



European Commission

ECONOMIC PARTNERSHIP AGREEMENTS

Means and Objectives

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1. NEED FOR A NEW APPROACH

Trade between African, Caribbean and Pacific (ACP) countries and the European Union (EU) under the Lomé Convention has been too limited in its ambition

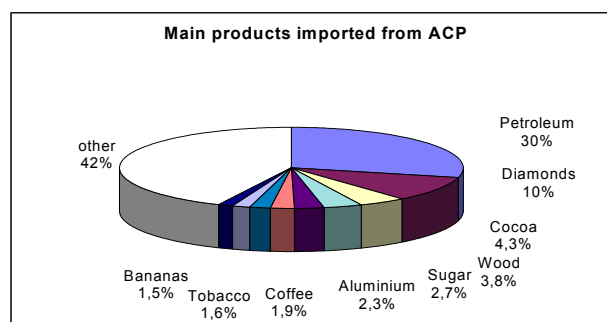
Trade preferences can give a competitive edge and can offer opportunities, but have a limited impact, if the beneficiary country is not in a position to seize them. Also, preference margins are bound to gradually be eroded as multilateral trade liberalisation progresses. They will thus further lose their importance for directing trade.

To be secure, unilateral preferences under Lomé and Cotonou required a WTO waiver

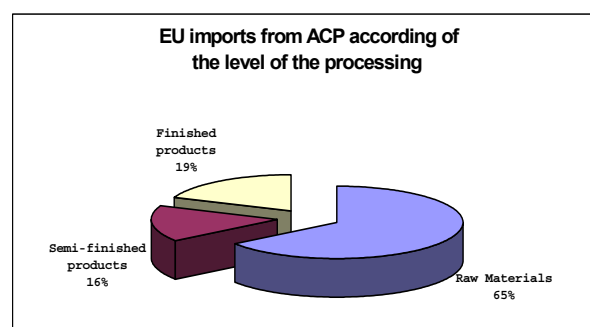
It is clear that the waiver granted in Doha will not be extended beyond 2007.

Unilateral preferences do not tackle the main problems in ACP countries

This is reflected in the share and the composition of EU imports from ACP



countries: in 2002, only 3% of EU imports originated from the ACP against 6,7% in 1976. 65% of these imports consisted of raw materials. Also, only ten products made up for nearly 60% of EU imports from the ACP.



Conclusion: Economic Partnership Agreements (EPAs) respond to the need for change: they take a new, more comprehensive approach, tackle all barriers to trade, mostly through re-enforcing regional integration and addressing supply-side constraints, and form secure, WTO-compatible trade arrangements.

2. IMPORTANCE OF SOUTH-SOUTH INTEGRATION

Larger, more attractive markets are a key-criterion to attract investments

At present, small, segmented markets in Africa are too expensive and not competitive. EPAs will contribute to higher growth and greater opportunities through regional integration. Larger markets mean more potential customers, and are therefore more attractive to investors. More investment means more growth and employment.

The need for a bottom-up approach by identifying economic priorities of

the region and locking them into the EPAs

The negotiations will tackle south-south integration as a priority. Both sides have to discuss the regional integration agenda regarding the main trade domains – goods, rules and services. Accordingly, EPAs will be tailored to the regional situation. By extending the South-South integration to a South-South-North integration, the regional commitments will be locked into EPAs which will increase their impact, enhance their credibility and give confidence to investors.

Examples

One priority for business in ACP regions is to enhance **trade facilitation** within the region in order to cut red-tape (which means costs and delays, but also corruption) at intra-regional border-crossings. EPA negotiations will increase the focus on regional trade facilitation policies, and will lock-in commitments (e.g. on simplification, transparency and co-operation) by extending them progressively to trade with the EU.

A regional approach to **SPS and technical regulations**, which will be extended to trade with the EU through a co-operation agreement, will allow for economies of scale and benefit business in the region, importers and exporters.

EPA negotiations give new impetus to advancing the regional integration agendas

With regional negotiations starting, we observe a new dynamic between key players in the ACP regions. For example, the Economic Community of West African States (ECOWAS) accelerated its integration plans in line with the EPA timetable, and agreed to

put in place a customs union in 2007, just before the entry into force of an EPA with the EU. We also observe that negotiations of EPAs, supported by technical assistance, help to enhance the capacity of the regional integration organisations. This will strengthen the political standing of regional initiatives and so improve their credibility.

Conclusion: EPAs will be tailored to regional specificities and constraints and will enhance and accelerate regional integration. EPAs will therefore stabilise the economic environment and provide incentives for trade and business.

3. RECIPROCITY IN A FREE-TRADE AGREEMENT (FTA) IS AN OPPORTUNITY, IF HANDLED WITH CARE

Trade liberalisation can be, in itself, beneficial for the ACP

EPAs will reduce the cost of doing business in the ACP and will increase opportunities for business. More than 50% of ACP imports from the EU are capital goods or intermediate inputs.

Reducing trade taxes on imports from the EU will reduce the costs of production in the ACP directly, and make it easier for the ACP to attract investment for both domestic and the export markets. In more general terms, trade liberalisation can improve economic governance, creating a more open and competitive playing field.

ACP trade liberalisation will be negotiated and not imposed

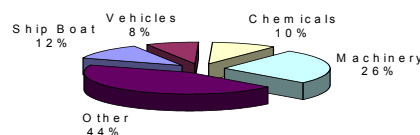
The European Commission’s negotiating mandate states: “The timetable for tariff dismantling and the final product coverage of trade liberalisation by the ACP countries will reflect the economic, social and

environmental constraints they are facing as well as their capacity to adapt their economies to the liberalisation process. Therefore, a transitional period, compatible with the objectives of the Cotonou Agreement and WTO rules, will be applied in a flexible way, to take into account specific constraints of the ACP countries concerned. The same flexibility will be applied in relation to product coverage and the calendar/rhythm of liberalisation commitments by the ACP countries.”

Already in the past, the European Commission has provided for asymmetry in trade agreements

But, as EPAs are being negotiated with the poorest and most marginalised countries, they can provide for more flexibility and asymmetry than existing FTAs with the EU, where this is required to achieve the development objectives of the Cotonou Agreement.

Composition of EU exports to ACP in 2002



Example for asymmetry in existing FTAs with the EU (I)

South Africa

The Trade, Development and Co-operation Agreement (TDCA) with South Africa foresees a gradual and asymmetrical process of tariff liberalisation. Whereas the **overall coverage** of the Agreement will eventually amount to **90% of EU-South Africa trade**, the EU is opening its markets more rapidly and more extensively than South Africa. It is true that **South Africa will liberalise 86% of its EU-originating imports within 12 years**. However, this needs to be put **in the right context**: before the entry into force of the TDCA, South Africa granted already free access to 53% of its EU-originating imports (Most Favourite Nation duty free). South Africa's liberalisation within the TDCA will gradually cover 62% of EU-originating imports by 2003 and 70% by 2005, so as to reach 86% by 2012. Consequently, and taking into account MFN free access to South Africa before the TDCA, **South Africa will have to extend free trade access to only around 33% of its EC-originating imports in the course of a 12 years transition period.**

Examples for asymmetry in existing FTAs with the EU (II)

Barcelona process

General: The concessions granted in the framework of the Association Agreements (AA) are asymmetric. The EU gave immediate duty free on all industrial products whereas the Mediterranean countries granted concessions progressively over a transitional period of up to 12 years. Agriculture is covered and liberalised progressively but will be re-visited on the basis of revision clauses.

Tunisia: The EU granted duty free access to all industrial products from Tunisia. In return, Tunisia is progressively eliminating duties and charges for industrial products from Europe over a maximum period of 12 years. But, Tunisia has unilaterally anticipated the implementation of the agreement for industrial products from 1st January 1996!

Lebanon: While EU markets have been duty and quota free to Lebanese industrial products since 1978, the new Agreement foresees a gradual reduction in Lebanese tariffs on EU industrial products, starting only at year six to become zero at the end of year twelve. On agriculture, the EU has removed duties on a wide range of products from Lebanon. In return, Lebanon removes duties on some 120 product groups from EU and makes tariff cuts of 30% to some 100 product groups. Also in this case, tariff reductions are phased gradually, from year six to year twelve of the transition period.

Market access to the EU – the most important market for the ACP – will be improved and secured

The reciprocal approach will guarantee secure World Trade Organisation (WTO) compatible arrangements.

In this framework, preferences will not depend on purely internal EU decisions or WTO politics anymore. This security will facilitate the transfer of technology through triggering long term investment.

Example

Most recently, European flower traders have expressed an active interest in increasing investment in South East Africa. However, they are now waiting for further information on the timing and objectives of EPA negotiations, as this will have a long-term impact on the security of their investment, both in terms of business environment and duty free access to the EU.

Conclusion: Reciprocity will stabilise the framework for trade, secure market access to the EU and provide opportunities by attracting investment and increasing productivity. Liberalisation on the ACP side will be negotiated and not imposed, taking account of development objectives and constraints.

4. DEVELOPMENT DIMENSION

EPAs are an instrument for development by strengthening regional integration and improving the business environment in a credible and sustainable way. In addition, EPAs and development support measures must be complementary and mutually supportive

The main EPA topics need to be increasingly reflected in the development policies of the ACP countries and regions. For example, the Poverty Reduction Strategy Papers drafted by Developing countries

governments have to put more emphasis on trade, regional integration and economic governance. Also, EPAs have to be fully integrated into the development co-operation policies of the EU. Special joint regional task forces will accompany negotiations and initiate trade-related support in the ACP-EU development co-operation. Regarding programming, the mid-term review in 2004 is the next occasion to put more emphasis on EPA related assistance in the Commission's Country Strategy Papers for the ACP.

Example

For many ACP countries, **tariffs** are an important source of government revenue (it can account for as much as 40% of public budget revenues, if aid is excluded). However, given the sub-optimal nature of tariffs as a basis for budgetary income (strong bias against exports) numerous countries are carrying out fiscal reforms to diminish taxation of trade. As EPAs will accelerate the process of replacing tariffs by other tax revenue such as income tax or VAT, the Cotonou Agreement foresees **transitional support** (budgetary support, Technical assistance). It is agreed that special consideration will be given to countries which face budgetary adjustments due to regional integration and EPAs.

EPAs are only one feature in a much more comprehensive approach defined by the Cotonou Agreement – trade is not a panacea for development in the ACP.

EPAs will have a positive impact on national and regional economic governance. However, EPAs will need to be complemented by the appropriate macroeconomic and social policies, environmental policies, administrative

and legal reforms and supply side measures (e.g. private sector development, infrastructure development). It is clear that, for example, the supply-side measures themselves cannot be subject of EPA negotiations. However, the task of the above mentioned regional task forces will be to assure the link between EPA negotiations and the complementary measures.

Conclusion: Development is at the core of EPAs. Both, ACP development strategies and EU support have to reflect the new challenges of regional integration and EPAs. But other policies have to complement, as trade is not a panacea for development.

5. TRANSPARENT AND OPEN NEGOTIATIONS

A high level of transparency in the negotiations will reduce mistrust and increase the quality of inputs by all stakeholders

Using trade negotiations to achieve a development objective is rather new. The innovative character of EPAs

might be one of the reasons for some of the mistrust and suspicion we have experienced in the past three years. Our response to this is a high degree of transparency both towards the ACP partners and all interested stakeholders.

Example

For the second phase we have agreed with the ACP on a structured dialogue in a technical monitoring committee on the all-ACP level. This will make sure that **regional negotiations will not be secretive but open and transparent**. In the regions, we will consult with non-state actors who will be integrated in **regional networks**, which are progressively built up through our Delegations. For example, we have recently organised consultation meetings in the context of our **SIA** in W-Africa and the Caribbean. Also, the impact assessments, which are conducted in most ACP countries, are systematically discussed in consultative seminars with the stakeholders. We will keep the **general public** informed by organising consultation workshops both in Brussels and in the regions and by publishing all relevant information and also key- negotiating documents on our website.

Conclusion: EPA negotiations will not be a closed shop and secretive. The European Commission will open up negotiations through a high level of transparency and through maximising inputs by all stakeholders. EPA negotiations will therefore enhance the involvement of stakeholders in the elaboration of the ACP-EU trading framework.