

EPA Development Support Consequences of GAERC conclusions for EPAs



ECDPM

This EPA Development Support InBrief series concentrates on the reforms, institutional development, accompanying measures and financial support necessary to enable African, Caribbean and Pacific (ACP) countries and regions to benefit from the potential opportunities that a new trade regime such as economic partnership agreements (EPAs) with the European Union (EU) could offer for their sustainable development. www.ecdpm.org/epasupportinbriefs

Context

The debate on development support to Economic Partnership Agreements (EPAs) is gaining centre stage in the talks between the African, Caribbean and Pacific (ACP) countries and the European Union (EU). Continuous divergence between the parties over the merit of additional and possibly binding support to finance accompanying measures to EPA has hampered progress in all other areas of negotiation.

Despite numerous formal requests from the ACP to include development support as part of the EPA negotiations, the EU has argued that:

- the EPA negotiations as foreseen in the Cotonou Agreement were about negotiating trade and trade-related issues only, and not development financing;
- development assistance is already covered by the Cotonou Agreement through the European Development Fund (EDF); and lastly
- the European Commission (EC) does not have the mandate from EU Member States to enter negotiations or agreements on development assistance.

Nevertheless the Aid for Trade (A4T) debate on multilateral trade liberalization at the World Trade Organization (WTO) level led to

the widespread recognition¹ that (financial) assistance is needed for developing countries (DCs) to be able to take advantage of the potential benefits from liberalized trade and increased market access and to facilitate their integration into the multilateral trading system.

Recently, the EU Member States and institutions pledged to step up their efforts on trade-related development assistance and, as suggested by independent analysis², there has been increasing awareness that the debates on development support to EPA and A4T are closely intertwined. This trend culminated in Europe with the General Affairs and External Relations Council (GAERC) formal decision on 16-17 October 2006 to address EPA-related adjustment needs under the broader framework of A4T³. Although EU policy-makers decided that there will be no additional financial envelope specific to EPA, the EU Member States agreed to provide bilateral funds for A4T on top of the EDF administered by the European Commission (EC) and that a substantial share of this trade-related assistance (€ 1 billion by the EC and € 1 billion collectively by Member States) will be earmarked for the A4T effort to support the EPAs currently being negotiated.

The consequences of these decisions by the EU on the EPA talks and on the operational aspects of development support to EPA, however, remain to be determined. In particular, issues related to the available *levels and scope* of support, the *mechanisms* for delivery and the *process* to link A4T with the EPA negotiation and implementation should be clarified and explored further.

Will the A4T resources be in addition to all existing ongoing trade-related support provided by the EU to developing countries or simply constitute a re-labelling of existing aid commitments, or a redirecting of development aid towards trade and regional integration objectives? What delivery mechanisms and procedures will be employed for the timely and efficient delivery of such resources? Will the decision-making process to implement the EU A4T commitments provide an effective link with EPAs and involve ACP countries? This Note presents a preliminary analysis of the major issues at stake assessing the GAERC Conclusions on Aid for Trade vis-à-vis the requests made by the ACP in terms of development support to EPAs, with the objective of presenting some basic facts, clarifying the debate and facilitating dialogue between involved stakeholders.

Facts and figures on the amount and the scope

In terms of levels and scope of development support to EPAs, ACP countries repeatedly called on the EU to provide additional resources beyond the 10th EDF, in particular to strengthen their productive capacities, to address their supply-side constraints and to face the adjustment needs created by EPA-related economic reforms⁴. The GAERC Conclusions confirmed the pledges made by the EC and the EU Member States in 2005⁵ to provide € 1 billion each in Aid for Trade for developing countries. In addition to the decision of addressing EPA-related needs in the broader context of A4T and therefore earmarking a substantial share of such funds to ACP countries, the new elements agreed by the EU Member States concerning the levels and scope of development support to EPAs seem to respond only partially to the ACP requests.

In terms of levels, the exact baseline on which to assess 'additionality' needs to be established. Paragraph 9 of the GAERC Conclusions on Aid for Trade specifies that the 'collective contribution of the Member States is additional to EDF resources' (which the Council agreed in June 2005 to amount to € 22.7 billion for the 2008-13 period). The data reported to the Joint WTO/OECD Doha Development Agenda Trade Capacity Building Database (TCBDB), used as reference by EU institutions when dealing with trade-related support, indicate that, for the period from 2001 to 2004, the average annual commitments to trade-related assistance by the EU Member States⁶ and the European Commission amounted to € 0.3 billion and nearly € 1 billion respectively. If this were the baseline to be used,

this would lead to conclude that only part of the EU Member States' share of the € 2 billion commitment would be targeted to ACP countries and would thus represent fresh new resources for EPA-related needs. One element that has to be taken into account when assessing the consequences of these conclusions in terms of additional resources for ACP countries is that the EU has committed at the G8 Summit in July 2005 to dedicate half of its external assistance increase to Africa (i.e. an increase of US\$ 25 billion a year – a doubling – for Africa and an increase of US\$ 50 billion for the developing world as a whole). Will this principle be applied in the area of aid for trade or rather in other sectors? If it were to be applied to A4T, African countries that are also members of the ACP Group could benefit from significant additional resources addressing EPA related needs.

In terms of the *scope* of A4T programmes that could be covered by the increased EU commitments, it is important to note that in the GAERC Conclusions the EU follows the classification of A4T established by the WTO A4T Task Force, distinguishing five categories:

- (1) trade policy and regulations;
- (2) trade development;
- (3) trade-related infrastructure;
- (4) building productive capacity; and
- (5) trade-related adjustment.

Paragraph 9 and 10 of the GAERC Conclusions indicate that the € 2 billion commitment refers to the first two categories only, grouped under the heading of "trade-related assistance" as classified in the joint WTO/OECD TCBDB. "Support to productive capacities and infrastructure", also

grouped in the GAERC language according to an international definition⁸, is left to the independent initiatives by the Member States and the Commission⁹. The fifth category, "trade-related adjustment", is not even defined and its support is referred to only through 'best endeavour' language¹⁰.

Though it cannot be excluded that "in response to needs as prioritized by ACP", programmes to address supply-side constraints may be expanded through separate initiatives by EU Member States and the EC (for instance the potential of the new EU-Africa Partnership for Infrastructure is mentioned in Paragraph 10), the EU Aid for Trade commitment of € 2 billion is thus limited to trade policy and regulations and trade development.

Mechanisms for delivery

The GAERC Conclusions state that "the preferred delivery mechanisms for this support will be existing nationally and regionally owned financing mechanisms". This seems to indicate that the delivery mechanisms for EPA support will be the National and Regional Indicative Programmes (NIPs/RIPs) already used to programme the disbursement of the EDF or existing regional funds with their own procedures for the ACP regions that already established one (the better known example is the COMESA Fund for the ESA region).

However, the language used in the Conclusions, and the word "preferred" in particular, leave room for exploring alternative options. It could be expected therefore that if an ACP region were to propose a new appropriate mechanism to channel EPA-related support which could deliver funds more effectively than RIPs/NIPs, the EU could agree to that. What the EU seems to exclude is the establishment of an EPA special fund (Financing Facility), at least as an initiative coming from the EU. Given that only part of the EU Member State share of the € 2 billion A4T commitment is likely to represent fresh new resources for EPA-related needs and the current focus of the EC on the EDF¹⁰ programming exercise, for the EU the debate on the establishment of a new mechanism specific to EPAs should probably only relate to the channelling of the bilateral resources of the EU Member States. Different European bilateral donors might have different preferences on the delivery mechanism for their funds¹¹.

Table 1: European trade-related technical assistance budgets in 2005

source	European Community Budget and EDF		EU Member States
	For all DCs (non ACP)	ACP	For all DCs (including ACP)
TRTA namely:	€ 0.7 billion	€ 0.3 billion	€ 0.3 billion
Trade policy/regulation (in 1000 euros)	222,920	193,300	
Trade development ⁷ (in 1000 euros)	471,120	100,680	

Source: Figures obtained from the submission of the European Aid Co-operation Office (AIDCO) to the WTO/OECD TCBDB.

The process to link Aid for Trade and EPA

The GAERC Conclusions envisage that a “Joint Aid for Trade Strategy will set a road map for the EU to reach the pledged € 2 billion on trade-related assistance by 2010”, while no process is mentioned to link this A4T with the EPA negotiations. The EU confirmed that no formal linkage between EPAs and development cooperation is possible and that the process to operationalize the additional bilateral support by EU Member States is the Joint A4T Strategy to be developed next year also in the case of the EPA-related needs of ACP countries.

The only predictable resources to be used for EPAs at this stage are the funds committed under the 10th EDF currently being programmed for the period 2008-2013. It has not been yet determined to what extent the ACP countries can and will be involved in the identification of the programmes falling under the future EU Member States-EC Joint Aid for Trade Strategy.

ACP concerns and pending questions

The ACP have welcomed the EU commitments to provide € 2 billion of target trade-related assistance, but many concerns and important questions remain unanswered.

In terms of the levels of support or more specifically the additionality of the commitments, actually only € 0.7 billion, and not € 2 billion, will effectively be new aid for trade money for all developing countries. ACP countries will thus only benefit from a part, still to be determined, of these € 0.7 billion, with a yet unspecified amount earmarked for EPA-related support.

In terms of the type of needs to be addressed, the ACP have often requested ‘Adjustment funds’ to address EPA-related adjustment costs such as the loss of customs revenues due to EPA liberalisation for instance. This type of support seems completely ruled out by the GAERC conclusions. The EU has not made any explicit financial pledge related to infrastructure and building productive capacity either. One argument is that it is difficult to separate the traditional support directed to infrastructure and building productive capacity from what is infrastructure linked to trade. Independently of an EPA, the levels of EU commitments in these

areas are already quite large¹², especially when compared with other donors.

The ACP countries have repeatedly stressed the importance of accessing predictable support for supply-side constraints and trade-related adjustment, since trade-related technical assistance and capacity-building, though provided in substantial amounts in the past, were not enough for them to fully exploit the opportunities of international trade integration. The ACP thus expected that a major contribution of an ‘EPA development package’ would come as supply-side related support. The GAERC commitments on A4T however are limited to trade policy and regulations and trade development sectors, and a more general trend has been of reducing Official Development Assistance (ODA) to production oriented support and infrastructure¹³.

In terms of the specific mechanisms to deliver EPA-related support, ACP countries have repeatedly emphasized the need to ensure the effective disbursement of funds. Given the operational weaknesses of the EDF (such as low levels of disbursement, cumbersome procedures or limited capacity of NAO offices) recognized by many, the ACP have demanded a careful assessment of existing instruments and procedures to improve aid delivery in the context of support to EPAs, and have called “for the establishment of an additional EPA Financing Facility at national and regional levels”. The EU, however, is very reluctant to establish a new facility, as this would go against the principles of supporting an integrated development programme. Besides, EDF weaknesses should be addressed at a more structural level and not only when it comes to EPAs. EPAs negotiations could however provide a pertinent entry point to tackle these flaws.

The ACP has also been asking the EU to make binding commitments in the legal text of each EPA for the (additional) resources covering EPA-related costs. Their major concern is the need for predictability of the available funds. Independently of the debate on the amounts of support needed (additionality to EDF), the ACP countries request the legal certainty that such resources will be available once needed, as they would like to ensure that the EPA-related trade reforms they will be committing to are matched by corresponding binding EPA-related support by the EU.

The EU Member States on the other hand do not want to be perceived as ‘buying the ACP into EPAs’, in other words to offer a development package for the ACP as an incentive to sign EPAs. But obviously at the end of the 10th EDF programming exercise, both sides will have a clearer idea of what shares will have been allocated to trade-related programmes. At that point, they could engage in the identification of how A4T resources could complement the EDF support.

Conclusion

Many of the consequences for EPAs of the GAERC Conclusions remain largely undetermined. Issues related to the available *levels and scope* of support, the *mechanisms* for delivery and the *process* to link A4T with the EPA negotiation and implementation should be clarified and explored further. If the fresh resources to implement EPAs will solely come from bilateral programmes, how will the ACP regions and countries less targeted by European bilateral assistance face their EPA-related needs? What are the concrete options for an appropriate delivery mechanism ensuring ownership and effectiveness of EPA-related support for those ACP regions that have not yet established a regional fund? How can the EU ensure that the funds earmarked for ACP countries in the context of its A4T commitments are programmed according to EPA-related needs and predictable for the full period of EPA implementation? What process to develop the joint EU roadmap for aid for trade and what role for the ACP countries in this process? What role is foreseen for institutions like the Centre for Development of Industry (CDI) or the European Investment Bank (EIB)? As there might be a significant time lag between the end of the 9th EDF and the time when the 10th EDF will be ratified and effectively put in place, how will that transition period be covered?

Answering this type of questions through a continuous dialogue between ACP and EU stakeholders will clarify important operational aspects of the development support to EPA in the context of the substantial increase of EU A4T resources. ECDPM remains committed to facilitate this process.

Notes

- 1 See for instance "Recommendations of the Task Force on Aid for Trade", 27 July 2006, WTO document WT/AFT/1, <http://docsonline.wto.org/DDFDocuments/t/WT/AFT/1.doc>
- 2 "Suspension of Doha Round and EPAs: the case of Aid for Trade", *Trade Negotiations Insights* Vol.5 No.5, September - October 2006, ECDPM-ICTSD, www.ecdpm.org/tni.
- 3 GAERC 'Conclusions on Aid for trade' (12 October 2006), Council of the European Union 13882/06, <http://register.consilium.europa.eu/pdf/en/06/st13/st13882.en06.pdf>
- 4 ACP requests on development support to EPA are well summarized in the "Decision on EPAs N°2/LXXXIII/06", 83rd Session of the ACP Council of Ministers, Port Moresby, May 2006.
- 5 Respectively at the G8 Summit in July 2005 and the Sixth WTO Ministerial Conference in Hong Kong in December 2005.
- 6 Figures for Member States in the Joint WTO/OECD TCDBD cover only data for EU15, i.e. members before 1 May 2005, <http://tcdbd.wto.org>
- 7 The EC reported the entire activity as trade-related support, while other donors in the reporting to the database have isolated only the trade component of their activities.
- 8 The OECD Secretariat defines support to supply-side constraints as support to infrastructure and building productive capacity; see *Effective Aid for Trade Partnership*, OECD (23.6.2006, COM/D/CD/TD(2006)4/REV1).
- 9 "The Council welcomes the Member States' and the Commission's considerable level of on-going support to other categories of A4T, namely productive capacities and infrastructure" (GAERC Conclusions).
- 10 EU Member States and the Commission will "address trade-related economic adjustment" (GAERC Conclusions).
- 11 For an independent discussion, see "Possible Scenarios for EPA Support Mechanisms", ECDPM InBrief 16B, November 2006, www.ecdpm.org/epasupportinbriefs
- 12 In 2004, the EU Member States committed € 1.4 billion support for infrastructure and the Community € 0.7 billion; for building productive capacity the EU Member States committed € 2 billion and the European Community € 0.6 billion
- 13 The Least Developed Countries (LDCs) Report 2006 by UNCTAD indicates that between 1992–1995 and 2000–2003, ODA commitments to economic infrastructure and production-oriented sectors decreased, from 45 per cent to 26 per cent of the total commitments of all donors to LDCs; and that aid commitments to production sectors alone (agriculture, industry, mining, construction, trade and tourism), constituted only 6.8 per cent of total aid commitments in the period 2000–2003.

List of acronyms

A4T	Aid for Trade	EPAs	Economic Partnership Agreements	OECD	Organisation for Economic Co-operation and Development
ACP	African, Caribbean and Pacific countries	ESA	East and Southern Africa	RIPs	Regional Indicative Programmes
CDI	Centre for Development of Industry	EU	European Union	TCBDB	WTO/OECD Doha Development Agenda Trade Capacity Building Database
COMESA	Common Market for Eastern and Southern Africa	GAERC	General Affairs and External Relations Council	TRTA	trade-related technical assistance
DCs	developing countries	LDCs	least- developed countries	WTO	World Trade Organization
EC	European Commission	NAO	National Authorising Officer		
EDF	European Development Fund	NIPs	National Indicative Programmes		
EIB	European Investment Bank	ODA	Official Development Assistance		

EPA Development Support *InBrief* series

The purpose of this *InBrief* series is to inform and stimulate the discussion among African, Caribbean and Pacific (ACP) and European Union trade and development stakeholders on the reforms, institutional development, accompanying measures and financial support necessary to enable ACP countries and regions to benefit from the potential opportunities that economic partnership agreements (EPAs) with the EU could offer for their sustainable development. The *EPA Development Support InBrief series* is part of the effort by ECDPM to provide regular information and analysis related to the EPA negotiations and the linkages between trade and development.

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EU with developing countries (www.ecdpm.org/ftainbriefs), and the *Overview of Regional EPA Negotiations InBriefs* which provides an overview and regular updates on the EPA negotiations for each of the six ACP negotiating regions (www.ecdpm.org/regionalepainbriefs).

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