

## Economic Partnership Agreements (EPAs): Where We Are

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It is a pivotal year for the negotiations on Economic Partnership Agreements (EPAs) between the European Union (EU) and the African, Caribbean and Pacific (ACP) group. At present, neither supporters nor opponents of EPAs can demonstrate convincingly that the other is wrong since the negotiations have not yet reached a stage at which key details of any EPA have become clear. By year end either they will have reached this stage (with sufficient known to forecast with reasonable accuracy the range of likely effects) or the delays will have made it imprudent to attempt closure by the current deadline of December 2007.

ODI is monitoring this critical period to provide early analysis of the details (if they emerge) or to explain why delay is essential (if they don't). Supporters argue that EPAs will provide positive assistance to regional integration among the ACP and remove constraints to their development. Critics claim the exact opposite: that EPAs are anti-developmental.

This Briefing Paper explains what details are needed to assess the impact of 'reciprocity' (see Box 1) and why it is essential that they are fully discussed with ACP stakeholders – which is why the endgame must not be rushed (see Box 2). Two other Briefing Papers have been produced at the start of this 'final 18 months': *The Potential Effects of Economic Partnership Agreements: What Quantitative Models Say* (ODI Briefing Paper 5, June 2006) and *The 'Development Dimension': Matching Problems and Solutions* (ODI Briefing Paper 6, June 2006). The former analyses the economic modelling



Barbados: Banana plantation.

of EPAs completed so far and explains how it should be interpreted. The latter identifies key features of the heterogeneous ACP group that need to be addressed by EPAs. Further Briefing Papers will be produced during the second half of 2006 to analyse details emerging from the negotiations.

The first three papers focus particularly on just one element of EPAs: border controls (mainly tariffs) on goods trade. EPAs may contain much else: provisions on services trade (see *The Potential Effects of Economic Partnership Agreements: What Quantitative Models Say*, ODI Briefing Paper 5, June 2006), possibly policies on competition, investment and government procurement, and measures to effect their claim to be 'development' and not just 'trade' agreements. But none of this is certain – even the form that the development dimension of EPAs should take is subject to

### Key points

- ODI is monitoring EPA negotiations to provide early analysis of the details (if they emerge) or to explain why delay is essential (if they don't).
- Disagreements revolve around the characteristics of a post-2007 development regime with the EU.
- EPAs will create winners and losers in the ACP and they must be integrated into development and regional strategies if they are to have a positive effect.

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**Box 1: EPAs – a bluffer’s guide**

The EU has had a special trade and aid relationship with the (now 77 strong) ACP group since 1975. This has been effected through a set of Lomé Conventions and, since 2000, the Cotonou Partnership Agreement (CPA) which provide a special aid budget, trade preferences and a set of joint institutions available equally to all ACP states. They have been one element of a bewildering array of (partly overlapping) trade and aid links between the EU and developing countries.

Until now, the trade preferences have been ‘non-reciprocal’ i.e. in return for favourable access to the EU market the ACP are obliged to do no more than treat imports from Europe no less favourably than from other extra-regional suppliers. This will change from 2008 if the ACP agree to join EPAs which will be ‘reciprocal’: all parties will liberalise trade with their partners. Another major change is that the ACP group will be split between six EPAs (see table 1). How they will relate to each other remains to be settled.

Both changes are controversial – as are other items on the EU’s agenda, which also covers services, competition policy, government procurement and investment. Some ACP states accept some of these items; others do not. The final scope of the EPAs is not yet clear.

deep dispute between the EU and ACP. Moreover, any provisions in the EPAs on these other elements may be drafted in broad terms, the implications of which become clear only over time. The emphasis on goods trade arises because this is a central and relatively straightforward element in any EPA which must necessarily be set out in great detail in the agreement. Once the details are known, a start can be made to forecast accurately the probable impact.

**Change is needed**

The ACP have become marginalised in EU (and global) trade and many members face serious economic problems that, often, can be resolved only if their policies change (see *The ‘Development Dimension’: Matching Problems and Solutions*, ODI Briefing Paper 6, June 2006). This is not in contention: the disagreements revolve around the characteristics of a post-2007 development regime with the EU that would best contribute to overcoming the problems that have not adequately been dealt with through EU co-operation over the last three decades. The task is complicated by the highly disparate characteristics of the group. Not only do the countries differ hugely in size, income and economic structure, but also in terms of policy stance.

This is apparent from the attempts already made by economists to model the effects of EPAs despite the uncertainties over their content (see *The Potential Effects of Economic Partnership Agreements: What Quantitative Models Say*, ODI Briefing Paper 5, June 2006). These suggest large differences in the impact between countries. Nonetheless, they underscore certain general results that will apply to a greater or lesser extent across the board. Like any other regional liberalisation, the gains forecast by trade economists will be smaller than those expected from multilateral liberalisation; in most cases sig-

nificantly so according to the models. There will be revenue effects (as most ACP states derive a high proportion of their taxes from tariffs) and adjustment costs (for domestic producers facing increased competition from imports).

The scale (and timing) of these effects will be determined by the details of what is agreed. Research suggests that the EU’s operational definition of ‘substantially all’ trade could be applied in such a way that in many ACP states the revenue effect is delayed (giving time to put in place alternative taxes) and the adjustment effect muted.<sup>1</sup> But it cannot demonstrate that it will be applied in this way – hence the need for rapid analysis once the EC has revealed its hand, which so far it has kept very close to its chest.

Because of their heterogeneity, attempts to generalise (e.g. that ACP states are all inward looking), whilst very tempting given the region’s trade

**Box 2: Timetable – already close to midnight**

The Cotonou Partnership Agreement (CPA) sets the end of 2007 as the date for creating a new trade relationship between the ACP and EU. The deadline relates to the expiry of a waiver in the World Trade Organization (WTO) that legitimises the preferential trade regime under which the ACP export to the EU – see Box 3. There is provision in the CPA to offer ‘alternative trading arrangements’ for ACP states not willing to enter EPAs and for a mid-term review of the negotiations (originally scheduled for 2004 and now for 2006). Many wish to link these two and for the review to consider alternatives. But without more detail on the content of EPAs it is hard to answer the question ‘alternative to what?’

EPA negotiations are taking place between the European Commission (EC) and the ACP in six regional groups (see Table 1). On the European side, the EC is negotiating on the basis of a mandate approved by the EU member states in 2002. If it can reach agreement on these terms, it must submit the EPAs to the European Council for approval by majority vote; failure to obtain such approval would require renewed negotiations with the ACP. Experience suggests that obtaining Council approval will be time consuming. Realistically, this means that there must be a deal with the ACP at latest by September 2007 for the end of the year deadline to be met.

EPAs will create winners and losers in the ACP and they must be integrated into development and regional strategies if they are to have a positive effect. This means that draft details must be widely discussed within governments and with stakeholders. Hence the need to have full first drafts by end 2006 to allow time for ACP debate and revision before ‘final’ texts are submitted to the EU Council.

marginalisation, is misleading. Differences between countries within EPA negotiation groups are often as wide as the differences between groups. This means that each EPA should provide a framework that can accommodate great diversity (see *The ‘Development Dimension’: Matching Problems and Solutions*, ODI Briefing Paper 6, June 2006).

Nor is it true that in trade policy the ACP are treated differently from other states and, hence, that this ‘difference’ can explain their problems. Although it was once the case that the ACP were treated more favourably than most other countries, it is no longer. About one third of the EU’s imports are sourced from countries that benefit from very similar, favourable import treatment; the ACP are found within this group, but so are many other countries (see Figure 1).

The one clear common ‘trade policy problem’ faced by the EU and ACP relates to the WTO, which is therefore central to the EPA debate. Although EU trade policy treats many countries as favourably as the ACP, the particular ‘peg’ in the WTO agreements on which Cotonou is hung has become more vulnerable to attack than are those used to justify the favourable treatment for non-ACP states (see Box 3). One consequence is that ‘reciprocity’ is an inherent feature of an EPA i.e. ACP members must remove their tariffs on ‘substantially all’ imports from the EU over a ‘reasonable’ period of time.

Those seeking to influence the negotiations can be split into two groups which aim, using terms coined by the European Centre for Development Policy Management for ‘alternatives to EPAs’ and ‘alternative EPAs’.<sup>2</sup> The former reject reciprocity and aim for an alternative WTO peg (or deny the need to find one) which they hope to identify in the 2006 mid-term review (Box 1). The latter focus on the

**Table 1. Membership of EPA negotiating groups**

EPA sub-region	Members <sup>a</sup>
<b>Caribbean (15)</b>	Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, <i>Haiti</i> , Jamaica, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Surinam, Trinidad and Tobago
<b>Central Africa (7)</b>	Cameroon, <i>Central African Republic</i> , Chad, Congo Republic, Equatorial Guinea, Gabon, <i>São Tomé and Príncipe</i>
<b>East and Southern Africa (16)</b>	<i>Burundi</i> , Comoros, Democratic Republic of Congo, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Uganda, Zambia, Zimbabwe
<b>Pacific (14)</b>	Cook Islands, Fed. Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu
<b>SADC-minus (7)</b>	Angola, Botswana, Lesotho, Mozambique, Namibia, Swaziland, Tanzania
<b>West Africa (16)</b>	Benin, Burkina Faso, Cape Verde, Côte d’Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo

(a) Countries in italics are least developed.

‘negotiating policy space’ arising because EPAs will not liberalise ‘all’ ACP imports and will be ‘development’ not just ‘free trade’ agreements, pointing out that this leaves room for alternative and very different development outcomes.

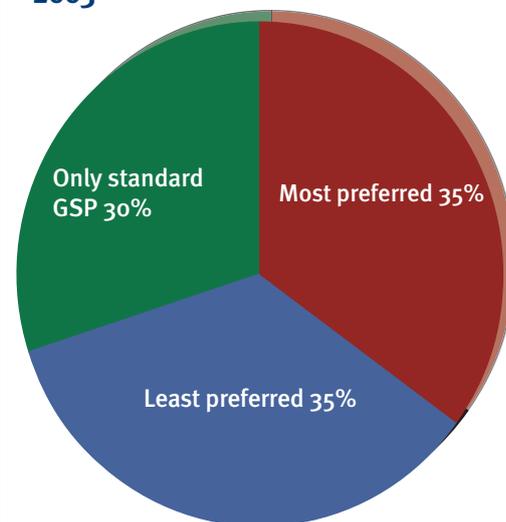
Both groups are hampered by the absence of detail on how this policy space will be used. The EPA regions are progressing at different speeds towards the detailed negotiation phase. East and Southern Africa (ESA) and the Caribbean have already started preliminary discussions with the EC on specific issues related to trade liberalisation and

**Box 3: EPAs and the WTO**

The most fundamental objective of EPAs is to create a regime that is compatible with the requirements of Article XXIV of the General Agreement on Tariffs and Trade (GATT) and Article V of the General Agreement on Trade in Services (GATS). Both require that the ACP liberalise towards the EU – but not on all of their imports, only ‘substantially all’. Nor must the liberalisation occur immediately: only within a reasonable period of time. Much of the detailed negotiation phase into which the parties are now moving will be concerned with applying this flexibility to determine the extent and timetable for liberalisation. The outcome is critical to the design of ‘alternative EPAs’ and to establish the case for ‘alternatives to EPAs’.

Supporters of the latter would peg the post-2007 EU-ACP trade regime on one of two other WTO pegs, each of which has its own problems. One is the ‘Enabling Clause’ that allows developed countries to grant unilateral trade preferences to developing countries. The problem with this is that it may be difficult to justify within the WTO a regime that applies only to the ACP (given their economic heterogeneity) or to design one that, if granted to many other countries too, would maintain the value to the ACP of the status quo. The other peg is to obtain a new ‘waiver’ to succeed the one on which Cotonou is currently hung that expires in 2007. The problem with this is that waivers are more difficult to obtain than in the past as ‘less-preferred’ developing countries are unwilling to acquiesce in their discrimination.

**Figure 1: Share in total EU import value, 2003**



Source: derived from UNCTAD’s TRAINS database

**Box 4: Will EPAs undermine regionalism?**

A constant for supporters of EPAs is that they will foster regional integration among the ACP. This could be true if the EC achieves its objective of negotiating a single liberalisation schedule to be applied by all ACP states in each EPA so that, by the end of the implementation period, they have identical regimes for imports from the EU (and, ideally, from other sources too). But this outcome is far from certain. At present, there is a wide disparity in the tariffs that ACP states apply to imports from the EU.<sup>3</sup> Will EPAs add to pressure to spur forward the process of integrating trade policy, which is very faltering in most sub-regions, or will it slow down the process by increasing the stakes? The ACP will be opening their markets to goods not just from each other but also to competitive (and in some cases subsidised) ones from the EU.

The answer cannot be known even provisionally until the draft schedules start to emerge. Given the differences in initial positions, harmonisation of approach between ACP states will take a lot of time – adding to the need not to rush the end game. If regional partners do not have identical tariffs towards the EU the effect will be to give new impetus to maintaining border controls between them – to intercept European goods entering an EPA state with a low tariff and being transhipped to one with a high tariff. This applies with particular force to countries that stay outside an EPA because they reject reciprocity: their self-exclusion will achieve nothing unless they monitor rigorously trade with their regional partners, making real integration less likely.

the content of an EPA. But some other regions still have to overcome important divergences with their European counterparts before moving on to such substantive concerns.

The most obvious (but not the only) difference between countries in the EPA negotiating groups is whether or not they are least developed countries (LDCs) and, hence, eligible for the Everything but Arms (EBA) scheme. This gives all LDCs duty and quota-free access to the EU market for all their exports regardless of whether the Cotonou trade regime continues after 2007. Every negotiating group contains both LDCs and non-LDCs, with the former accounting for up to four fifths of the members of some groups. Intra-ACP integration could be badly disrupted if some of the LDCs chose to rely on EBA and exclude themselves from an EPA with their neighbours (see Box 4).

There are ways to avoid this undesirable outcome by making EPAs more attractive to LDCs than is EBA. But only one of these is a ‘built-in’ feature of EPAs: that it will be contractual and predictable whilst EBA is not. Others will materialise only if the EU offers sufficiently attractive terms in areas that fall outside EBA, which is limited to trade preferences on goods.

One option would be for the EU to offer substantial, liberal provisions on its imports of services under EPAs. Another is to offer substantial supply-side aid commitments to help the ACP take advantage of their access to the EU market as well as to adjust to the effects of reciprocity. A third is to introduce more liberal rules of origin into the EPAs that address the well-founded view that the current rules are a direct constraint on ACP export diversification.

**The end game**

Such positive features of an EPA will need to be weighed against its costs (perceived or real) by all who are affected by or wish to influence the outcome of the negotiations. As they will have very little time to do so, an action plan for the end game is essential. As 2006 progresses and detailed positions emerge it should become much easier to forecast the potential effects of the proposals of each participant. Some of the views currently being expressed will prove to be wrong and others right (or potentially right).

As this process develops it will become possible to develop alternatives (either to, or within EPAs) that achieve the stated objectives but via different routes. At a minimum, these will provide a benchmark against which to judge the details that emerge from the negotiations. At best, they may be embraced by the negotiators as a way to reduce adverse effects and enhance positive ones. The mid-term review provides an opportunity to take stock but its timing is critical: too soon and it will have nothing of substance to review; too late and it cannot influence what happens next.

Participants and observers need to start penciling in deadlines for each step of this process that work back from 31 December 2007, and to articulate what should happen if they are not met. How late is too late? How can the ‘final deadline’ best be put back without either removing the pressure that negotiations always need to come to a conclusion by a given date, or laying ACP exports open to challenge in the WTO? As 2006 progresses, ODI will be contributing answers.

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