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## REPORT

on Development impact of Economic Partnership Agreements (EPAs)  
(2008/2170(INI))

Committee on Development

Rapporteur: Jürgen Schröder

## CONTENTS

	<b>Page</b>
MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION.....	3
EXPLANATORY STATEMENT .....	10
RESULT OF FINAL VOTE IN COMMITTEE.....	19

## MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

### on Development impact of Economic Partnership Agreements (EPAs) (2008/2170(INI))

*The European Parliament,*

- having regard to the Partnership Agreement between the members of the African, Caribbean and Pacific Group of States of the one part, and the European Community and its Member States, of the other part, signed in Cotonou on 23 June 2000 (the Cotonou Agreement)<sup>1</sup>,
- having regard to Council Regulation (EC) No 980/2005 of 27 June 2005 applying a scheme of generalised tariff preferences<sup>2</sup>,
- having regard to Council Regulation (EC) No 1528/2007 of 20 December 2007 applying the arrangements for products originating in certain states which are part of the African, Caribbean and Pacific (ACP) Group of States provided for in agreements establishing, or leading to the establishment of, Economic Partnership Agreements,<sup>3</sup>
- having regard to the Conclusions of the General Affairs and External Relations Council on the Economic Partnership Agreements of 10-11 April 2006 and on the Aid for Trade of 16 October 2006 and the Conclusions of the European Council of 15-16 June 2006,
- having regard to the Conclusions of the General Affairs and External Relations Council of 15 May 2007 on Economic Partnership Agreements,
- having regard to the Conclusions of the EU 2870th External Relations Council Meeting of 26 and 27 May 2008 on Economic Partnership Agreements,
- having regard to the Resolution of the ACP-EU Council of Ministers adopted in Addis-Ababa on 13 June 2008,
- having regard to the Commission Communication of 28 November 2006 entitled "Communication to modify the directives for the negotiations of Economic Partnership Agreements with ACP countries and regions" (COM(2006)0673),
- having regard to the Commission Communication of 27 June 2007 entitled "From Cairo to Lisbon – The EU-Africa Strategic Partnership work" (COM(2007)0357),
- having regard to the Commission Communication of 23 October 2007 on Economic Partnership Agreements (COM(2007)0635),
- having regard to the General Agreement on Tariffs and Trade (GATT), in particular Article XXIV thereof,

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<sup>1</sup> OJ L 317, 15.12.2000, p. 3.

<sup>2</sup> OJ L 169, 30.6.2005, p. 1.

<sup>3</sup> OJ L 348, 31.12.2007, p. 1.

- having regard to the United Nations Millennium Declaration of 8 September 2000, which sets out the Millennium Development Goals as criteria collectively established by the international community for the elimination of poverty,
- having regard to the Declaration of the second Conference of African Ministers in Charge of Integration, adopted in Kigali, Rwanda, on 26-27 July 2007,
- having regard to the report presented by Ms Christiane Taubira, Member of the French National Assembly, on 16 June 2008: "Les Accords de Partenariat Economique entre l'Union européenne et les pays ACP. Et si la Politique se mêlait enfin des affaires du monde ?",
- having regard to the Resolution of the ACP-EU Joint Parliamentary Assembly of 19 February 2004 on Economic Partnership Agreements: problems and prospects <sup>1</sup>,
- having regard to the Resolution of the ACP-EU Joint Parliamentary Assembly of 23 November 2006 on the review of negotiations on Economic Partnership Agreements (EPAs)<sup>2</sup>,
- having regard to the Kigali Declaration for development-friendly Economic Partnership Agreements (EPAs) approved by the ACP-EU Joint Parliamentary Assembly on 20 November 2007<sup>3</sup>,
- having regard to the Declaration on EPAs by the ACP Heads of State adopted in Accra on 3 October 2008,
- having regard to its resolution of 26 September 2002 on its recommendation to the Commission concerning the negotiation of Economic Partnership Agreements with the ACP countries and regions<sup>4</sup>,
- having regard to its resolution of 17 November 2005 on a development strategy for Africa<sup>5</sup>,
- having regard to its resolution of 23 March 2006 on the development impact of Economic Partnership Agreements (EPAs)<sup>6</sup>,
- having regard to its resolution of 28 September 2006 on more and better cooperation: the 2006 EU aid effectiveness package<sup>7</sup>,
- having regard to its resolution of 23 May 2007 on Economic Partnership Agreements<sup>8</sup>,
- having regard to its resolution of 23 May 2007 on the EU's Aid for Trade<sup>9</sup>,

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<sup>1</sup> OJ C 120, 30.4.2004, p. 16

<sup>2</sup> OJ C 330, 30.12.2006, p. 36

<sup>3</sup> OJ C 58, 1.3.2008, p. 44

<sup>4</sup> OJ C 273 E, 14.11.2003, p. 305.

<sup>5</sup> OJ C 280 E, 18.11.2006, p. 475.

<sup>6</sup> OJ C 292 E, 1.12.2006, p. 121.

<sup>7</sup> OJ C 306 E, 15.12.2006, p. 373.

<sup>8</sup> OJ C 102 E, 24.4.2008, p. 301.

- having regard to its resolution of 20 June 2007 on the Millennium Development Goals – the midway point<sup>1</sup> ,
  - having regard to its resolution of 29 November 2007 on Advancing African Agriculture - Proposal for agricultural development and food security in Africa<sup>2</sup> ,
  - having regard to its resolution of 12 December 2007 on Economic Partnership Agreements<sup>3</sup> ,
  - having regard to its resolution of 22 May 2008 on the follow-up to the Paris Declaration of 2005 on Aid Effectiveness<sup>4</sup> ,
  - having regard to Rule 45 of its Rules of Procedure,
  - having regard to the report of the Committee on Development (A6-0513/2008),
- A. whereas Article 36(1) of the Cotonou Agreement contains the agreement of the European Union and the ACP States to conclude "WTO compatible trading arrangements, removing progressively barriers to trade between them and enhancing cooperation in all areas relevant to trade",
- B. whereas the Council adopted the negotiating directives for the EPAs with the ACP countries on 12 June 2002, and negotiations started the same year with the ACP Group of States on issues of general interest followed by separate negotiations with six EPA regions (Caribbean, West Africa, Central Africa, Eastern and Southern Africa, SADC minus, Pacific),
- C. whereas the 15 Member States of the Caribbean Forum of African, Caribbean and Pacific States (CARIFORUM) initialled an EPA with the EU and its Member States on 16 December 2007,
- D. having regard to Article 231 of the EPA concluded with CARIFORUM, which establishes a CARIFORUM-EC parliamentary committee,
- E. whereas 18 African countries, of which 8 are Least Developed Countries (LDCs), initialled "stepping stone" EPAs in November and December 2007, while 29 other African ACP countries, of which three are non-LDCs, did not initial any EPA, and whereas South Africa had already signed up to the Trade, Development and Cooperation Agreement (TDCA), a WTO-compatible trade regime with the EU,
- F. whereas Papua New Guinea and Fiji, two non-LDC ACP countries, initialled an interim EPA on 23 November 2007, while the remaining Pacific ACP countries (six LDCs and seven non-LDCs) did not initial an EPA,

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<sup>9</sup> OJ C 102 E, 24.4.2008, p.291.

<sup>1</sup> OJ C 146 E, 12.6.2008, p.232.

<sup>2</sup> Texts adopted, P6\_TA(2007)0577.

<sup>3</sup> Texts adopted, P6\_TA(2007)0614.

<sup>4</sup> Texts adopted, P6\_TA(2008)0237.

- G. whereas none of the agreements initialled in 2007 has yet been signed, but all are due to be signed before the end of 2008,
- H. whereas the EU has applied, as from 1 January 2008, the import arrangement to products originating in the ACP States which initialled EPAs or stepping stone EPAs, as provided for in these agreements<sup>1</sup>,
- I. whereas the African and the Pacific regions are continuing negotiations with the Commission with a view to the conclusion of full EPAs,
- J. whereas it has been repeatedly confirmed by all parties, notably through European Parliament resolutions, but also through documents of the Council and Commission, that the EPAs must be instruments of development in order to promote sustainable development, regional integration, and a reduction of poverty in the ACP States,
- K. whereas the adjustment costs resulting from the EPAs will have a significant impact on the development of ACP countries, which, whilst difficult to predict, will consist of direct impact through the loss of customs duties and the costs of regulatory reform and enforcement to comply with the wide range of regulations stipulated in the EPA, and indirect impact through the costs necessary for adaptation or social support in the areas of employment, skills enhancement, production, export diversification and reform of public financial management,
- L. whereas 21 ACP countries have set out specific amounts for the accompanying measures to the EPAs in their National Indicative Programmes (NIPs) for the 10<sup>th</sup> European Development Fund (EDF), some of which have not yet signed an EPA,
- M. whereas the amounts specifically laid down for EPA-related measures in all NIPs constitute only 0,9 % of the total amount of the NIPs (A-envelopes); whereas in addition to this there are substantial indirect EPA supporting measures available such as regional integration and infrastructure as well as Aid for Trade,
- N. whereas the development impact of EPAs will result from their effects on
- the reduction of net customs revenues and its effect on the budgets of the ACP States,
  - the improvement of the supply of ACP countries' economies and provision of customers with imported EU products,
  - growing exports to the EU from ACP countries through improved Rules of Origin, which would lead to economic growth, more employment, and increased state revenue which could be used to fund social measures,
  - regional integration in the ACP regions, which has the capacity to improve the framework for economic development and would therefore contribute to economic growth,

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<sup>1</sup> Council Regulation (EC) No 1528/2007 of 20 December 2007 applying the arrangements for products originating in certain states which are part of the African, Caribbean and Pacific (ACP) Group of States provided for in agreements establishing, or leading to the establishment of, Economic Partnership Agreements (OJ L 348, 31.12.2007, p. 1.)

- the successful use of financing for Aid for Trade in connection with the EPAs,
  - the implementation of reform measures in the ACP countries, in particular as regards public finance management, collection of customs duties and establishment of a new tax revenue system,
- O. whereas it is absolutely crucial to promote and support the trade inside and between ACP regions and between ACP countries and other developing countries (South-South), which will have important positive effects on the development of ACP countries and decrease their dependence,
- P. Whereas the above-mentioned 26 - 27 May 2008 GAERC Conclusions underlined the need for a flexible approach while ensuring adequate progress and called on the Commission to use all WTO-compatible flexibility and asymmetry in order to take account of different needs and levels of development of the ACP countries and regions;
- Q. whereas the inhabitants of the ACP countries are the most affected by the global financial and food crisis, which is threatening to totally destroy the minimal progress achieved towards the Millennium Development Goals,
1. Urges the Council, the Commission and the governments of the EU Member States and ACP countries to do their utmost to re-establish an atmosphere of confidence and constructive dialogue in so far as it has been damaged in the course of negotiations and to recognise the ACP states as equal partners in the negotiation and implementation process;
  2. Urges the Member States to respect their commitments to increase Official Development Aid (ODA), even in this time of global financial crisis, which will enable an increase in Aid for Trade, and to establish accompanying measures in the form of regional Aid for Trade packages for the implementation of the EPAs contributing to the positive impact of the EPAs on development; stresses the fact that signing an EPA is not imposed as a precondition to receive Aid for Trade Funds;
  3. Insists that EPAs are an instrument to development which should reflect both the national and regional interest and the needs of the ACP countries in order to reduce poverty, achieve the MDGs and respect fundamental human rights such as the right to food or the right to access basic public services;
  4. Reminds the Council and the Commission that neither the conclusion nor the renunciation of an EPA should lead to a situation where an ACP country may find itself in a less favourable position than it was under the trade provisions of the Cotonou Agreement;
  5. Stresses that WTO compatibility as defined by GATT XXIV pertains only to trade in goods and requires "substantially all the trade" to be liberalised "within a reasonable length of time"; therefore urges the Council and the Commission to accept any goods-only WTO compatible proposals from ACP countries;
  6. Urges the Commission and the ACP countries to make best use of the funding available for Aid for Trade in order to support the reform process in areas essential for economic development; to improve infrastructure where it is necessary, as the opportunities offered by the EPAs can only be fully taken advantage of if strong accompanying measures are

introduced for the ACP countries; to compensate the net loss of customs revenue and encourage tax reform so that public investments in social sectors are not reduced; to invest in the production chain in order to diversify export production; to produce more higher added-value export goods; and to invest in training and support for small producers and exporters to meet EU sanitary and phytosanitary criteria;

7. Stresses that EPAs concluded with individual ACP countries, or with a group of countries not including all countries within one region, run the risk of undermining regional integration; calls upon the Commission to recalibrate its approach taking account of this risk, and ensure that concluding EPAs does not endanger regional integration;
8. Stresses that the increases in ODA promised by the Member States should, as a priority, be used to redouble efforts to attain the Millennium Development Goals in those ACP countries which are hardest hit by the consequences of the global financial and food crisis, which has threatened, and continues to threaten, the success achieved in attaining these goals;
9. Also underlines that all agreements must respect the asymmetry in favour of the ACP countries regarding both the range of products targeted and the transition periods, and that the EPAs must provide firm guarantees of protection for those sectors which the ACP countries identify as sensitive;
10. Stresses that support measures linked to the EPAs have to take into account the importance of regional integration and economic relations with other developing countries to the development of the ACP countries; ;
11. Urges the Commission to give ACP negotiators sufficient time to evaluate the agreement and to make suggestions before adopting the relevant agreement, taking into consideration the WTO time schedules;
12. Stresses that EPAs agreements should incorporate a revision clause for a revision 5 years after their signature, to which national parliaments, the European Parliament and civil society must be formally associated; stresses also that this period will enable a detailed evaluation of the impact of EPAs on the economies and regional integration of the ACP countries and appropriate reorientations to be carried out;
13. Considers that any trade agreement between ACP and EU, affecting the livelihood of the population, should be the result of an open and public debate with full participation of ACP national parliaments;
14. Urges the ACP governments to implement necessary reforms in order to realise good governance, in particular in the field of public administration, such as in public financial management, collection of customs duties, the tax revenue system, the fight against corruption and mismanagement;
15. Underscores the need for stronger monitoring and evaluation provisions in the EPAs which will determine the impact of the EPA on country and regional development and poverty reduction objectives, not merely EPA compliance levels;
16. Stresses that there is a need to increase transparency in the negotiations and their



outcomes in order to allow for public scrutiny by policy makers, parliamentarians and civil society representatives;

17. Stresses that the implementation of the EPAs should be monitored by a parliamentary body, which has to be provided for in the EPA texts, and that this Parliamentary body should in each case evolve from the ACP-EU Joint Parliamentary Assembly (JPA) and its bodies and remain closely connected to, or part of, the JPA;
18. Considers that the EDF Regional Strategy Papers and Regional Indicative Programmes should contain important, systematic and well-considered support for EPA implementation, taking into account the necessary reform process that would make the EPA a success;
19. Urges the Commission in partnership with the ACP countries to include development benchmarks in the EPA and interim EPAs to measure the socio-economic impact of the EPAs on key sectors, to be determined according to the priorities and for intervals decided by each region;
20. Stresses that it is crucial that forests, biodiversity and indigenous people or forest-dependent people are not put at risk; in this regard, stresses that ACP countries should be allowed to implement rules that limit the export of timber and other unprocessed raw materials and be allowed to use these laws in order to protect forests, wildlife and domestic industries;
21. Instructs its President to forward this resolution to the Council, the Commission, the governments of the Member States and of the ACP countries, the ACP-EU Council and the ACP-EU Joint Parliamentary Assembly.

## EXPLANATORY STATEMENT

### History

The Lomé Agreements of the European Community with the African, Caribbean and Pacific (ACP) countries contained specific provisions for trade preferences for the ACP countries. These trade preferences were more advantageous than the trade preferences that the EU accorded to other developing countries in the framework of the General System of Preferences (GSP).

In the 1990ies, the Lomé preferences came under attack by other developing countries and could be safeguarded temporarily by a WTO waiver. Therefore, the Cotonou Partnership Agreement did contain similar trade provisions than Lomé IV, but included a chapter on New trading arrangements (Articles 36 to 38) under Part Three, Title II (Economic and trade cooperation). According to Article 36, the ACP and EC agreed to conclude new WTO compatible trading arrangements, *"removing progressively barriers to trade between them and enhancing cooperation in all areas relevant to trade."* Article 37 provides that the *"Economic Partnership Agreements shall be negotiated during the preparatory period which shall end by 31 December 2007 at the latest"*.

In 2002, the first phase of negotiations started between the Commission and the ACP group on issues of general interest to the all ACP countries of the agreements followed by separate negotiations with six ACP regions that were established for the EPA negotiations (Caribbean, West Africa, Central Africa, Eastern and Southern Africa, SADC minus, Pacific).

By October 2007, it became apparent that only the Caribbean States were ready to initial a full EPA. The Commission did not seek for transitional solutions, such as extending the GSP+ regime to all ACP countries, but pushed ACP countries to sign WTO compatible interim EPAs. On 23 October 2007, the Commission issued a communication proposing to conclude WTO-compatible interim agreements either on regional, sub-regional or national level.

In order to create such WTO-compatible Free Trade Agreements, they must liberalise "substantially all the trade" (on goods) between the countries involved and "in a reasonable length of time". These provisions of GATT Article XXIV are subject to interpretation, which explains the considerable differences between the initialled EPAs. However, it is the official interpretation of the "reasonable length of time" that the liberalisation process should exceed ten years only in exceptional cases<sup>1</sup>. In the case of the EPAs, a liberalisation process of 15 years was considered acceptable by the EU and the ACP countries. Minimum requirement for covering "substantially all trade" would be not less than 80% of trade between partners. Obviously, these "understandings" are also subject to interpretation<sup>2</sup>.

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<sup>1</sup> Understanding on the interpretation of Article XXIV of the General Agreement on Tariffs and Trade 1994 ([http://www.wto.org/english/docs\\_e/legal\\_e/10-24\\_e.htm](http://www.wto.org/english/docs_e/legal_e/10-24_e.htm)).

<sup>2</sup> Cf., for example, Meyn, Economic Partnership Agreements: A 'historic step' towards a 'partnership of equals'? (ODI Working Paper 288), March 2008, p.10, FN 14; Robert Scollay, "Substantially all trade": Which definitions are fulfilled in practice? An empirical investigation. A report for the Commonwealth Secretariat, University of Auckland, New Zealand, 2005, p. 2f; Axel Borrmann, Harald Großmann, Georg Koopmann, Die WTO-Kompatibilität der Wirtschaftspartnerschaftsabkommen zwischen der EU und den AKP-Staaten, Eschborn 2005, p. 36f.

By the end of 2007, the 15 CARIFORUM states initialled a "full" EPA, 18 African and two Pacific states initialled interim EPAs, and 42 ACP countries did not initial EPAs at all<sup>1</sup>. These countries are trading with the EU since 1 January 2008 on the basis of the GSP.

Out of the 30 African countries without EPA, 26 countries are LDCs, and benefit from the Everything But Arms (EBA) scheme, which gives almost duty free and quota free access (DFQF) to the EU market. Only Gabon, Nigeria and Congo are non-LDCs and their exports to the EU are now subject to the normal GSP tariffs or to MFN treatment (Most favoured nation clause), in case that items are not covered by the standard GSP. There will be no increase in tariffs compared to the Cotonou preferences for LDCs. In the case of Nigeria, about 1.2% of exports will be subject to new tariffs, for Congo 3.5% and for Gabon 6%. Most of the tariff rates will be relatively low, but some may hurt exports in specific sectors, i.e. shrimps, prawns and crabs exports for all three countries, cane sugar and tobacco from Congo, plywood from Gabon, and cocoa and goat products as well as cotton and polyester from Nigeria. The fourth African non-LDC not having concluded an EPA is South Africa, which is already implementing WTO-compatible Trade, Development and Cooperation Agreement (TDCA).

In the Pacific region, only Papua New Guinea (PNG) and Fiji, both non-LDCs, initialled an interim EPA. For the remaining Pacific ACP states, the effects are limited due to limited trade relations to the EU, although 7 out of 13 EPA non-signatory states are non-LDCs.

The interim agreements will be signed and subsequently transmitted to the European Parliament for assent by August 2008.

## Overview<sup>2</sup>

All EPA with the African and Pacific region are interim or "stepping stone" agreements. They all contain liberalisation schedules for imports of goods from the EU in order to fulfil the requirement to be WTO compatible (to liberalise "substantially all trade"). Otherwise, they are different in scope, in content and in its possible effects on the development of the countries concerned.

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<sup>1</sup> Out of the 79 Members of the ACP Group of States, South Africa is participating in the negotiations, but its trade with the EU is ruled by the bilateral Trade, Development and Cooperation Agreement (TDCA); Cuba is not a signatory state to the Cotonou Agreement.

<sup>2</sup> Figures and estimations of this working document are largely based on the three publications:

- Stevens, Meyn, Kennan (ODI), Bilal, Braun-Munzinger, Jerosch, Makhan, Rampa (ECDPM), The new EPAs: comparative analysis of their content and the challenges for 2008. Final report, 31 March 2008
- Meyn, Economic Partnership Agreements: A 'historic step' towards a 'partnership of equals'? (ODI Working Paper 288), March 2008
- Partnership or Power Play?, Oxfam Briefing Paper, April 2008

Further information in particular in Trade Negotiations Insights, published monthly by ICTSD and ECDPM. See also the Website of 'tralac' (Trade Law Centre for Southern Africa).

Table 1: Full and Interim EPAs and their Membership

Region (number)	Full or interim Agreement (9 LDCs (in bold), 26 non-LDCs)	
Caribbean (15)	Antigua & Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, <b>Haiti</b> , Jamaica, St Kitts & Nevis, St Lucia, St Vincent & the Grenadines, Surinam, Trinidad & Tobago	
Central Africa (1)	Cameroon	
Eastern / Southern Africa (10)	<u>EAC (East African Community)</u> <b>Burundi</b> , Kenya, <b>Rwanda</b> , <b>Tanzania</b> , <b>Uganda</b>	<u>ESA (Eastern &amp; Southern Africa)</u> <b>Comoros</b> , <b>Madagascar</b> , Mauritius, Seychelles, Zimbabwe
Pacific (2)	Papua New Guinea, Fiji	
West Africa (2)	Côte d'Ivoire, Ghana	
SADC (5)	Botswana, <b>Lesotho</b> , Namibia, <b>Mozambique</b> , Swaziland	

Source: European Commission

All agreements contain relatively elaborate provisions concerning trade in goods (Most Favoured Nation clause (MFN), standstill provision, rules of origin, sanctions). All interim EPAs contain also provisions for development cooperation, but do not include binding commitments. More comprehensive development provisions will be inserted when full EPAs are concluded. Institutional provisions foresee joint institutions in different configurations, dispute avoidance and dispute settlement regulations. None of the interim EPAs provides for a parliamentary committee, as does the full EPA with CARIFORUM. However, comprehensive institutional arrangements are foreseen for all full EPAs under negotiation. Trade related issues, such as services, investment, competition, environment, social aspects and good governance, are not part of the interim agreements (except some general declarations). These aspects should be negotiated for inclusion in the full EPAs.

### Some key problems of the interim EPAs

- **Trade in goods - loss of revenue from customs duties**

The interim EPAs are intended to be WTO compatible to replace the previous Cotonou preference system, which is not WTO compatible. Therefore, the liberalisation schedules for goods are a core element of the interim EPAs.

In order to identify the effects of liberalisation on development, the start and the total duration of the liberalisation process, the impact of the first tranches of liberalisation and the exclusions must be taken into account.

All EPA regions will reach 80% of liberalisation within a transition period of 15 years. Some regions will complete further liberalisation beyond this period, e.g. the EAC countries by

2033. Product cover, exclusion lists and succession of liberalisation tranches vary widely among EPAs. Deriving from this variety, the effects of the first tranches of liberalisation the ACP countries' economies will differ significantly.

An important element in this context is the customs duties that are an important source of revenue for ACP countries. The revenue from customs duties of most African ACP countries is estimated to be reduced considerably<sup>1</sup>. An ODI/ECDPM study mentions a loss of more than 30% of revenue from customs duties. According to the same study, African ACP countries are expected to lose \$ 359 million per year during the first phase of liberalisation. Côte d'Ivoire is likely to lose \$ 83 million, equivalent to its current health budget for 500,000 people<sup>2</sup>. After liberalisation of all products, losses have been estimated at \$ 139 million for Côte d'Ivoire, \$ 143 million for the Seychelles and \$ 162 for Ghana, less for the remaining African ACP countries<sup>3</sup>.

However, these figures are impossible to verify as the effect of EPAs on economic development can only be roughly estimated. In addition, EPA should stimulate reform processes towards good governance, necessarily including a reform of the public financial management, the tax and duties collecting system and fiscal reform. No simple correlation can be established between economic development of a country and the "burden" of liberalisation through the interim EPAs.

- **Regional integration**

It has been frequently used as argument in favour of the EPA that they would foster regional integration. The six ACP EPA negotiation groups were agreed on proposal of the ACP side. However, they do not coincide with already existing regional groupings. Either they incorporated non-members into existing regional groupings (Caribbean and Pacific) or they divided and merged regional organisations (EAC with COMESA countries; split of SADC; UEMOA in ECOWAS group (+Mauretania)).

Several African regional organisations have agreed to create customs unions. All these regions are still in the process of adjusting their national tariffs to a joint tariff scheme and none of the completed Customs Unions will coincide with an EPA grouping, with the only exception of EAC.

None of the African regions (or the PACPS) was in a position to negotiate collectively a free trade agreement with the EU. Only in 2007, the EAC decided to leave the ESA grouping and to negotiate a joint liberalisation scheme. Structurally most African ACP countries were - and are - not ready to integrate a heavy liberalisation scheme with their main trading partner into their customs management.

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<sup>1</sup> Stevens, Meyn, Kennan (ODI), Bilal, Braun-Munzinger, Jerosch, Makhan, Rampa (ECDPM), The new EPAs: comparative analysis of their content and the challenges for 2008. Final report, 31 March 2008, p. 107ff.; cf. Chris Milner, Oliver Morrissey, Evious Zgovu, Adjusting to Bilateral Trade Liberalisation under an EPA: Evidence for Mauritius, Centre for Economic Development and International Trade, University of Nottingham.

<sup>2</sup> Partnership or Power Play?, Oxfam Briefing Paper, April 2008, p. 19.

<sup>3</sup> Stevens, Meyn, Kennan (ODI), Bilal, Braun-Munzinger, Jerosch, Makhan, Rampa (ECDPM), The new EPAs: comparative analysis of their content and the challenges for 2008. Final report, 31 March 2008, p. 107.

Regional integration thus remains a serious challenge to the African ACP countries. Especially the Commission's switch from a regional to a double approach, to both regional and national negotiations, was not helpful to stimulate regional integration. Commission and ACP negotiators should take the existing regional organisations and their plans for internal liberalisation and cooperation into account as significant economic and commercial benefits can derive from their development.

- **Trade flows and economic development**

For least developed countries, the incentives to conclude a Free Trade Agreement (FTA) with the EU are limited given that they can benefit of the EU's Everything But Arms (EBA) scheme without opening their markets. According to the GSP Regulation, LDCs are able to export Duty Free Quota Free (DFQF) all products except arms and armament to the EU. Transitional arrangements for rice and bananas will be fully completed in 2009. Conclusion of EPAs is of economic interest for LDCs that can benefit of improved Rules of Origin in important sectors such as textiles and agriculture, therewith fostering the development in these sectors.

Non-LDC ACP countries that conclude no EPA would be forced to go back to the normal GSP scheme (or to apply for the GSP+ scheme by 31 October 2008 at latest should they wish to benefit from GSP+ preferences from January 2009). This would entail some reduction in their preferential access for some of their exports to the EU.

While the EU is the most important trading partner for most ACP countries, and virtually for all African ACP states, trade with the ACP countries is rather insignificant for the EU economy. Less than 3% of EU exports are destined to the ACP countries. Some European exporters are expected to gain from reciprocity. In certain products, the abolishment of tariffs may increase EU exports, for instance an increase in meat exports can be expected (which may be welcomed in the present situation)<sup>1</sup>.

On the other hand, the non-LDCs among the ACP countries that initialled EPAs will benefit from DFQF access for all their exports to the EU, i.e. affecting a volume of € 1.4 billion of exports from non-LDC ACP exporters in 2008. Most import volumes are affected in the cases of Mauritius (an export volume of € 270 million), Cameroon (€ 175 million) and Côte d'Ivoire (€ 146 million). DFQF affects mainly the agricultural exports; highest gains are expected in the product groups of rice, grapes, beef and citrus fruits.

- **Adjustment costs**

The removal of the trade barriers for imports from the EU will certainly create opportunities for the ACP economies (i.e. decrease of prices for products needed for economy and consumers in the ACP, more open trade relations), but will also expose ACP economies to more regional and international competition. This will lead in some sectors to economic restructuring and loss of jobs. Replacement of customs duties by other government income will require considerable institution building efforts. Total adjustment costs have been estimated at € 8.9 billion for all ACP regions divided into fiscal adjustment (€ 2.9 billion),

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<sup>1</sup> Cf. Antoine Bouët, David Laborde, Simon Mevel, Searching for an Alternative to Economic Partnership Agreements, International Food Policy Research Institute, Research Brief No. 10, Washington D.C. 2007.

export diversification (€ 2.3 billion), employment adjustment (€ 1.4 billion) and skills and productivity enhancement (€ 2.2 billion)<sup>1</sup>.

- **Aid for trade**

All parties recognise that accompanying measures and development support is necessary to enable ACP countries to take advantage of the potential development benefits of EPAs and to cover at least parts of the adjustment costs. ACP countries insisted that firm legal guarantees for development resources additional to the EDF would be part of the EPAs. Commission and Member States refused to negotiate development resources as part of EPAs. Finally, development chapters or annexes were integrated in the agreements, which do provide for the possibility of EPA funds being created, but accompanied only by pledges to increase development resources spent on trade-related sectors.

The EU side has confirmed that needs arising from EPAs would be addressed within the overall framework of the EU Aid for Trade Strategy established in 2007. This strategy included an EU pledge to deliver by 2010 annually € 2 billion (1 billion from the Member States, 1 billion from the Commission) in trade-related assistance (support for trade policy and regulations and trade development). The strategy also commits the EU to efforts on the wider Aid for Trade agenda in coherence with overall increases in ODA, but without setting any specific quantitative target. The EU made the commitment that about 50% of the increase in trade-related assistance will go to the ACP regions implying an annual increase of € 400 million for this type of assistance.

No additional funds are provided on EU level (EDF and EU budget) following the conclusion of EPAs, while the 10<sup>th</sup> EDF was already significantly increased (in particular the regional allocations) in view of the EPAs. It can be deducted that the trade-related assistance is, in parts, putting a new label on existing actions, in other parts, taking away funds from existing programmes into new trade-related programmes<sup>2</sup>. For the one billion € provided by the Member States, it is not known, if sums will be additional or if Member States will redirect or re-label existing funds. If the Member States will honour their pledge to increase ODA with the objective of reaching 0.7% of GNI, the agreed amounts could easily be additional to existing programmes.

Those trade-related assistance will not cover any loss in customs duties or additional support for economic adjustment, which should come from other sources.

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<sup>1</sup> Cf. Chris Milner, An assessment of the overall implementation and adjustment costs for the ACP countries of Economic Partnership Agreements with the EU, in: R. Grynberg, A. Clarke (ed.), The European Development Fund and Economic Partnership Agreements, London 2006; cf. Chris Milner et al., Some Simple Analytics of the Trade and Welfare Effects of the Economic Partnership Agreements, Journal of African Economics, 14(3), p. 327-358. This study could not consider the specific situation in each region, possible dynamic effects supported by the EPAs and the impact of flanking policies (aid for trade etc.) and, therefore, may overestimate negative effects.

<sup>2</sup> However, it should be mentioned that the financial volume of the 10th EDF had been increased to € 22.7 billion for the 6-years period 2008-2013 compared to € 13.5 billion for the 8-years period 2000-2007 (to which, on the other hand, € 9.9 billion of backlog of the previous EDFs have to be added as well as loss through inflation has to be taken into account).

## **Challenges for the future**

The European Commission strictly refused the idea to renegotiate the interim agreements as was suggested frequently by NGO and academics criticising the outcome of the negotiations at the end of 2007, while Council and Commission agreed that controversial clauses could be reviewed in the full EPAs.

The EU needs to be flexible when going from interim to full EPAs, as costs of market opening for the ACP countries will be high. Commission and ACP negotiators plan to finalise full EPAs all ACP regions by end-2008 or mid-2009. Although negotiations are continuing with all regions, it is unclear if this timing can be honoured. The year 2008 will be crucial for the negotiation of final EPA with - probably - many African and Pacific ACP countries.

The Commission must be flexible to negotiate WTO compatible liberalisation schedules in the full EPAs including the goods excluded from liberalisation. Different schedules of countries in the same regions need to be harmonised as far as possible and acceptable with the ACP partners. For example, in West Africa, only Ghana and Côte d'Ivoire have initialled interim EPAs and these agreements have to be revised in order to reach a joint EPA for the region.

- **Trade in Services**

Many ACP countries have agreed to negotiate on the integration of services in the full EPAs.

The example of the CARIFORUM EPA is ambiguous. The Caribbean EPA has opened up to 75% of services sectors for European service providers even for services such as telecoms, banking, retail and courier services. EU companies have to be treated in general equal to domestic service providers. Restrictions or adjustments for needs of development are only possible in very limited scope, which could be a danger for development on the one hand. On the other, opening markets would further competition and make services cheaper and more easily available. More competition in sectors such as banking and telecommunication could provide important contributions for development.

The EU has opened its service sector for nationals of the CARIFORUM countries, but conditions are limiting strongly the provision of services. Gains for employment and trade opportunities may be less favourable for the CARIFORUM countries' development than expected.

Africa and Pacific ACP states need to be very careful when including the service sector in the EPAs as the gains for development may be small.

- **Foreign Direct Investment**

In order for ACP countries to attract Foreign Direct Investment, potential investors need to be offered the security of transparent and stable rules. In this respect, the CARIFORUM EPA includes a chapter on investment. Countries are opening their markets for investments in different areas, including mining, distribution of electricity and gas, agriculture, forestry and manufacturing. While regional and EU investors are obliged to respect environmental and labour standards, the Caribbean countries have in general given up their rights to introduce



investment safeguard measures to limit or influence regional and EU investors in case that their actions may harm domestic markets or living conditions.

- **Public Procurement**

Transparent rules on public procurement can help improve the effectiveness of public spending, by increasing competitiveness and reducing spending. It can also be an important tool in combating corruption. However, The CARIFORUM EPA contains a clause to grant 'national treatment' to EU suppliers at a later date. This provision may in the future undermine any support for domestic suppliers and stop development of industries in sectors benefiting from public procurement. On the other hand, it should not be neglected that more competition and cheaper offers for public projects could save public money that could be used for genuine development projects.

- **Aid for Trade**

The development element of the EPAs needs to be reinforced and binding commitments for Aid for Trade included in the full agreements.

The year 2008 will be crucial for the design of future Aid for Trade (AfT) measures. Even if the EU's Aid for Trade will only in part provide additional financing, the funds could be used in a concise way to limit negative effects of the EPAs and to use the EPAs to push the economic and administrative development of the ACP countries forward. The integration of AfT in well-designed national and regional development strategies, which are in the responsibility of the ACP countries, is important.

Most National Indicative Programmes for the 10<sup>th</sup> EDF are already negotiated, containing mostly no specific AfT programmes, but leaving some flexibility to include upcoming needs. Regional Indicative Programmes are not yet finalised. Commission and ACP countries should ensure that they contain important AfT components, particular in view of offsetting revenue losses, administrative capacity building in favour of good governance and support measure to improve competitiveness of key economic sectors, depending on each country's specific situation and trading possibilities.

## **Concluding remarks**

The Economic Partnership Agreements (EPAs) have been designed to encourage development and better governance through trade and regional integration in the ACP countries. But during negotiations many African but also European stakeholders got the impression that a number of ACP countries could stand to lose, rather than win with EPAs.

The European Commission repeatedly underlined that the EPAs would be an incentive for the ACP countries to undertake reforms towards good governance, in particular in public financial management, for the development of its own economies in order to improve international competitiveness. However, there are risks that the administrations of the ACP EPA partners, in particular in Africa, are simply overcharged and will not be able to cope with the additional burden - unless far-reaching capacity-building support comes from the EU side.

Nevertheless one should keep in mind that EPAs have potential to improve and strengthen good governance in the ACP countries, especially in African countries. A good governance effect could be reached on the national as well as the regional level: The loss of revenue from tariffs and duties, which will be generated by trade liberalisation, should initiate countries to strengthen their administration in order to make tax collection more diverse and efficient. Stronger regional integration would foster mutual dialogue and more transparency when it comes to cooperation. National particularities, such as the functioning of the fiscal system will have to converge among regional partners. More transparency would also strengthen national parliaments which could easier control government actions and lead to improvement of the public spending systems to save scarce public funding.

EPAs have the potential to strengthen good governance and make state administration more transparent and effective. ACP countries should use this opportunity for reforms.

## RESULT OF FINAL VOTE IN COMMITTEE

<b>Date adopted</b>	8.12.2008
<b>Result of final vote</b>	+: 15 -: 13 0: 0
<b>Members present for the final vote</b>	Margrete Auken, Alessandro Battilocchio, Josep Borrell Fontelles, Danutë Budreikaitë, Marie-Arlette Carlotti, Nirj Deva, Fernando Fernández Martín, Juan Fraile Cantón, Alain Hutchinson, Glenys Kinnock, Maria Martens, Gay Mitchell, Frithjof Schmidt, Jürgen Schröder, Johan Van Hecke
<b>Substitute(s) present for the final vote</b>	Miguel Angel Martínez Martínez, Manolis Mavrommatis, Csaba Öry, Renate Weber
<b>Substitute(s) under Rule 178(2) present for the final vote</b>	Emanuel Jardim Fernandes, Francesco Ferrari, Zita Gurmai, Emilio Menéndez del Valle, Ramona Nicole Mănescu, Jan Olbrycht, Justas Vincas Paleckis, Leopold Józef Rutowicz, Bogusław Sonik