to the EU’s standard approach to trade as defined in 2006 in its strategy document “Global Europe, competing in the world”<sup>7</sup>.

This is evident in the EPA negotiations in two ways.

First, “Global Europe” is based on EU concerns about its market share in the world, its access to energy resources and raw materials, and the increasing competition with emerging countries such as Brazil, Russia, India and China (the BRICs).

Even if the EU denies that it has any offensive interests in the EPA negotiations, the EPAs do give the EU preferential access to ACP markets over its competitors, and the EU is trying to use EPAs to ban ACP export restrictions on raw materials and to obtain access to land, mining and drilling.

Second, the EU Commission and member states appear concerned that the EPAs will set precedents that other trade partners could claim as well: if ACP countries do not agree to negotiations on services, other trade partners may also exclude services negotiations from the free trade agreements (FTAs) they are negotiating with the EU; if the coverage of the tariff elimination is too low, other countries may follow the example. In other words, the fuller the EPAs, the easier it will be for the EU to obtain the objectives of “Global Europe” in its other FTA negotiations; even if this means that the ACP countries do not get the flexibilities that they need.

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<sup>7</sup> [ec.europa.eu/trade/issues/.../global\\_europe\\_en.htm](http://ec.europa.eu/trade/issues/.../global_europe_en.htm)

## **2. Benchmarks on resources for development support**

The process of trade liberalisation with the EU, adjustment programmes, the success of policies for improving competitiveness and overcoming supply-side constraints are linked to the availability of resources for development support.

Two issues in this dimension should be prioritized in any review mechanism of the EPA process.

The first one is related to monitoring the course of negotiations in the resources for development support dimension and the second is linked to real access and administration of the resources available.

Benchmarks should therefore be derived from agreed EPA guidelines and should represent the priorities defined under the resources for development support dimension.

Benchmarks in this area involve guiding principles and general criteria, as well as 'points of reference' for development support aimed at specific sectors' adjustment programmes, supply side policies and institutional capacity building.

Among the guiding principles and general criteria are to be found:

- Comprehensiveness of development support and access to resources

A comprehensive approach is necessary to define the development support needed in the adjustment processes associated with phasing in free trade with the EU. Therefore the EPA negotiations should give rise to specific instruments and programmes with additional resources, addressing the challenges that arise from the adjustment; i.e. the issues of fiscal and economic restructuring, and social programmes. At the same time, criteria and guidelines for rationalising the use of funds, both existing and additional, should be agreed as to avoid diverting financial resources away from pre-existing legitimate priorities and to ensure that funds can be spent swiftly and effectively.

- Sequencing of liberalisation and restructuring programmes

Restructuring assistance should be made available and programmes implemented before free trade is fully introduced, so that ACP economies are equipped to meet the challenges posed by moves towards free trade with the EU.

The benchmarks on issues affecting specific sectors are to be found in:

- Agriculture and Commodities

Over a short period of time, progress should be achieved in extending and deepening technical assistance programmes referred to SPS issues, and in addressing commodities issues before the impact of free trade with the EU is realised in its entire dimension.

This implies putting in place Processing, Marketing, Distribution and Transport (PMDT) programmes before the phasing in of free trade, and immediately starting a comprehensive implementation of the EU Commodities Action Plan.

- Services

A comprehensive strategy for ACP service sector development must be put in place in terms of market access measures and supply-side policies. The potential success of this strategy would depend on making available additional resources with rapid and flexible deployment procedures.

### **3. Eliminating import tariffs and possible alternatives**

The only WTO-compatible ways to give trade preferences to a country or group of countries without having to ask for an exemption or “waiver” are either to offer such preferences in a non discriminatory way to all developing countries or all least developed countries (LDCs) or to negotiate a free trade agreement (FTA) based on art.24 of the GATT agreement.

Art.24 stipulates that trade barriers must be removed on “substantially all trade” and “within a reasonable period of time” which can only be exceeded in exceptional circumstances. In contrast to most WTO provisions, art.24 does not foresee "Special and Differential Treatment" for developing countries.

However, in the EPA negotiations the EU has unilaterally fixed the coverage at a minimum of 80% tariff elimination and the transition period to obtain this at a maximum of 15 years, for all ACP regions and countries without taking into account their “different needs and levels of development” as required by the Cotonou Agreement (art.35.3).

All those countries that initialled IEPAs, under enormous pressure, at the end of 2007 have indeed complied with the EU’s demanded levels of coverage and timeframes; some have even offered more. However, in the ongoing negotiations many ACP countries, especially the LDCs, have argued that the EU is expecting too much and have questioned this demand, pointing out that it is not a WTO requirement but merely an EU interpretation of the WTO rules.

West Africa has taken a long time to carefully formulate a tariff elimination offer in the EPA negotiations. It has developed a methodology to identify sensitive products and to arrive at national and regional lists of sensitive products. It has organised many

consultations with stakeholders and has incorporated into its negotiation process the West African Network of Peasant and Agriculture Producer Organizations (ROPPA), which represents some 345 million small-holder farmers. The region has also carefully prepared the introduction of a Common External Tariff (CET), expanding and adapting the CET of the West African Economic and Monetary Union (Waemu-Uemoa) to the whole of ECOWAS. Based on these preparations and considering that 13 out of the 16 West African countries are LDCs, the region has offered a tariff reduction of 60% over a timeframe of 25 years<sup>8</sup>.

At the same time, the region has consulted WTO experts, to assess the WTO compatibility of this offer, who have concluded that it is as valid as the standard set by the EU. The EU, however, insists that WTO compatibility is not the only issue and that a more “ambitious” liberalisation commitment is better for West-Africa’s development. While discussions about coverage and timeframe of tariff liberalisation are ongoing, in the meantime it remains possible to consider non-reciprocal alternatives.

Since the start of the EPA negotiations several crises for which the policies of the rich countries are largely responsible are increasing poverty, hunger and misery in Africa and the Pacific: climate change, the food crisis, and the financial and economic crisis. In view of this multiple-crisis situation, the EU could adapt its generalised system of preferences (GSP) for developing countries to accommodate the interests of ACP countries that are not LDCs and therefore have no duty- and quota-free market access to the EU under the “Everything but Arms” (EBA) scheme<sup>9</sup>.

To ensure that no ACP country is left worse off if they choose not to pursue a free trade agreement, Europe could enhance its “GSP Plus” scheme to make it equivalent to the Cotonou arrangements, or it could simply give both LDCs and ‘economically vulnerable’ countries duty-free, quota-free access to its markets. Many products could be incorporated into Europe’s preferential schemes without a problem. However, such a move would entail severe preference erosion for a few products.

To ensure that vulnerable producers are not left worse off, mitigating steps would need to be taken to support export diversification and/or to provide a long-term guarantee that the EU would purchase a minimum quantity of these products at a fair price. To provide businesses certainty, Europe could remove the discretionary aspects of its schemes and bind them in the WTO so that they become permanent arrangements<sup>10</sup>.

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8 West Africa-European Community, *EPA Negotiations, Technical meeting, Joint report*. Dakar 16-19 February 2009. Joint report.

9 [http://www.worldproutassembly.org/archives/2007/09/epas\\_clashing\\_w.html](http://www.worldproutassembly.org/archives/2007/09/epas_clashing_w.html)

10 Oxfam International – TWN Africa, *A matter of political will. How the European Union can maintain market access for*

#### **4. Basic divergence and opportunities not yet explored in relation to issues of capacity development support**

ACP countries have pressed for detailed discussions on accompanying measures conceived to help their economies prepare for trade liberalisation and address supply-side constraints. The EU maintains, however, that the EPAs themselves will contribute to development by “enlarging the ACP markets and by establishing an open, transparent and reliable framework for trade, which will mobilise private initiatives and attract investment”.

EU negotiators have resisted the broad call to re-open discussion on EU development support, arguing that provisions and financial instruments to that effect were already contained in the Cotonou Agreement and provided through the European Development Fund (EDF).

While some accompanying measures could be envisaged, the EU has continuously stressed that the EPA negotiations should focus on trade and trade-related issues and not be an opportunity for renegotiating the financial resources available to ACP countries. Speaking in the Caribbean in April 2004, former EU Trade Commissioner Pascal Lamy stressed how the EU does not have a mandate to “negotiate development finance as part of EPAs”.

The divergent views on this matter have been partly carried over to the second phase of EPA negotiations, at the regional level. For instance, the adoption of road maps for the Central and Western African regions, to be jointly agreed with the EU, has been delayed in part due to the insistence by the two regions and the refusal by the EU to effectively integrate development concerns with commitments for additional support into the EPA negotiating agenda.

In their quest for additional support to accompany EPAs, the ACP negotiators should not lose sight of the current process of reviewing priorities and resource allocation of EU aid in the Mid-Term Reviews (MTRs). The RPTFs established in each EPA region constitute complementary fora to address these issues at both the political and technical levels.

## **Conclusion: The way forward lies within the Cotonou Agreement not beyond**

From the start of the EPA negotiations, the EU has been trying to go beyond the WTO and Cotonou requirements to obtain agreements that fit its broader trade policy objectives at the expense of its development objectives. The agreements concluded so far risk hindering, instead of fostering regional integration and sustainable development in ACP countries.

A strong turnaround in the negotiations is therefore urgently needed, rather than merely introducing hesitant flexibilities on a few issues. The EU must at a minimum respond favorably and unconditionally to ACP requests for re-negotiation of contentious issues, and refrain from pushing countries that have initialed EPAs to sign and ratify these agreements in haste and without amendments.

But, beyond this, the EU should refrain from further overloading and complicating the negotiations by demanding that ACP countries include issues and rules in the agreements that are not required for WTO compatibility, such as rules on export restrictions, as well as services, intellectual property rights and the so-called 'Singapore issues'<sup>11</sup>.

The EU should also respond positively to proposals for flexible market access arrangements and to requests for reliable and additional aid for regional economic development programmes.

In the case that ACP countries express that they are not ready to conclude an EPA, because they believe the agreement will not facilitate their development, the EU must fully support any request for alternative solutions that ensure that these countries are not left worse off than under the provisions of the Cotonou Agreement that were in place before the end of 2007.

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<sup>11</sup> The "Singapore issues" refers to four working groups set up during the World Trade Organization Ministerial Conference of 1996 in Singapore. These groups are tasked with these issues: transparency in government procurement, trade facilitation (customs issues), trade and investment, and trade and competition. This issues were pushed at successive Ministerials by the European Union, Japan and Korea, and opposed by most developing countries.

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