



# Europe's New Free Trade Areas with Developing Countries

## Introduction

The EU is currently changing its 30-year relationship with developing countries.

In future, in exchange for the benefits of the EU aid package, developing countries will have to open their markets to EU imports to an even greater extent than is required by the World Trade Organisation.

This abuse of Europe's aid is expected to expose young industries in some of the world's poorest countries to unbeatable European competition, resulting in significant job losses. Nor will African markets be allowed any restrictions on imported subsidised agriculture products competing with local farmers.

These changes arise as the EU is negotiating new regional free trade areas (Economic Partnership Agreements, or EPAs) with the 77 African, Caribbean and Pacific (ACP) countries under the ACP-EU 'Cotonou Agreement', whose primary objective is supposed to be poverty reduction.

## Europe's aid to developing countries

Since 1975 the EU has had a multi-dimensional aid agreement with the 77 ACP countries – earlier known as the Lomé Agreement, but since 2000 called the 'Cotonou Agreement'. In this partnership the EU

- gives financial assistance for development projects
- gives market access to ACP goods
- jointly engages in 'political dialogue' to promote democracy

Despite criticisms about the type of projects supported, the conditionality attached, and the technical barriers which reduce the effectiveness of the trade access, the Lomé-Cotonou model was more rounded than the programmes of other donors. Some countries such as Mauritius and Bangladesh have made significant progress with its support. However many countries have not. This is due to a combination of country specific elements and to the technical rules which prevent developing country products entering Europe, despite their preferential access.

Ostensibly because under WTO rules preferences are only

allowable when reciprocal, the EU is now pressing the ACP group to accept 'WTO compatible' trade agreements to be operational from the end of 2007.

## What's New in EPAs?

Under 'reciprocity' developing countries must open their markets to the EU in order to receive the trade access that was previously given as part of the aid relationship. This is truly 'giving with one hand, and taking back with the other'. The scope of the proposed free trade areas includes:

- full elimination of import duties
- full elimination of export duties
- full elimination of quantitative restrictions and quotas
- progressive and reciprocal liberalisation of services
- opening of capital markets
- intellectual property rights
- liberalisation of the three 'Singapore Issues' refused by developing countries at the WTO in Cancún: investment, government procurement and competition policy.

Each of these is to be liberalised more deeply than is required at the WTO. The net result will be full free trade areas between the EU and 77 of the poorest countries in the world – mostly former colonies.

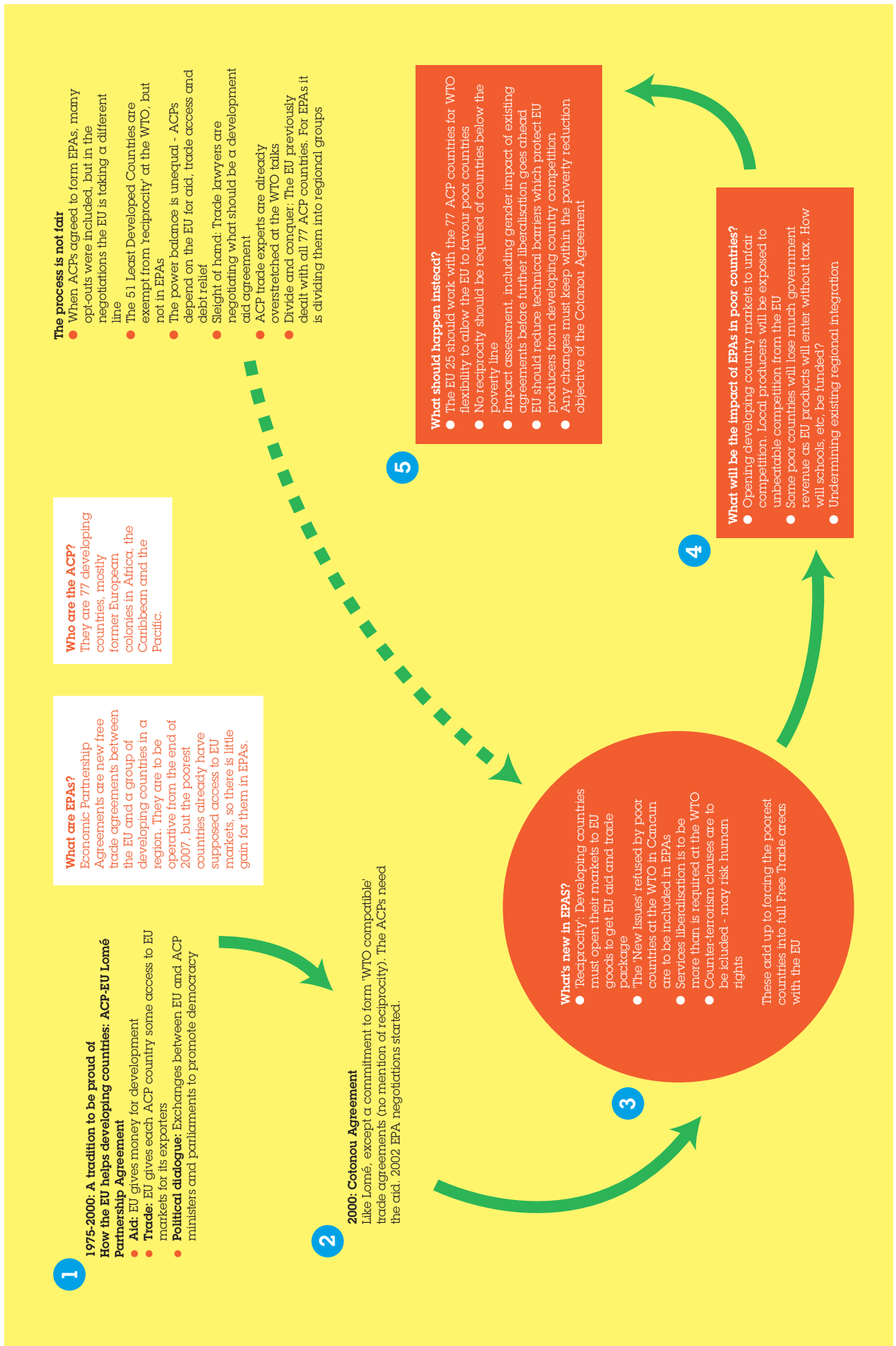
As Nancy Kachingwe, a Malawian campaigner, says "EPAs allow the EU to bypass the WTO system and settle these issues with sub-regions individually, where it has greater negotiating strength".

## The Impact

**Job Losses:** Most of the 77 ACP countries are categorised by the UN as 'least developed countries'. Exposure of their industries to EU imports and more developed neighbours will directly result in factory closures and job losses. Their farmers will have to face competition from European farmers who will continue to receive decoupled supports.

**Revenue Loss:** As developing countries reduce their trade barriers, it means less tax collected, so government revenues drop – increasing aid dependence and threatening the country's debt sustainability. Developing countries typically have a narrow tax base and rely strongly on border taxes. The impact of lost taxes under EPAs in least developed countries will be typically between 10% and 20% of total government revenue.

**Undermine Regional Integration:** While the European



Commission holds that regional free trade areas will promote regional integration, economic studies suggest that European products will displace regional trade – thus undermining integration. It is inappropriate for the European Commission, as an external actor, to insist that countries who are members of more than one regional group must choose between these and be part of just one. For example, to be part of the Eastern African EPA, Zambia is having to leave the Southern African integration group in which it had invested over a decade of time and energy.

**This impact cannot be reconciled with the ‘poverty reduction’ objectives of Europe’s aid under which this is taking place.**

### Our Concerns With Free Trade Areas

**Aid Effectiveness:** Ireland’s aid to developing countries is on the basis of the local government taking on an increasing proportion of the cost of projects. As EPAs hit government revenue, Irish supported projects in ACP countries will become unsustainable.

**Economic Concerns:** As ACP manufacturing, agriculture and service industries face competition from more developed EU companies who enjoy greater economies of scale, many local companies will close with significant job losses. This will result in a process of de-industrialisation.

### Political Concerns:

- When ACP countries agreed to negotiate EPAs it was not specified that they would involve reciprocity. The EC introduced that later.
- The 51 least developed countries are exempt from reciprocity at the WTO, but not in EPAs. There is no export gain for them in EPAs as they already have tariff free access to EU markets.
- The ‘new issues’ which developing countries managed to defeat at the WTO in Cancún, are now being foisted on them in EPAs.
- The negotiating process is unfair. The technical capacity necessary to negotiate is missing in most ACP countries. The EC is operating a divide and conquer approach by dividing the ACP countries into six regional groups.

### So why are ACP countries at the negotiating table?

- ACP countries are multiply dependent upon the EU. “Rejection of an EPA is no more a choice because doing so risks losing EU aid, preferential market access and important commodity protocols” (Study commissioned by ACP Secretariat and SADC).
- Some hope that in EPAs they can negotiate less strict technical rules on standards, rules of origin, etc.
- Having gone so far along the liberalisation route through IMF conditions and WTO membership, some governments feel the ever-elusive foreign direct investment may flow if they take this further step.

- Some countries hope that compensation and adjustment packages can be obtained in the negotiations – though the EC responds that there is no additional funding available.
- Some say the impact of EPAs will be limited because developing countries are already facing erosion of their trade preferences, as the WTO presses the EU to open up to other countries besides the poorest ones.

However, civil society groups across the ACP region (and some off-the-record government officials) are strongly opposed to these free trade areas and call on the EU not to press for reciprocity in EPAs.

### What should happen instead?

Regional trade agreements must not include reciprocity with the EU. It is not reasonable to expect that ACP countries will develop or reduce poverty by facing full competition from EU companies at this stage.

**Instead the EU 25 should work with the ACP 77 to jointly change WTO rules, so that the EU can more flexibly offer trade preferences to developing countries.**

The EU should reduce its technical barriers which currently stop developing countries from using their supposed preferential market access.

The negotiating process of EPAs must be restructured affording the time necessary for such important and complex negotiations to be carried out fairly.

The Irish government should work with other ‘like minded’ countries in the EU to ensure the ‘partnership’ nature of Europe’s relation with the ACP countries.

**The next briefing paper in this series (to be published May 2005) shall focus on the impact of EPAs on Tanzania, an Irish priority aid country.**

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