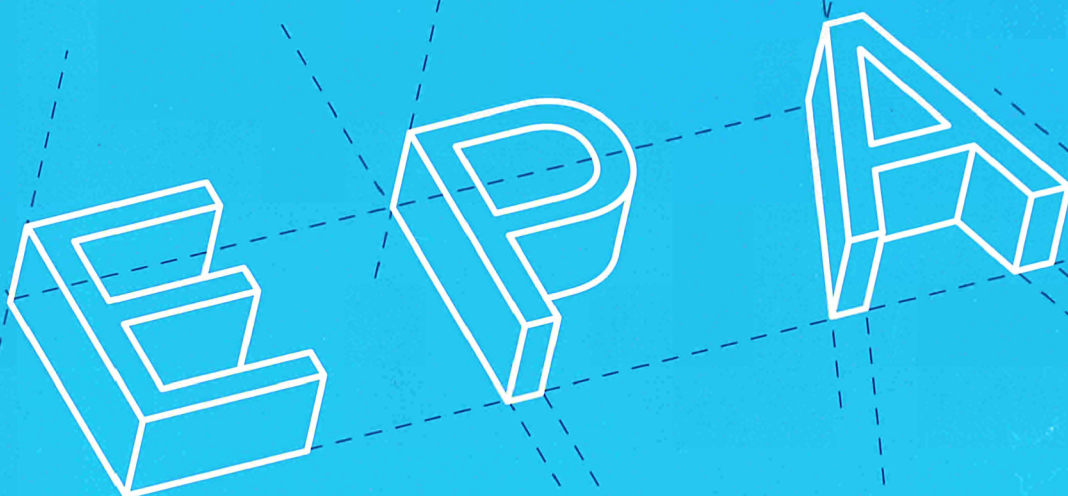


ECONOMIC PARTNERSHIP AGREEMENTS

Start of negotiations



E P A

A new approach in the relations
between the European Union
and the ACP Countries



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The 27th of September 2002 marks the start of negotiations of the Economic Partnership Agreements (EPAs) between the countries from Sub-Saharan Africa, the Caribbean and the Pacific (ACP) and the European Union (EU). This will open an unprecedented process of discussions, research, consultations and negotiations that will put into place our future economic and trade agreements.

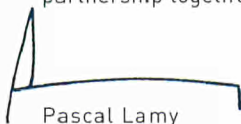
The marginalisation of most ACP countries in world trade negatively affects the lives of millions in these countries. This is why the ACP countries and the EU decided to act together and to negotiate EPAs to better integrate ACPs into the global economy. This was agreed in the Cotonou Agreement. The outcome of these negotiations will have an important impact on trade flows, economic integration and investments in ACP countries. These negotiations will be decisive for their positioning not only vis-à-vis the EU but towards the rest of the world.

The negotiations will take about five years. In parallel to the core-negotiations and in order to secure a consensus on what is the best deal for all, it will be essential to undertake the necessary analysis and assessments and consult all stakeholders. All this will take time. It is therefore important to enter into negotiations of substance as soon as possible. The European Commission, which will represent the EU in this process, is prepared for this and will continue to support the ACP countries so that they are best able to enter into meaningful negotiations.

In preparing for EPAs, we will put a strong accent on the strengthening and deepening of regional economic integration within the different ACP sub-regions. The current situation of market fragmentation often discourages investment and hinders trade. The aim of EPAs will be to create larger, more attractive markets for local and foreign investors. The EPA negotiations have to address the actual constraints for economic integration and for doing business in ACP countries. Therefore, negotiations at the regional level are key elements.

In the end, we have to remember that trade is not an end in itself but a means to promoting social and economic development. This needs clearly the involvement of all actors concerned, governments and regional integration bodies but also business representatives, social partners and civil society at large. We will therefore reach out to these non-state actors and we will try to involve them as much as possible in the design and implementation of EPAs.

The EPA approach and the Cotonou Agreement are the EU's global response to the needs of the ACP group. It is now for both sides, ACP and EU, to act and define our future partnership together.



Pascal Lamy



Poul Nielson

A new approach to ACP-EU trade co-operation

Pursuing its close relationship with the countries of the African, Caribbean and Pacific Group of States, the EU signed the Cotonou Agreement with 77 African, Caribbean and Pacific [ACP] countries in June 2000. This comprehensive Partnership Agreement builds on three interlinked pillars: the political dimension, economic and trade co-operation and development finance co-operation. Economic Partnership Agreements (EPAs) are defined by the Cotonou Agreement as the major instrument of economic and trade co-operation. The political dimension as well as the development finance co-operation and even the objectives and principles applicable to EPAs have been defined in detail by the Cotonou Agreement itself. However, the actual negotiations of EPAs have been postponed and a longer period for the negotiations of EPAs has been provided for to allow the ACP countries to prepare themselves adequately for the new trading arrangements.

The heart of the matter

The special trade relations between the ACP Group of States and the European Union have a long history. Based on non-reciprocal trade preferences since 1975 that grant duty free access to the Community market for nearly all products originating in ACP countries, they have long been considered a model for North-South trade co-operation. Trade preferences have permitted several ACP countries to improve their export performance and to further their development and they have secured a market outlet for a number of ACP products, which would otherwise have been difficult to find.

However, all in all the results have not lived up to expectations: trade preferences have not prevented the ACP from being increasingly marginalised in world trade nor have they prevented the continued decrease in the ACP's share in total EU imports. In addition, only a limited number of ACP countries have taken advantage of the opportunities which trade preferences offer and ACP exports remained scarcely diversified. In summary, trade preferences have neither halted the increasing marginalisation of the ACP region in world trade nor in their trade with the EU. Nor have they overcome the high dependence of the ACP on a few commodities.





Customs

B



Facts and figures

Between 1976 and 1999

- the ACP's share in world exports fell from 3.4% to 1.1%
- the ACP's share in total EU imports fell from 6.7% to 2.8%

In 1999

- 10 African countries represented 61% of total ACP exports
- 9 products represented 57% of total ACP exports

Lessons to be learnt

There are three major lessons to be learnt from past experience:

- **First, ACP-EU trade co-operation has been too limited in its ambitions.** ACP-EU trade co-operation has been entirely centred on 'promoting trade between the ACP States and the Union', thereby neglecting the potential offered by national, regional and international markets. However, trade will act as a motor for growth and development in whatever direction it goes. Moreover, the process of globalisation which progressively leads to the formation of one single world market, open to competition from all possible sources, increases the need for suppliers to seize all opportunities wherever they come from.

As a consequence, the ACP countries and the European Union have decided to broaden the focus of economic and trade co-operation. Its objective, therefore, is no longer to promote trade between the ACP States and the Union, but rather, 'to foster the smooth and gradual integration of the ACP States into the world economy'. It is no longer inward looking but provides instead a stepping stone to 'facilitate the ACP States' transition to the liberalised global economy' (Cotonou Agreement).

- **Secondly, ACP-EU trade co-operation has been too limited in its scope.** Tariffs are progressively losing their importance for trade, whereas non-tariff measures such as standards, veterinary, sanitary and phytosanitary rules or measures to protect the environment, are of growing importance. Moreover, trade preferences can only confer a competitive edge on the preferential market, but they do not automatically generate trade. They only offer opportunities, but they will have no impact if the preferred country is not in a position to seize them.

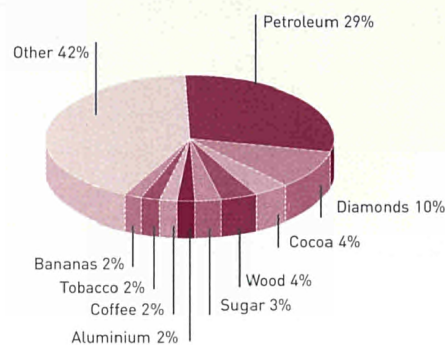


A more comprehensive approach is therefore needed, which is no longer primarily directed at improving access to the Union market, but rather at 'enhancing the production, supply and trading capacity of the ACP countries as well as their capacity to attract investment' (Cotonou Agreement).

→ **Thirdly, ACP-EU trade co-operation has been too limited in its perception.** It has been largely perceived as an end in itself, aiming simply at increasing the flow of the ACP States' exports to the Union. In reality, economic and trade co-operation is not self-serving. It is rather a means to contribute to the achievement of the overall objectives of ACP-EU co-operation and, therefore, a means to promote the sustainable development of the ACP countries and to contribute to poverty eradication in these countries.

As a consequence, economic and trade co-operation must be designed as a tool for development.

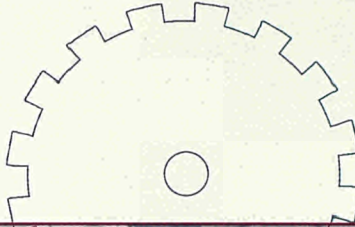
Main products imported from the ACP



The way ahead

In the light of these conclusions, the ACP countries and the European Union agreed 'to conclude new WTO-compatible trading arrangements, removing barriers to trade between them progressively and enhancing co-operation in all areas relevant to trade'. To this end, they agreed to negotiate 'Economic Partnership Agreements (EPAs)' between them.

What is an EPA?



EPAs will significantly change ACP-EU trade co-operation.

The cornerstones

Economic Partnership Agreements are based on four fundamental principles:

- ➔ **Partnership.** EPAs are partnership agreements, implying rights and obligations for both sides. The respect of the obligations by each side is essential for the achievement of the entire undertaking. In particular, while the Union will be prepared to further open up its market for ACP products and to tackle all other trade barriers, the ACP States must be prepared to implement appropriate policies to strengthen their supply capacity and to reduce transaction costs.
- ➔ **Regional integration.** Regional integration is a forceful means to foster integration into the world economy. The EU itself has built its strength on regional integration. The recent progress made in regional integration within the ACP reflects the political decision of the ACP States equally to base their integration into the world economy on regional economic integration. EPAs will therefore be built on regional integration initiatives existing in the ACP. They will further follow the integration process within the ACP, as provided for in the Constitutive Act of the African Union or as may be agreed between the ACP States as a whole.
- ➔ **Development.** EPAs are above all instruments for development. They will therefore be designed with all the flexibility which is required to take account of the economic, social and environmental constraints of the ACP countries concerned, as well as of their capacity to adapt to the new trading environment. On the other hand, they must be integrated into the development policy of the ACP countries and into the support strategies of the EU.
- ➔ **Link to WTO.** EPAs are not an end in themselves, but intended to act as a stepping stone, facilitating the integration of the ACP countries into the world economy. They will therefore build on the rules of the WTO, taking account of the results of the Doha Development Agenda. However, in some respects, they will go beyond the WTO. They will define, within the framework of those rules, more specific and more operational, bilateral trade relations intended to alleviate all practical barriers to trade between the ACP and the EU and to establish closer integration between both sides economies.

Bricks and mortar

EPAs are composed of several elements.

- ➔ The primary building block of EPAs is the establishment of a **free trade area**, which progressively abolishes substantially all tariffs between the Parties, as well as all non-tariff measures, such as quotas and measures having equivalent effect.
- ➔ In this context and in order to increase economic efficiency, EPAs will also aim at **simplifying all requirements and procedures related to imports and exports**, drawing on the highest international standards.
- ➔ Free trade should not only extend to trade in goods, but also to **trade in services**. Indeed, the importance of trade in services in world trade is increasing and there are many examples of sectors where ACP countries have a comparative advantage. Services are therefore potentially a significant source of growth for the ACP countries. In addition, the service sector is increasingly becoming an important input to trade in goods and therefore a key determinant for a country's competitiveness.

The simple removal of border measures will not be sufficient. In particular, the potential gains from trade liberalisation will not be fully realised unless other factors causing segmentation of markets are removed. EPAs will therefore address **all areas relevant to trade**.



For instance:

- ▶ Divergent marketing rules or product regulations (e.g. standards, sanitary, veterinary or phytosanitary rules, rules for the protection of environment or the protection of consumers) and costly compliance requirements can act as practical barriers to trade or result in high cost and inefficiencies.
- ▶ Uncompetitive behaviour of undertakings (e.g. concerted practices or the abuse of dominant positions) can seriously challenge the scale effects and efficiency gains potentially induced by trade liberalisation.
- ▶ An inadequate level of protection on intellectual property rights, more generally, an unstable and unpredictable investment climate or opaque or discriminatory investment regimes will prevent a country from fully realising gains induced by trade liberalisation and economic integration.



The final picture

EPAs will improve the conditions for trade in ACP countries.

- Building on regional integration initiatives existing within the ACP, EPAs will contribute to consolidating and deepening these initiatives. They will help to make regional integration more effective and help to create larger markets. This in turn will help to mobilise domestic savings.
- By removing obstacles to trade between the ACP and the EU, EPAs will contribute to trade policy reforms within the ACP, introducing increased openness and transparency. EPAs will consolidate and lock-in these reforms, and thereby make these policies more predictable and less reversible. This will help to mobilise economic operators and to attract foreign investment.
- By extending ACP-EU co-operation to all areas relevant to trade such as standards, sanitary, phytosanitary or veterinary measures or measures for the protection of the environment, EPAs will help to strengthen the capacity of the ACP States to deal with these issues. They will deepen regional integration by promoting common rules in the ACP region and they will, in a broader context, remove significant obstacles to trade between the ACP and the EU by harmonising these rules or by providing for mutual recognition.
- EPAs will, ultimately, lead to a closer economic integration between the ACP and the EU and thereby further enlarge the market of the ACP countries. This enlarged market, governed by a stable, transparent and predictable framework for trade, will allow for economies of scale, will improve the level of specialisation, will reduce production and transaction costs and will, altogether, help to increase the competitiveness of the ACP region. This, in turn, will lead to an increase in trade flows and investment in the region, with the European Union and with the rest of the world, thereby promoting their sustainable development and contributing to poverty eradication in the ACP countries.



EPAs as a tool for development

Despite their independent legal standing, EPAs are an integral part of the Cotonou approach. They are designed to foster the smooth and gradual integration of the ACP countries into the world economy, thereby promoting their sustainable development and contributing to poverty eradication in the ACP countries. EPAs are, therefore, above all, an instrument for development.

This has two consequences: on the one hand, EPAs must be negotiated and implemented with all the flexibility which is required to take account of the level of development of the ACP countries concerned, of their specific economic, social and environmental constraints and of their capacity to adapt to the liberalisation process. On the other hand, EPAs need to be fully integrated into the development policy of the ACP countries and regions concerned as well as into the support strategies of the EU.

Flexibility of EPAs

EPAs are a comprehensive undertaking in which the objectives can only be achieved if all issues relevant to trade are addressed.

This does not mean that all the elements of EPAs must be in place at the same time and even less that they must be in place by January 2008: the EPAs are a process, which needs to be defined taking into account the economic, social and environmental constraints of the ACP countries concerned as well as their adaptation capacity.

Therefore, while there is a need for a clear understanding on the final results to be achieved, the process which will lead to these results may vary in accordance with the particular situation of the ACP countries concerned and in accordance with the specificity of the issue under consideration.

For instance, while a period of 10 years for tariff dismantlement would be the normal rule, this period can be exceeded for specific sectors or products where this is required by the specific constraints the ACP countries concerned are facing.

Similarly, in trade in services, the start of reciprocal trade liberalisation in this area can be postponed when required.

In the same spirit, in certain trade-related areas, capacity building may be required, as a first step, before actual implementation of the agreed discipline is started.



Key concern budgetary revenue

A main point of concern regarding future EPAs is the impact on the budgetary revenue of ACP states. This is not an immediate problem as tariff liberalisation will only start in 2008 at the earliest and as tariff dismantlement will be a gradual and asymmetrical process. However, in the long term, liberalisation can have an effect on ACP budgets. On the other hand, tariff reduction is a wider issue: independently of EPAs, ACP countries are faced with progressive liberalisation in a regional and multilateral context. Therefore, ACP countries, which have not yet done so, will anyway have to embark on fiscal reforms, whatever their future trade relations with the EU will be. With this perspective, EPAs can contribute to tackling fiscal reforms in a co-ordinated and coherent manner – with the support of the EU as foreseen in the Cotonou Agreement.

An integrated approach

To achieve the objectives of EPAs, the ACP countries have to fully integrate EPAs within their development strategies. On the other hand, the EU will support policies complementary to EPAs through development support as foreseen in the Cotonou Agreement. For example, tariff reduction for goods, regulatory reforms in the service sector and regional rules on technical regulations need to be complemented by policy reforms in areas such as macroeconomic and social policies, environmental policies, administrative and juridical reforms, rural development programmes, etc. The Cotonou Agreement gives a comprehensive framework for co-operation and support in these areas (the 9th European Development Fund covers up to €13.5 billion).





Development support and EPAs

The link to development co-operation will be a key-aspect for negotiations, both in a narrow sense regarding capacities for the negotiations and in a broader sense regarding the capacities to implement EPAs and to increase trade flows.

Capacity needs for negotiations: Many ACP countries and regions do not have the capacity to enter into comprehensive trade negotiations. However, independently of EPAs, they are faced with the challenge of following multilateral, regional and bilateral negotiations at the same time. Instead of exacerbating this situation, the EPA process can help to tackle this by providing substantial support for ACP countries and regions. In line with the Cotonou Agreement, substantial funds are foreseen in the regional support programmes, to strengthen analytical and negotiating capacities of both the regional organisations and their member states.

Development support for trade: In a more comprehensive sense, it is necessary to mainstream trade effectively into development co-operation, an issue which has also been recently acknowledged by the international community in Monterrey and which is an important element of the Cotonou Agreement. Development co-operation programmes in areas such as macroeconomic support, transport, private sector support, etc, need to take the trade dimension better into account. First steps into this direction have been taken by mainstreaming trade concerns in the national and regional strategy papers for the 9th European Development Fund. Also, a number of all-ACP programmes have been or will be initiated to address trade bottlenecks in ACP countries. EPAs will enhance this process by linking trade negotiations closely to development support programmes.



Examples of EU assistance for ACP trade policy

- ▶ **Strengthen the negotiating capacity of the ACP in the WTO and on EPAs:**
ACP WTO and EPA support programmes: €10 and €20 million.
Several co-ordination meetings and studies were held on an ad hoc basis.
However, from July 2002 onwards, programmes will be administered by the Project Implementation Units, based in Brussels and directed by a steering committee. The programmes follow a demand-driven approach, it is therefore up to the ACP countries to come forward with requests for assistance.
- ▶ **Support ACPs to be present in Geneva where WTO activities take place:**
ACP Antenna in Geneva: €1.4 million.
This important representation office was opened in January 2002 in Geneva and serves as a focal point for the ACP Group in Geneva.
- ▶ **Support ACP partners in fulfilling EU sanitary and phytosanitary standards:**
ACP €29 million Pesticide Programme was established in July 2001 with a budget of €29.1 million over 5 years. The project comprises a number of actions: 1) information/communication, 2) a regulatory component 3) a good practice component working on the implementation of adequate quality control systems and 4) a capacity building in order to reinforce the necessary expertise in the ACP countries. Implementation started in July 2001(see www.coleacp.org).
ACP €45 million Fisheries Programme - Over 60 ACP countries export fisheries products to the EU, which is their most significant export market, taking 76% of their total exports of fisheries products. Maintaining access to the EU market is therefore of strategic importance but this access has been limited by the lack of ACP capacity to respond to the sanitary requirements. This has led to the programme 'Strengthening fisheries products health conditions in ACP countries', to improve the existing practices regarding the sanitary standards within the fishery sector. The programme will focus initially on the countries with the most acute needs. Key activities include institutional capacity building, training and technical advice, improved infrastructure (in ports, etc.), support for laboratories and training institutes. The actual implementation of the project will start in December 2002.
- ▶ **Support ACP integration in world trade:**
€50 million facility for all ACP countries.
This amount was suggested by Commissioner Lamy at the ACP Ministers of Trade in November 2001. The funds will become available next year when the 9th European Development Fund comes on stream.
€350 million for ACP regions.
In the course of the recent programming of funds for the next five years, some €350 million have been earmarked for regional integration and trade related technical assistance / trade capacity building.
Unspecified amount in national programmes.
Allocations for trade related support have been foreseen or are possible as non focal sectors of the national indicative programmes. This will depend on actual requests by the respective ACP authorities.



Useful links

The Internet site links of the Directorates-General 'Trade' and 'Development' of the European Commission are: <http://europa.eu.int/comm/trade> (DG Trade) and <http://europa.eu.int/comm/development> (DG Development)

- ▶ If you would like to receive the latest updates on trade and development policies, you can subscribe to the EU Trade News:
<http://europa.eu.int/comm/trade/misc/register.htm>
- ▶ If you are looking for further information on the EU-ACP bilateral Trade relations, please visit: <http://europa.eu.int/comm/trade/bilateral/acp/acp.htm>
- ▶ If you are interested in the interface 'Trade and development', you can consult the DG Trade website:
http://europa.eu.int/comm/trade/miti/devel/index_en.htm
- ▶ If you want to participate in an open dialogue on these issues, please subscribe here:
http://trade-info.cec.eu.int/civil_soc/intro1.php
- ▶ http://europa.eu.int/comm/development/events_en.htm is the DG Development event page. It provides upcoming and past events concerning development aid.
- ▶ If you are especially interested in regional issues, please visit http://europa.eu.int/comm/development/eu_africa_en.htm (African issues), and http://europa.eu.int/comm/development/paysreg_en.htm.
- ▶ http://europa.eu.int/comm/development/strat_papers/index_fr.htm will provide you with the approved strategy papers of DG Development



<http://europa.eu.int/comm/trade>
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