

Speech to the South Centre Conference on EU-ACP Trade Relations: The Development Challenge of EPAs

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EPAs – State of play vis-à-vis expectations

First I would like to express my appreciation to the South Centre and its partner NGOs for organising this conference and for giving me the opportunity to exchange views on the EPA negotiations with such a high level audience.

Our session this morning comes at a critical time with the EPA review under preparation and the EPAs scheduled to come into force in less than fifteen (15) months.

During the next few minutes, I will briefly assess the progress or otherwise in the CARIFORUM-EC negotiations for an Economic Partnership Agreement (EPA). This assessment will be based on expectations arising out of the Cotonou Agreement and the joint plan and schedule agreed by CARIFORUM and the European Commission (EC) to launch the regional negotiations.

I will begin by identifying some of our expectations going into the EPA negotiations and then I will examine some of the areas identified among our initial expectations.

The background to the EPA negotiations,

The ACP-EU Partnership Agreement (Cotonou Agreement), signed in Cotonou in June 2000, establishes a comprehensive framework for future ACP-EU relations. The core objectives of the partnership have been set out as economic development, the reduction and eventual eradication of poverty, and the smooth and gradual integration of ACP States into the world economy.

In order to accomplish these objectives, the Cotonou Agreement provides for the conclusion between the ACP and the EU of new WTO-compatible Economic Partnership Agreements (EPAs). These agreements would be negotiated during the period beginning September 2002 in order to come into effect on 1st January 2008. The process began, as you will recall, in September 2002 with discussions at the All ACP-EC level. The CARIFORUM-EC regional negotiations were launched on April 16, 2004.

The Plan and Schedule, jointly agreed by CARIFORUM and the EC to launch the regional negotiations stated that an EPA between CARIFORUM countries and the EC should contribute to realising the following broad objectives:

- Attainment of economic development that is socially and environmentally sustainable;
- Enhancement of the ability of small Caribbean states to play a more meaningful role in the international community;
- Facilitation of Caribbean structural transformation leading to a reduction in the region's acute economic vulnerability; and
- Adjustment of Caribbean economies in a manner and at a pace that is conducive to overall economic and social development.

Some of our expectations,

Some of the areas where CARIFORUM had particular expectations going into the EPA negotiations and which I will examine later, include:

- Promoting sustainable development in CARIFORUM member states (This was and remains the key objective);
- Assistance in advancing the region's already ongoing integration process;
- Special & Differential Treatment for the small and vulnerable CARIFORUM countries;
- An asymmetrical Approach to Trade Liberalisation between the parties;
- Assistance in improving the capability of the region's services suppliers; and
- Capacity building during the preparatory period and the expedited delivery of development cooperation through the RPTF.

Divergence on Pace of the Regional integration process,

This is an area of long-standing difference between CARIFORUM and the EC and I have spoken about it on previous occasions. This morning, I can basically repeat what I have said before.

Although both sides concur that one of the key objectives of an EPA is to strengthen the CARIFORUM regional integration process, there continues to be significant differences as to how and at what speed this should be done. The issue is not the centrality of the regional integration *per se*, but rather the impact of its timing and pace on CARIFORUM regional commitments.

In the negotiating sessions, the EC has been trying to persuade CARIFORUM to put in place regional arrangements which could take common commitments in all disciplines, including market access schedule, SPS and TBT regimes, services, investment, government procurement, intellectual property, competition policy, dispute settlement mechanism, etc.

CARIFORUM's approach to the EPA negotiations follows the principle of *variable geometry and differentiation* to reflect the three aspects of the region's integration processes: namely the Caribbean Single Market and Economy (CSME); the Organization of Eastern Caribbean States (OECS); and the CARICOM-Dominican Republic Free Trade Agreement (FTA).

In this regard, CARIFORUM has pointed out that the principle of “variable geometry” reflects not only the existing situation with respect to the region’s economic space, but also the difference in scope and level of implementation between the CSME and the CARICOM-Dominican republic FTA.

The EC, in recognition of the existence of various CARIFORUM regional integration streams, has dropped its original approach predicated on CARIFORUM establishing a customs union as the basis for assuming EPA commitments. Nevertheless, the EC has continued to stress that optimal levels of EU development support could be realised only when CARIFORUM galvanizes its own regional processes into one seamless economic space.

The Commission’s negotiators have been indicating in recent discussions that they understand and are prepared to take into consideration the region’s political realities, but the determination of the region’s economic space that will take EPA commitments remains an unresolved issue in our negotiations with the EC.

What about the key issue of development?

One of the principal issues on which CARIFORUM and EC negotiators differ is with respect to an understanding of development and how to make the EPAs development-oriented. Although both sides share a common objective that the EPA should be a tool for CARIFORUM development, they advocate very different paths towards the ultimate goal.

The EC have been seeing development as a process that is driven by strengthened regional integration and trade liberalization, coupled with more stringent trade and investment rules, and accompanied by a limited offer of EU support for trade-related capacity building measures. This EC view of development ignores the various structural deficiencies and supply-side rigidities that afflict small vulnerable economies. The challenges facing CARIFORUM are further exaggerated by the fact that the region comprises a series of small countries separated from each other by hundreds of miles of ocean. This complicates the process and adds to the costs associated with regional integration.

CARIFORUM has a far more comprehensive vision of an EPA. From the region’s perspective, development should infuse all facets of an EPA. In this context, development implies the provision of special and differential treatment commensurate with CARIFORUM’s level of development and intrinsic vulnerability, flexibility in applying trade rules, more effective CARIFORUM access to EU markets, well-designed and executed trade capacity building measures and binding commitments on EU development support aimed at responding expeditiously and fully to legitimate CARIFORUM needs.

However, both CARIFORUM and the EC agreed at their most recent session on the importance of a link between EPA and development cooperation. In this respect, both sides agreed on a two-tiered approach where the EPA would contain: (i) horizontal provisions on development cooperation; and (ii) an outline of potential areas for cooperation in the various disciplines. Both sides agreed that such areas would be regularly reviewed after the entry into force of the EPA.

I will elaborate on four (4) of the areas where we see increased development support as being critical.

Addressing Supply-side Constraints,

Although thirty (30) years of ACP-EU cooperation, centred around preferential access to the EU market, has not improved the capacity of ACP countries to compete in global markets, the EU side again seems to be advocating a strategy revolving around market access. On this occasion, the strategy is bolstered by a call for ACP regional integration.

Commission negotiators are taking the position that EPAs will promote CARIFORUM regional integration and that the resulting market enlargement will lead to greater efficiency, attract investment and promote development in the region. In my view, this is an unrealistic assumption on the part of the EU because it does not address the critical supply-side constraints and other structural problems, which are the real impediments to competitiveness and development in CARIFORUM and other ACP regions.

It is noteworthy that the Aid-for-Trade (AfT) task force, which was constituted within the framework of the WTO Doha Development agenda following the decision of the WTO Ministerial in Hong Kong, has strongly recommended that support to address supply-side issues, infrastructural deficiencies and loss of fiscal revenue should be an integral part of Aid-for-Trade. I believe that many EU member states endorse the report of the AfD task force which included this recommendation.

Given that Commission spokespersons themselves have conceded that “*Trade will not promote development without parallel investment in the supply side*”, CARIFORUM negotiators would wish to see their EC counterparts give priority to addressing the region’s supply-side constraints with sufficient urgency to bring about a significant increase in the competitiveness of its economic operators before the reciprocal opening of the region’s markets.

EPA-related Loss of Government Revenue,

In most ACP countries, the imposition of tariffs on imports represents a major source of government revenue. Therefore, the question of some form of adjustment mechanism to address the loss of government revenue resulting from EPA-induced trade liberalization and structural adjustment is pertinent within the context of the developmental aspect of an EPA.

Recent studies have indicated that, given the high percentage of government revenue which comes from tariffs in ACP countries, trade liberalisation could lead to total tariff losses for developing countries of between three (3) and ten (10) times the projected benefits. This would be particularly the case for small countries without very diverse economies, such as ours in the Caribbean, those in the Pacific, and some of the smaller economies in Africa.

Since CARIFORUM countries depend on tariff revenues to fund social programmes, such as health care, education etc., the sudden loss of this revenue is likely to create much hardship and possibly lead to social dislocation as the burden will fall

disproportionately on the poor. Against this background, the EU, which has been promoting “Social Cohesion” as a key aspect of its cooperation with developing countries, should be able to appreciate the need to make-up for this loss of revenue.

Effective EPA implementation requires, *inter alia*, addressing the need to upgrade production facilities, structural adjustment, competitiveness, mitigating the fiscal impact of reduction in customs duties, adjustment to sectors that are exposed to increased competition and erosion of tariff preferences and installing institutional trade capacity measures.

Trade Liberalisation,

With respect to trade liberalisation in goods, the major area of divergence relates to the EC proposal seeking a single starting line for all members of CARIFORUM. The crucial implication of the Commission’s approach would be the establishment, at the beginning of the implementation period (January 1, 2008), of a common regional tariff for goods imported from the European Union. This is not a realistic expectation.

In their most recent session two weeks ago, the EC tabled a new proposal, which is being studied by the region’s technical team. CARIFORUM took the opportunity to emphasise that, at this time, its submission would comprise a number of phased baskets, rather than any single starting line, and would start with a region-wide list of products to be excluded from trade liberalization and fifteen national lists of zero-basket items. CARIFORUM also declared its preference for a transitional period of twenty-five (25) years in order to address a range of sensitive products based on both domestic competition and fiscal revenue impacts.

Special & Differential Treatment for Small Economies,

The principle of special and differential treatment (S&D) for developing countries and LDCs, reinforced by the concept of S&D treatment for small economies is particularly important for CARIFORUM in negotiating what should be a development-oriented EPA with the EU.

Special and differential treatment (S&D) for developing countries and the LDCs is a core principle of the WTO framework and an integral part of WTO agreements. While special considerations for the least developed and island states have been a feature of the ACP-EU relationship since the first Lomé Convention, was maintained throughout subsequent Lomé Conventions and the Cotonou Agreement, where there are a number of references to the need for “taking due account of the vulnerability of small, landlocked and island countries”.

CARIFORUM, made-up of mostly small and vulnerable developing island nations expect that this reality will be taken into consideration as the region negotiates an EPA with the European Union. This, as I mentioned earlier, was one of our expectations when we began the EPA negotiations and, at this point, the issue remains very much alive, *with the Commission sensitive to the region’s views in this area.*

Regional Preparatory Task Force (RPTF) Has not Been Effective,

The Regional Preparatory Tasks Force (RPTF), to date, has not delivered. The RPTF was established as the link between the EPA negotiations and development cooperation, but its failure either to bring any urgency to the delivery of EPA-related support or to secure alternative resources has been one of the major disappointments associated with the CARIFORUM-EC EPA process. In effect, the RPTF has been stymied by the extremely cumbersome EDF procedures and the resulting lack of national/regional enthusiasm for the RPTF's potential contribution.

Ironically, many of the project proposals, which have been “stuck in the pipeline” somewhere between the RPTF and the Commission's Services, are intended to bolster CARIFORUM capacity in the those specific areas which the Commission, itself, had hitherto identified as the type of institutional weaknesses that EPAs are supposed to address - areas such as Sanitary and Phyto-sanitary (SPS) requirements, competition policy, industrial and services standards, and best practices in trade facilitation.

Interestingly, EU Member States also seem to have some concerns about the RPTFs and a number of these Member States are calling for the Commission and ACP regions to improve the functioning of the Regional Preparatory Task Forces (RPTFs) or their equivalent bodies so that Member States may be able to increase their engagement, financial and otherwise, in the EPA process.

EPA Adjustment Facility,

It is against this background of the Commission's failure to respond with any urgency to ACP project proposals that ACP regions have been considering the establishment of an EPA Adjustment Facility. The creation of such a Facility would avoid the burdensome EDF procedures and accelerate the funding of EPA-related projects. The Facility would have access to funds which were not already earmarked for other regional projects and it would guarantee the availability of regional development resources beyond the expiration of the Cotonou Agreement.

The Cotonou Agreement, particularly several paragraphs of Articles 21, 22, 23, 25, 29, 30 and 33, addresses the question of support for economic development and regional cooperation in the ACP. However, the much more pressing problem of the availability and timely disbursement of financial resources remains a serious stumbling block. The establishment of an EPA Adjustment Facility could help to resolve both of these challenges.

The current thinking in CARIFORUM is that the EPA Adjustment Mechanism could be operated on a time-sensitive basis to support priority ACP trade capacity needs and that “*ACP regions and EU member states would jointly manage the projects thereby bypassing onerous EDF procedures*”. In addition, these jointly-managed projects could be funded through regional development banks so that, not only would the procedures be less time-consuming, but regions would also have a greater sense of ownership in the process.

Allow me to make a brief reference to the EPA review which is foreseen by Article 37(4) of the Cotonou Agreement.

Article 37.4 of the Cotonou Agreement states: “*The Parties will regularly review the progress of the preparations and negotiations and, will in 2006 carry out a formal and comprehensive review of the arrangements planned for all countries to ensure that no further time is needed for preparations or negotiations*”.

The provision is explicit in its reference to the comprehensive nature of the review and this we interpret to mean embracing all ACP parties and all issues relevant to the conduct of the negotiations and EPA implementation.

There had been some speculation as to whether the review would focus on the speed of the negotiations and the adequacy of the timetable established in the various negotiating regions. I am pleased to note that the jointly agreed criteria provide that the review should be formal and comprehensive, be conducted jointly, and should cover trade and development aspects of EPAs as well as necessary measures to support the timely completion of the negotiations.

CARIFORUM has already had some initial exchanges with the European side on the review and we are working towards a first draft by the end of November. The key elements include:

- Regional Integration
- Major Issues in the Negotiations
- Development Cooperation and Support
- Measures to support the timely completion of the negotiations
- Schedule for further meetings, ongoing support to negotiations; enumeration of CARIFORUM negotiating capacity needs.
- Measures to implement the Agreement, including implementation organs and their funding
- monitoring mechanism

In conclusion,

We have observed how the EU has established a cohesion fund, a structural adjustment fund, and the Lisbon agenda to respond to the consequences of market liberalisation and to improve the competitiveness of its member states. We see every reason why CARIFORUM countries should be able to benefit from a similar approach with respect to the implementation of an EPA.

EU negotiators must be reminded that neither liberalised trade nor preferential access to EU markets, separately or jointly, will promote development by themselves; because countries suffering from capacity constraints and institutional inadequacies will not be able to make the best use of market access, even under preferential terms.

I am advised that there is a growing view among a number of EU Member States that adjustment support is not only about strengthening economic diversification and bringing greater added value, but also about managing public financial losses due to

reduced tariff revenues. Therefore, while EU support for EPAs should help countries to take advantage of new economic opportunities in a more liberalised trade environment, it can also be used to address temporary transitional costs such as expenses resulting from the need to move from tariff revenues to other types of taxation.

We, in CARIFORUM welcome this enlightened thinking from some on the EU side and hope that it won't be long before it is reflected in the Commission's approach to development support for EPA implementation.

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