

What Future for ACP-EU Trade Relations?

At a recent ECDPM seminar on ACP-EU trade relations, the European Commission's trade proposals were discussed by a group of ACP and EU experts.

Whither ACP trade policies?

During the seminar, it was agreed that the trade policies of ACP states, as part of their own development policies, should contribute to their industrial and agricultural development. However, it seemed that not all stakeholders in the negotiation share the same analysis as to which trade policies can best achieve this. Most participants thought that diversifying trade relations and attracting investment were the priority; others argued in favour of protection for existing industry and preservation of customs revenues; still others mentioned the need to foster regional integration. Down the line, these different perceptions suggest that there are various ways in which trade relations between the ACP and the EU can be structured.

FTAs versus multilateral trade liberalisation

It was suggested that, if the objectives are to diversify trade relations and to attract capital from as many sources as possible, then the best way for ACP countries to promote trade liberalisation may be through multilateral negotiation, at the WTO level, rather than through the Free Trade Agreements (FTAs) proposed by the European Commission (EC). Trade liberalisation and preferential ACP-EU free trade agreements are not equivalent processes and would have different impacts.

Lomé Negotiating Brief

1

May 1998

For ACP states, granting free access only to the EU would discriminate against other trade partners (causing trade diversion).

RFTA's are controversial

There was considerable debate on the practical and political feasibility of the EC's proposed Regional Free Trade Areas (RFTAs) with the ACP, as well as on their potential impact.

Whither differentiation?

The EC's proposal contains two not necessarily compatible criteria with which to differentiate its trade relations with ACP states: by level of development, and by region. The key question is what happens to least-developed countries (LDCs) that fall within regional agreements. Several participants argued that differentiation on the basis of needs and level of development must have priority over differentiation by region.

Overestimating the readiness of ACP regional groupings

The EC's RFTA proposal is perceived by some as being premature. Proponents of this view argue that the EC overestimates the readiness of ACP groupings for regional integration and proposes a timeframe which conflicts with what is politically and technically feasible. The move of ACP countries towards regional integration can benefit from EU support, but it cannot be driven from outside. It was suggested that if the ACP considered FTAs with the EU as the way forward, the time constraint should be lifted, with current conditions of market access prolonged until regions form trade areas capable of signing agreements with the EU.

Unrealistic timing?

No official ACP position has yet been established, but there are strong indications that they would not support the Commission's proposal for an ACP commitment to the principles of RFTAs by 2000.

It was argued that negotiations after 2000 should still leave the ACP with real options to be debated and negotiated over a longer period. Besides, the ACP cannot commit themselves before the provisions of the GSP beyond 2005 are known.

Complexity

The EC proposal requires a complex sequence of events. Effective FTAs need to be in place within the ACP regions before other FTAs can be signed between each region and the EU. While on paper this should provide incentives for regional integration, in reality it may complicate the trade relations of ACP countries, and may impede regional cooperation and integration.

Uncertain "lock-in" effect

There were diverging opinions on FTAs as a means to enforce sustainable tariff reduction in ACP countries ("lock-in" effect). Some argue that ACP trade reforms cannot be sustained unless the EU plays the role of an "agency of restraint". Others say that governments that are committed to trade reforms do not need to be pressed, and those who are not would not become better reformers simply by signing free trade agreements. The alternative "lock-in", to the WTO, was also mentioned.

How would the ACP gain from reciprocity?

Without any reform to the EU's Common Agricultural Policy (CAP), free trade agreements with the EU would not improve market access for exporters in the ACP. It would however improve market access for EU exporters. Therefore, for the ACP, it is key to know what concretely the EU would offer in exchange. In particular, they need to know what will be available to help them offset the costs (loss of fiscal revenues, current account deficits) and to implement necessary reforms (e.g. fiscal reforms to broaden their tax base and improve collection, or help to improve their capacity to trade). The provisions for LDCs also need to be clarified. The current proposal is too open-ended.

Concerns about the risks associated with FTAs

Many participants were concerned that key potential effects of free trade agreements on the ACP were not adequately recognised by the EC. Examples include the impact of CAP-subsidised exports, losses in fiscal revenue, difficulty in policing borders between countries with free trade agreements with the EU and those without, etc. In this respect, the ongoing EU-South Africa FTA negotiation - and its potential impact on the BLNS countries and SADC - was seen as an important test case for future ACP-EU negotiations.

Furthermore, specific situations, e.g. that of small island states relying mainly on the development of services (excluded from the proposed FTAs) and mono-crop exporters, need be considered more thoroughly than in the existing proposal. The results of impact studies currently being undertaken by the Commission may inform the debate and should be discussed with the ACP private sector.

Three possible routes: FTA, GSP, MFN

How to move forward, taking into account the above-mentioned concerns and risks? Scenarios discussed in the meeting were based on three major premises.

First, negotiation of fundamental changes in ACP-EU trade relations will require an adequate period of time. Second, ACP countries should have a real choice and not be obliged to accept FTAs quickly in order to avoid a worsening in their position on the EU market. The decision need not be made by 2000. Third, the EU requests a time bound waiver from WTO members for current Lomé preferences (e.g. 2000-2005, as it proposes), agreeing that, *when the waiver expires*, Lomé partners will have chosen among the three possible routes for their future trade relations: FTA, MFN or GSP.

This scenario would remove the Commission's requirement that the ACP commit themselves to RFTAs by 2000. It would give them enough time to consider their options, negotiate among themselves, and with the EU.

By 2005, negotiating parties could then choose between three options - WTO-compatible FTAs, most-favoured nation status, or the Generalised System of Preferences.

WTO-compatible FTAs

Some Commission officials have hinted that WTO rules could be revised to allow for “asymmetrical” FTAs, and there seems to be considerable room for manoeuvre because WTO rules are vague on what constitutes “substantially all trade”.

Nevertheless, during the seminar, it was noted that the tendency within the WTO is to make rules for regional agreements stricter, not more flexible. The EU will need to comply with a strict interpretation of “substantially all trade”. There is no special WTO provision for FTAs containing both developing and least-developed countries, and all ACP regions have at least one LDC. Therefore, if the EU is to honour its commitment to preserve Lomé terms for market access for LDCs, it must extend them to all countries within the FTA, even the non-LDC, and in the case of SADC, even to South Africa. On the ACP side, there may be a greater margin of manoeuvre to “backload” tariff cuts and spread the timetable for implementation over more than 10 to 12 years. This is subject to negotiation with WTO members. There is, however, no precedent for a permanently asymmetric FTA.

MFN

The most-favoured nation (MFN) route is based on the premise that, in the context of the next multilateral round, tariff preferences are likely to completely lose their value. They would be better used as an item for negotiation for the ACP and EU vis-à-vis all their world trade partners. As suggested in a paper by Alan Winters¹, the EU would offer to lower its MFN tariffs to the level of Lomé, while the ACP group would offer to reduce many of their own tariffs on a MFN basis. This would be proposed as a package in the next round of multilateral talks, in exchange for MFN reductions, especially on products of interest for developing countries, from the US, Japan and other WTO members.

It was noted that a number of fast growing markets among WTO members could be interesting for developing countries, e.g. the ACP, with products suited to these markets. This gradual dismantling of Lomé preferences for trade in goods, where the ACP, as WTO members, are involved in the negotiating process, would be more secure than preferences and could bring them improved access to other countries’ markets. ACP-EU trade co-operation would cover new areas, other than traditional barriers to trade in goods, and not currently fully covered by the WTO, such as services, export credit, harmonisation of customs rules, provisions for criminalisation of bribery, as well as

Technical Barriers to Trade (i.e. phytosanitary measures, anti-dumping, labour standards, stringent rules of origin etc.), which, rather than tariffs, will be the main barriers to trade in the future.

GSP

The Generalised System of Preferences (GSP) option is the only one that could preserve non-reciprocal Lomé provisions, by extending them to all developing countries under an enhanced GSP. This entails a revision of the EU trade regime to a needs/income approach, instead of preferences for traditional partners. A disadvantage of GSP is that it can be suspended unilaterally by the EU and has to be renewed annually, and therefore does not provide the stability and predictability of Lomé. The solution would be to bind it in the WTO. This option is in line with the 30 March 1998 General Affairs Council conclusion that the EU “should at least maintain the current market access for ACP and be WTO compatible.” The Mid Term Review (MTR) of the EU GSP should be discussed at the June 1998 General Affairs Council and GSP will probably be rolled over. In preparation for the full review in 2004, the EU could make preliminary commitments in the MTR, on which it could build for a post-Lomé IV.

During the 2004 review, a radical overhaul would then be possible, including precise criteria for graduation, based on a broad interpretation of the Enabling Clause. The aim would be put the “ceiling” of eligibility for GSP as high as possible, so that as many non-LDC ACP countries as possible are included. Research suggests that this is not technically difficult. As a derogation to the WTO rules, the GSP is quite flexible. The political will, however, would be more difficult to achieve. If no graduation criterion was found that allowed most ACP countries to benefit from a single enhanced GSP, differentiation within GSP based on income levels could be included as an alternative.

Special and differentiated treatment for ACP, negotiated by the EU with WTO members

There was considerable discussion over this “WTO-incompatible” option. Some in the ACP still consider it an option, and believe some form of the status quo can be negotiated under the WTO. Nevertheless, many participants argued that the EU would not push for repeated waivers to preserve its relations with the ACP at any cost. Each time the EU asks other WTO members for a waiver, it has to give something in exchange.

Conclusion

Before the post-Lomé IV negotiations start in September 1998, there seem to be three priorities for Lomé partners.

- The ACP and the EU may explore the scope for a compromise on the timetable for the trade negotiation. This could lead to a reconsideration of the 2000 deadline proposed by the EC for an agreement on the principle of RFTAs.
- A closer look needs to be taken by the ACP and EU member states at all the implications of the EC proposals.
- Most importantly, the ACP have to propose concrete and innovative alternatives that go beyond the status quo option, which is very unlikely to make it into the 21st century. Their position should take account not only of the tradition of ACP-EU trade relations, but also of the wider context of globalisation, the opportunities of obtaining improved market access through negotiation at the WTO and the perspective of a new round of multilateral talks.

Acronyms

ACP	Africa, Caribbean, Pacific
BLNS	Botswana, Lesotho, Namibia and Swaziland
CAP	Common Agricultural Policy
EC	European Commission
EU	European Union
FTA	Free Trade Area
GSP	Generalised System of Preferences
LDC	Least-Developed Country
MFN	Most-Favoured Nation
RFTA	Regional Free Trade Area
SADC	Southern African Development Community
SACU	Southern African Customs Union
TBTs	Technical Barriers to Trade
WTO	World Trade Organization

ⁱ Alan Winters, April 1998, *From Lomé to FTA: the developing countries' interest*. A paper presented at a conference hosted by the EC on 'Regional Integration in the World Economy: issues and options for the EC' April 23, 1998

Lomé Negotiating Briefs are produced by the European Centre of Development Policy Management (ECDPM), an independent foundation with links to both the ACP and the EU. They are designed to provide information on key issues relating to the upcoming EU-ACP negotiations.

Prepared by Henri-Bernard Solignac Lecomte, Melissa Julian and Kathleen Van Hove, this Brief is based on the discussions during an expert seminar, held on 11 May 1998 and organised by ECDPM with funds from the Belgian and Swedish governments. Participants attended the seminar in their personal capacities and views expressed did not reflect the formal positions of any party.

A longer Working Paper on future ACP-EU trade relations will be published in June 1998. For further information contact Henri-Bernard Solignac Lecomte (hb.solignac-lecomte@odi.org.uk)

European Centre for Development Policy Management (ECDPM)
Onze Lieve Vrouweplein 21, 6211 HE Maastricht, The Netherlands
Fax: (31)-43.3502902, E-mail: info@ecdpm.org
All ECDPM documents can be found on the Internet: <http://www.oneworld.org/ecdpm/>