

# The rough guide to Economic Partnership Agreements (EPAs)

## CAFOD briefing

*The future of 750 million of the world's poorest people will be decided by new trade deals called Economic Partnership Agreements (EPAs), currently being pushed by the European Union (EU). Although European Trade Commissioner, Peter Mandelson, has pledged that EPAs will be 'tools for development', many poor countries are concerned that they will lead to deepening poverty. This briefing looks at what EPAs are, why they are important and why developing countries are worried about them.*

### What are Economic Partnership Agreements (EPAs)?

Economic Partnership Agreements (EPAs) are currently being negotiated between the European Union and 79 countries in Africa, the Caribbean and the Pacific (ACP), including all but one of Africa's sub-Saharan nations.

EPAs are proposed trade agreements that are part of an envisioned new relationship between Europe and Africa, the Caribbean and the Pacific, set out in the Cotonou Agreement in 2000.

EPAs are perhaps the most important trade talks faced by ACP countries. For most of them, the EU is the biggest export market and also the largest aid donor. EPAs also have major implications for how ACP countries trade with their closest neighbours and for the national policies they put in place to try to help them succeed in a globalised world.

EPAs will almost certainly have a greater impact on ACP countries than the outcome of the 'Doha Round'

of World Trade Organisation (WTO) negotiations currently being held, where the needs of developing countries have received much rhetorical attention. As one ACP negotiator recently stated: "If we succeed under Doha and we fail in Europe, we fail."

While little is known by the general public about these agreements (which must be signed by the end of 2007) there is growing disquiet among ACP governments, parliamentarians, development experts and non-governmental organisations about their possible impact.

### Why have EPAs come about?

Many European countries have had long-standing, special trading arrangements with former colonies in Africa, the Caribbean and the Pacific, providing vital markets for their products. These arrangements were called 'preferences'.

Importantly, these EU preferences provided ACP countries with market access and did not require ACP countries to give the EU market access in return.

Over the years preferences have enabled ACP countries to export to the EU – without them, ACP countries would have faced prohibitively high levels of European protection. However, the success of preferences has been limited, and many ACP countries remain low-value commodity exporters.

This old arrangement is now under threat from the new trade game in town – the World Trade Organisation.

The WTO is a global institution rooted in the principle of 'non discrimination' between trading partners, meaning countries are forbidden to favour one country over another. As a result, the EU's preference arrangements clash with the brand of free global trade being promoted by the WTO. Europe's arrangement for preferential market access for ACP countries is now potentially open to challenge by other countries through the WTO – and to being ruled illegal.

Rather than defend these preferences at the WTO, Europe is now seeking to change the way in which it gives market access to ACP countries.

The EU has proposed that it does this by negotiating 'bilateral' free trade agreements with ACP countries, which it is calling EPAs. Bilateral trade agreements have the advantage of being allowed by the WTO, but they have a major drawback: they take no account of development needs.

### Unequal rules...

Crucially, bilateral trade agreements such as EPAs expect both sets of countries to open up their markets equally (what is called 'reciprocity') to each other to include almost all trade. These rules are set out by the WTO.

Bilateral agreements date from a time when rich countries would negotiate directly with each other. They are designed to achieve tough liberalisation commitments between developed partners of equal strengths.

### ...risk unequal outcomes

The problem is that the European Union and the ACP are not partners of equal strength, and tough liberalisation commitments pose real dangers to vulnerable ACP producers.

The European Union's EPA proposals could lead to free trade areas in which the poorest African countries, their farmers, producers and companies would compete openly with the richest European countries, their producers and companies – and their heavily subsidised farmers.

#### A challenge to global governance

A core principle of Catholic Social Teaching is that the needs and rights of the poorest should be society's main priority. It follows that the attention of our laws and rules should be weighted in favour of those who are weakest and most disadvantaged.

In bilateral agreements, which are increasingly the *de facto* method through which global trade occurs, this need for special treatment isn't recognised.

In fact current trade rules are weighted against poor countries to favour the rich.

EPAs therefore face the challenge of addressing this problem. Everyone agrees that giving market access for the poorest is a good thing, but how do we do this without expecting unfair demands in return?

Imbalances between the EU and the ACP are stark – the European Union contains five of the ten largest economies in the world, the ACP contains 38 of the world's 45 least-developed countries.

#### ● Too much to lose

Where EPAs are concerned, this imbalance is magnified by an additional two factors.

First, ACP countries are faced with a loss of current preferential market access, making it much harder for them to walk away from the table.

For ACP countries, EPAs pose an unenviable choice: free trade or no trade – in other words, rapidly open your markets to the EU or lose your largest export market.

Second, trade negotiations on EPAs are taking place at the same time as talks about future levels of EU aid.

This gives the EU an extra bargaining chip, and the ACP another reason not to cause trouble. In many ACP countries the finance minister – tempted by promises of much needed extra aid – is a much more powerful figure than the trade minister, who he can overrule.

#### ● No focus on development

Another major problem with EPAs is that negotiations are being conducted solely by the EU's trade negotiators, with minimal consultation with development experts.

EU trade negotiators may be excellent at getting concessions for Europe in tough negotiations with strong economies, but there is a real question as to their suitability to positively shape what are meant to be agreements that centre on development needs.

## What's wrong with EPAs?

### 1. Unfair process

#### ● Power imbalances

***"EPAs are a real problem for poor countries ... Less-developed countries... have neither the time nor the capacity to negotiate strong agreements with the EU."***

Eveline Herfkens, the UN Secretary General's co-ordinator for the campaign to promote the Millennium Development Goals (MDGs)

One of the problems CAFOD sees constantly at the WTO is the power imbalance between rich and poor countries. Rich countries have vast teams of negotiators, lawyers and advisors who are able to dominate negotiations. Poor countries often have just one or two negotiators who struggle to attend multiple meetings and meet the many demands for analysis and expertise.

Nevertheless, despite the imbalance in resources at the disposal of rich and poor countries, one virtue of the WTO is that developing countries at least have strength in numbers. Developing countries outnumber rich countries, and – with 'one member one vote' – are able, in theory, to stand up to rich-country bullying more effectively.

In bilateral trade talks such as those to negotiate EPAs, however, the power of poor countries is diminished. Here, poor countries face an even greater imbalance in resources and expertise: not only do they have their hands full dealing with WTO negotiations, they also have to operate without the 'one member, one vote' principle which could override economic muscle with democratic decision-making.

### 2. Unfair proposals

#### ● Unwelcome new issues

***"We are worried over this backdoor approach ... where is the convergence between the WTO ... and the EU approach to EPAs?"***

Dipak Patel, Zambian Minister of Trade

There is a fear that the EU is using its power to strong-arm ACP countries to sign up to trade issues that may not be in their interests.

At the WTO in 2003 poor countries stood up to the EU and refused to start talks on new areas of trade (in investment, competition and how government issues contracts). Now the EU is pushing the same plans through EPAs, where ACP countries have less bargaining power.

ACP countries have opposed these issues in EPA negotiations, collectively stating that this area of disagreement was of a "fundamental nature". But the EU continues to insist that they be negotiated.

The EU says that it is only proposing these issues for the good of developing countries. But many disagree with the EU's analysis, not least ACP countries. They are in good company; Joseph Stiglitz, Nobel Prize winner and former Chief Economist at the

World Bank has said that the imposition of these issues on developing countries would "almost surely impede development".

- **Sweeping liberalisation of ACP economies**

***“We fear that our economies will not be able to withstand the pressures associated with liberalisation.”***

President Mogae of Botswana

Through EPAs, Europe is demanding ‘reciprocal’ trade liberalisation between the EU and the ACP. In other words, Europe and Africa have to open trade barriers equally.

This form of liberalisation would pitch very poor and undeveloped producers into direct competition with European industries that have benefited from years of investment and development. Sweden would compete directly with Sudan, Britain directly with Burkina Faso.

For ACP countries, liberalisation poses real problems. Many do not have the basic prerequisites to allow a more open trade regime to function properly – they have weak financial and economic institutions, poor infrastructure and pressing social problems such as HIV/AIDS.

In agriculture, poor countries’ farmers, who receive no government support, may find their markets flooded by heavily subsidised agricultural products from the EU. This would not be an equal contest – the average EU farmer receives in agricultural support 100 times the average annual earnings of an African peasant farmer.

But the EU is refusing to talk about reforming its Common Agricultural Policy. The message is clear: ACP countries aren’t powerful enough to make the EU consider inconveniencing its own producers.

***“If EPAs carry through, African countries have to kiss goodbye to their industrialisation efforts.”***

Tetteh Hormeku, trade campaigner, Ghana

As worrying is the threat EPAs pose to industrial development within ACP countries. ACP negotiators are concerned that in the short term, their industries will be unable to compete with European companies, and that in the long term this could undermine the economic sectors upon which their future economic development could rest.

Why is this level of liberalisation being proposed? Bilateral trade rules set at the WTO state that countries should eliminate 90% of trade barriers over a period of around ten years. There is a fierce debate about how flexible these rules are in terms of the percentage of trade ACP countries would have to open, and the timescale over which it would occur. But the bottom line is that through EPAs, ACP countries have to open up, and at a pace dictated by WTO rules rather than their development needs.

### **3. Damaging consequences**

In addition to problems with the detail of EPA proposals, EPA implementation could also have negative knock-on effects for ACP countries.

- **Undermining regional integration**

EPAs are being negotiated between the EU and six regional groupings – the Caribbean, the Pacific, East Africa, West Africa, Southern Africa and Central Africa.

Strengthening regional trade is important, particularly in Africa, to help small economies grow. However, the EPA groupings threaten to fracture home-grown attempts to pursue regional integration.

The first potential problem is that least-developed countries already have market access into the EU through the ‘Everything but Arms’ agreement. They therefore have little incentive to join an EPA, because it asks them to open their markets but gives them little in return.

Given that less-developed countries make up three quarters of African ACP nations, this is a major obstacle threatening to split poor countries from their richer, regional neighbours.

The second potential problem is that the EPA negotiating groups do not match existing African regional groups, and in fact overlap. The aim of regional integration is to have a common external tariff, which requires a regional coherence of African trade policies (in the same way that the EU has its own ‘common market’). But having overlapping loyalties – one to an EPA regional group, the other to another African regional group – undermines this.

- **Draining money from the MDGs**

***“A major concern is the impact that the trade liberalisation to be wrought by EPAs would have on fiscal revenue ... The prospect of falling government revenue ... imposes a heavy burden on your countries and threatens to further hinder your ability to achieve the Millennium Development Goals.”***

Kofi Annan, UN Secretary General

Most ACP governments suffer large shortfalls in the money they need to spend on health and education to reach the Millennium Development Goals (MDGs). Aid and debt relief help – and more is needed – but ACP governments also need tax revenues.

VAT and income tax are hard to collect when your economy is mainly informal and your bureaucracy is weak, so many governments rely on the revenue they collect from trade tariffs. For example, in Uganda, trade taxes represent 48 per cent of total government revenue.

The removal of tariffs on EU imports could reduce poor-country governments’ revenues drastically, hitting their spending on health, education and other essential services. The EU has failed to give a guarantee to ACP countries that it will make up for any revenue losses that EPAs create, thus creating further unease amongst ACP governments.

### **Making EPAs work for poor countries**

***“EPAs need to change so as their development focus is strengthened.”***

European Trade Commissioner Peter Mandelson

***“The European Commission ... must ensure that EPAs support development needs ... changes will need to be made in order to do so.”***

The Commission for Africa

There is a growing sense of the need for real change to EPAs. The Commission for Africa recently recommended sweeping changes, which caused the UK government to alter its public position.

European Trade Commissioner Peter Mandelson has also promised a ‘new start’ for EPAs. There is hope – awareness is growing, and Europe has the power to deliver much-needed changes.

However, EU negotiators remain hostile, describing proposals for change originating from the Commission for Africa as “major and unwelcome”.

The question that remains to be answered is: how much pressure is the UK government and Peter Mandelson prepared to exert on the European Commission trade negotiators? Much will depend on the level of disquiet from the ACP and the public as EPA talks speed up.

### **What needs to change?**

The EU could take several immediate and important steps to make EPAs work for developing countries. These are:

- improve their accountability and strengthen the development aspects of their proposals
- drop issues that go beyond those agreed by ACP countries at the WTO
- drop the demand for reciprocity within EPAs and allow ACP countries to open their markets based on national development priorities, not arbitrary timeframes
- provide ACP countries with alternative forms of market access that the EU promised at the start of negotiations
- provide a guarantee to ACP countries that the EU will provide full compensation for any revenue losses occurring as a result of EPAs.

In the medium term the EU also needs to play an active role in shaping global trade rules to meet the needs of developing countries. There is a growing consensus that forcing poor countries to liberalise doesn’t work and that trade policies that help reduce poverty are best decided by national development priorities.

Turning this consensus into accepted practice means standing up for special rules for developing countries, both at the WTO and in EPAs.

### **The rough guide to Economic Partnership Agreements (EPAs)**

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### **Further information from CAFOD**

**The Wrong Ointment: Africa and EPAs**  
<http://www.cafod.org.uk/var/storage/original/application/php7ywMCg.pdf>

**CAFOD Submission to the International Development Select Committee on EPAs**  
<http://www.cafod.org.uk/var/storage/original/application/php1gH0Fq.pdf>

**The Rough Guide to the WTO**  
[www.cafod.org.uk/policy/wto-roughguide.shtml](http://www.cafod.org.uk/policy/wto-roughguide.shtml)

**The Rough Guide to Globalisation**  
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