

## EPAs: The Hidden Dangers

Away from the media attention surrounding World Trade Organisation (WTO) talks in Geneva, the EU is pushing ahead with trade deals that could have much more serious consequences for 77 of its former colonies across Africa, the Caribbean and the Pacific. The EU is using “**Economic Partnership Agreements**” (EPAs) negotiations as a way to prise open poor country markets and get agreement to issues that developing countries have rejected at the WTO.

### Rough Guide to EPAs

EPAs are the trade pillar of a wider agreement – the Cotonou Agreement – which was signed in 2000. The other elements of the Cotonou Agreement deal with important issues that have bound the EU to its former colonies around the world, including aid and political co-operation. But it is in the area of EPAs – the trade part – that the most fundamental changes to this long-standing partnership are being foreseen.

### What’s wrong with EPAs?

Under the forerunners to Cotonou (called the Lomé Conventions), the EU allowed ACP countries preferential access to the EU market, without having to open their economies in return. The EU now wants to get rid of this deal, claiming that it is not compatible with WTO rules. As part of EPAs the EU is pushing for faster and deeper liberalisation than at the WTO – including from the poorest countries (who are normally exempt at the WTO). Plus the so-called ‘New Issues’ - which campaigners and developing country governments managed to limit at the WTO – are firmly part of the EU’s plans for EPAs. These include talks to open up investment, public procurement and competition policy which could severely limit the ability of poorer countries to support their own small producers or require foreign companies to use local materials or local labour. These tools have been used throughout history for the richer countries to develop and we are now preventing poor countries from using the same policies.

**Progress on the negotiations to date suggests that EPAs will be little more than Free Trade Areas between the EU and some of the poorest countries on earth. There is a growing body of evidence to show that EPAs will worsen poverty and stifle development. For these reasons they should not be allowed to continue in their present form.**

*"The ACP Group still maintains, that the existing ACP/EU trade arrangements are equal to none .... You will understand, therefore, if we are apprehensive about the proposed Economic Partnership Agreements (EPAs), which are currently being negotiated. This is in spite of repeated EU assurances that the Economic Partnership Agreements would not disadvantage any ACP country.*

*"We fear that our economies will not be able to withstand the pressures associated with liberalization, as prescribed by the World Trade Organisation (WTO). This therefore challenges us all as partners to ensure, that the outcome of the ongoing EPA negotiations does not leave ACP countries more vulnerable to the vagaries of globalisation and liberalisation, thus further marginalising their economies." President Mogae of Botswana.*

## Four reasons why EPAs are a bad deal for poor countries:

### 1. The EU is making grossly unfair demands

Despite the fact that the poorest countries do not have to open their economies as part of WTO talks, they are being asked to do so as part of EPAs. This is called reciprocal trade liberalisation. The EU is pushing for ACP countries to open 90% of their economies to EU goods and services. At the moment 39 of the 77 ACP countries that are classified as Least Developed already have duty and quota free access into the EU market under the 'Everything But Arms' agreement. So the ACP are being asked to open their borders to European goods – but the EU has little to offer in return. This means that under EPAs, ACP countries would no longer be able to protect themselves and their producers from cheap, subsidised EU goods flooding their markets and putting local farmers and small-scale manufacturers out of business. The ACP countries are proceeding – cautiously – with negotiations, because they are being offered no alternatives.

### 2. The EU is forcing controversial 'new' issues through the back door

Following resistance from developing countries and campaigning by NGOs around the world, three of the highly controversial 'New Issues' (investment, competition and transparency in public procurement) are now off the WTO agenda. Despite this, they are being pushed through the 'back door' of EPAs. Although it is a deeply flawed process, the WTO at least has the advantage of allowing equal voting rights between members; thus by standing together poor countries have been able to resist the most aggressive demands of richer nations. By contrast, poorer countries negotiating as small regional groupings within the ACP bloc, are much weaker in the EPA negotiations. The EU is also the largest aid donor to these countries, which adds significantly to the pressure the ACP is under. The solidarity of the ACP bloc is being undermined leaving the EU with a weak, dependent and fragmented negotiating partner. In some areas the EU is pushing for EPAs to go much further on these issues than was ever demanded at the WTO. For example, at the WTO the EU was calling for transparency in public procurement. In EPAs the EU is calling for liberalisation of public procurement on the basis of non-discrimination. This means that it would be difficult for ACP countries to be able to prioritise local producers or small businesses for government contracts.

### 3. EPAs are already undermining regional integration

It was the original intention of the Cotonou Agreement that EPAs should contribute to the process of regional integration between ACP countries. The progress of EPA negotiations thus far indicates that the opposite is happening. Each EPA will be a regional trade agreement between a group of ACP countries and the EU. Given the significance of the EU market, ACP countries are being obliged to consider their terms of trade with the EU ahead of their strategic links with neighbouring countries. EPAs are particularly damaging for regional integration because they put the poorest countries in an impossible dilemma: should they continue with their 'non-reciprocal' duty-free, quota-free access into the European market, but leave their regional grouping or should they open up to the EU and stick with their regional partners? This dilemma is brought about because whilst the poorest have nothing to gain from EPAs, their slightly less poor neighbours (called non-Least Developed Countries) have a great deal to lose.

#### The East African dilemma

The East African Community includes Kenya, Uganda and Tanzania. The countries are committed to working together and are in the process of establishing a customs union and a joint currency. They have already established an East African Parliament. The problem with EPAs comes because Uganda and Tanzania are classed as amongst the poorest Least Developed Countries (LDCs), whilst Kenya is not. As LDCs, Uganda and Tanzania already have duty free and quota free access into the EU market under the Everything But Arms agreement. They will find it very difficult to compete with EU goods if they are forced to open up as part of EPAs. There is nothing in EPAs for Uganda and Tanzania. But if they refuse to negotiate, their partner in the East African Community – Kenya - will lose its special access to the EU market. If EPAs are supposed to support and strengthen regional integration – why has it put East Africa in this impossible situation?

**The European Commission's own 'Sustainability Impact Assessment' states that the liberalisation involved in EPAs might,**

***“accelerate the collapse of the modern West African manufacturing sector.”***

#### 4. The negotiation process is deeply unfair

So far the EPA negotiations have been characterised by bullying, a lack of transparency and a serious lack of development understanding. The EU is forcing the pace of negotiations, at a level which is too fast for many ACP countries, given the hefty commitments being sought already at the WTO. The ACP group wanted to negotiate key decisions as a single bloc, before getting down to regional issues. Despite the logistical and strategic sense in this, the EU adamantly refused to begin discussions until the ACP had broken down into smaller groups, where of course the EU's leverage would be greater.

EU member states – the UK included – have formally delegated responsibility for EPAs to the European Commission (EC), but they have subsequently taken very little interest in the negotiations, thus allowing the EC to press ahead without being scrutinised in the slightest. It is the job of member states to hold the European institutions to account; their lack of engagement in EPAs is a serious failing.

Many NGOs are concerned at the lack of understanding of the impact that EPAs will have on poverty in the ACP countries. The EU itself is conducting its own Sustainability Impact Assessment of EPAs, but this process is little more than window-dressing as it does not link in any way to the formal negotiating timetable. Even this exercise has identified serious problems, such as the potential collapse of the manufacturing industry in West Africa. The EU appears to be unconcerned by this as it persists in driving EPA negotiations forward in all regions.

#### Impact Fears

There are serious concerns about the impact that EPAs will have on poor and vulnerable groups in ACP countries:

- **Company closures and job losses.** As European goods begin to enter ACP countries without facing any tariffs, local businesses will be unable to cope with the competition and may be forced out of business. This is likely to be particularly damaging in the agricultural sector where ACP countries are most dependent and where the EU gives the most support to its own producers.
- **Glass ceiling.** ACP countries are not just concerned about losing out to European competition in the goods they already produce. Because European manufactured goods will be entering African countries without paying any trade taxes, they will be cheaper. For small businesses struggling to add more value to their products by moving into new industries such as manufacturing or food processing this will be a real blow, potentially consigning countries to remain simply exporters of raw materials and basic goods. This would be deeply damaging to national development plans in ACP countries.
- **Loss of vital government revenue.** Many ACP countries rely heavily on the money they get from levying customs taxes for their normal expenditure. Opening up to the EU will reduce that revenue base and will mean less money for social expenditure. For example, there are estimates that between 25 and 30 per cent of all Namibian government revenue was derived from this type of trade tax between 1990-1996.

#### Impact of EPAs on Kenyan small businesses

- Current EPA plans would leave Kenya with a net loss equivalent to 20 per cent of its annual trade with the EU.<sup>1</sup>
- Loss of tax revenue will make it harder for the Government to implement new plans to help micro enterprises.
- Unfair competition from European goods still heavily supported by the EU under the Common Agricultural Policy could devastate Kenya's dairy and cereals sectors – both are made up of thousands of small farmers.
- Kenya's ability to diversify and develop an advantage in value-added areas could also be undermined. The sector most at risk here is the textiles and garments industry.
- The Kenyan Government has plans to keep a portion of Government contracts for micro-enterprises. EPAs could mean they are no longer allowed to do this.

### Milking Jamaica

The influx of imported dairy products into Jamaica began in the early 1990s when the country reduced import tariffs. Since the early 1990s, the EU has more than tripled its exports to Jamaica, and is now the source of 67% of the total volume of imported milk powder in the country. This influx has been critically damaging to Jamaica's dairy sector. Local milk now accounts for a mere 12% of the total domestic milk market. As a result, the number of small-scale farmers has been reduced from thousands operating in the 1960s to less than one hundred now.. Opening up the market further by negotiating an EPA with the EU could finally kill off Jamaica's wounded dairy sector.

### EPAs: The End of the Road?

There are real problems in the future direction that EPA negotiations will take:

- **No choice:** Despite the fact that the main Cotonou Agreement calls for both sides to look at alternatives to EPAs, the EU is refusing to countenance any relationship beyond EPAs. The EU is not honouring the spirit of the Cotonou Agreement.
- **No support:** Both the ACP and the EU agree that EPAs must conform to WTO rules. The problem is that the ACP insisted that the Cotonou Agreement referred to 'WTO rules then prevailing'. ACP countries were hoping that the EU would work together with them to make sure that the WTO rules that govern Regional Trade Agreements such as EPAs were improved. These rules were first drawn up to cover negotiations between rich countries. The EU has not (as it promised) worked with the ACP to get these rules changed to allow for fairer deals between unequal partners.

### A call to action

EPA negotiations so far contain little for ACP countries, and could actually increase poverty in some of the poorest countries in the world. European groups are stepping up the pressure on EPAs in direct response to a call from our ACP civil society partners. At a crisis meeting held in April 2004, economic justice organisations from the EU and ACP countries agreed that with negotiations in their second year, EPAs are driven predominantly by European interests. The benefits for most ACP citizens are at best uncertain, and at worst, extremely detrimental. Europe has everything to gain and nothing to lose; the large majority of small producers in ACP countries have everything to lose and little to gain. And yet it is being claimed that the EPAs are 'instruments for development'. Worst of all, the negotiations are taking place far away from public scrutiny and debate.

**Traidcraft is calling on the UK Government to wake up to the threat of EPAs and immediately:**

- **Stop the current negotiations**
- **Remove the demand for reciprocal trade opening and new issues from their negotiating mandate**
- **Work with the ACP to reform WTO rules**
- **Work urgently to investigate alternatives that leave ACP countries better – not worse - off, as was promised in the Cotonou Agreement**

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