For richer or poorer

Transforming economic partnership agreements between Europe and Africa

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Contents

Introduction 2

1. Telling the full story
What is driving changes in the trade relationship between Europe and Africa? 8
1.1 Europe's new trade agenda: partnership under threat
1.2 What is driving the EU's new trade agenda?
1.2.1 Trade liberalisation as an instrument for development
1.2.2 Why preferential trade deals did not work
1.2.3 Politics: the WTO and regional trade agreement agenda
1.3 What African countries want from trade with the EU
1.4 Is this a real partnership?

2. Climbing the slippery slope
How can a new trade relationship with Europe boost development in Africa? 16
2.1 Stop forcing trade liberalisation
2.1.1 Liberalisation damages industries and poor producers
Case study 1: Senegal – tomatoes and poultry
2.1.2 African countries using selective trade protection
Case study 2: Ghana – tomatoes and poultry
2.1.3 Liberalisation capping development
Case study 3: Mozambique – the future of the milling industry
2.2 Support home-grown regional integration
2.3 Let Africa shape the outcome of negotiations
2.4 Increase development finance
Case study 4: Malawi – the future of the sugar industry
2.5 More legal security for African exporters
2.5.1 Changing WTO rules on regional trade
2.5.2 Improving preferential market access

3. Recommendations 36
3.1 Recommendations to EU member states and the European Commission
3.2 Recommendations to the UK government

Endnotes 38

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'Some NGOs have raised concerns about the Economic Partnership Agreements that the EC is negotiating with the poorest countries... Europe should not be, and is not, seeking to "take" anything from these countries. Our aim is a new framework where neighbours work together to benefit from freer trade, while we offer assistance to integrate them into the world trading system. That is our global 21st-century challenge.'
Peter Mandelson, EU Trade Commissioner, the *Guardian*, 1 December 2004

'We are extremely wary of these EPAs because income is going to fall dramatically in a country like Mali. If we sign EPAs and our income drops by 20 or 30 per cent, it seems we are going around in circles. We have a lot of misgivings... it may lead to revolution.'
Amadou Ali Niangadou, Malian MP, Joint Parliamentary Assembly, Brussels, 5 February 2005

For the first time in history, Europe is negotiating free-trade agreements with the countries it once colonised. In return for continued access to European markets, 77 countries in Africa, the Caribbean and Pacific region (ACP) are being asked to open up their markets to products from Europe.

The likely results of these new Economic Partnership Agreements (EPAs) are not hard to imagine. With their diverse range of products and muscle in the marketplace, European producers can outstrip ACP rivals in their domestic markets. European producers have enjoyed decades of subsidies, support and protection from their governments and have built strong, lean, competitive industries.

ACP countries – especially those in Africa, whose problem is not only that they can't sell enough but that they don't produce enough – have not. They stand to lose existing industries and the potential to develop new ones as products from Europe flood their markets.

Through EPAs, Europe is threatening not merely to give with one hand and take with the other. In spite of Commissioner Mandelson's fine words, it *is* just taking.

Since colonial times, ACP countries have been locked into feeding the European market with raw commodities, and are often locked out when they try to export processed or value-added products. And for more than 20 years, ACP countries have been forced to liberalise their markets to such an extent that many now have economies that are more open than Europe's.

They are already integrated – often harmfully – into the world market. So any new trade agreement between ACP countries and Europe must both help them to improve and diversify what they produce and export, and allow them to protect themselves from imports in the meantime. EPAs in their current form will do neither.

The European Union, on the other hand, stands to gain much by forcing through EPAs. Above all, once the reforms are enacted, Europe will have duty-free access to 77 new markets for the vast majority of its products. Europe's determination to negotiate this was

laid bare at a recent meeting between EU and ACP trade negotiators. The ACP representatives were told by a senior Commission official to 'come back in a better mood', when they proposed protecting 30 per cent of their products from tariff elimination under EPAs.

This report calls for EPAs to be stopped in their current form.

It focuses in particular on what African countries want and need from a new trade relationship with the EU, given that 2005 is the year in which the UK government will be pushing its counterparts in the G8 to take action for a strong and prosperous Africa. As EPAs are the framework through which it will shape this relationship, the UK government should take a much greater interest in these negotiations. EPAs may end up achieving the opposite of what the UK government desires in its new deal for Africa.

How EPAs fail on their own terms

'I intend to ensure that there are no unfair demands for reciprocity in the EU's approach, and no enforced liberalisation until targeted aid programmes have built up local capacities.'
Peter Mandelson, EU Trade Commissioner, the *Independent*, 27 December 2004

'I am more convinced that EPAs stand to knock us back. EPAs stand to harm us... it will only benefit our European partners. The ACP must sit up and look at this issue critically.'
Kwame Osei-Prempeh, Ghanaian MP, Joint Parliamentary Assembly, Brussels, 5 February 2005

The all-powerful Trade Directorate, which sits at the heart of the European Commission, argues that EPAs are necessary precisely because the way in which ACP countries currently gain access to Europe's markets contravenes World Trade Organisation (WTO) rules.

This is true, but when the new round of WTO trade talks was launched in Doha, Qatar, in November 2001, ACP countries negotiated a 'waiver' with the EU to allow their preferential market access to continue. This waiver is due to expire two years after the end of the Doha round,[1] which means that a way of ensuring continued preferential market access for ACP countries must be found. But in the view of Christian Aid, the organisations with which we work and many other groups that represent the interests of poor people in African countries, EPAs are not the solution.

Despite the claims of the EU, EPAs are neither development friendly nor, ironically, legally watertight under the WTO's rules. And Commissioner Mandelson's attempt to sugar the pill of *enforced* liberalisation by offering 'assurances' that ACP governments will be allowed up to 25 years to open their markets is further undermining the legality of EPAs.

The WTO rule that governs regional trade agreements – Article 24 of the General Agreement on Tariffs and Trade – is aimed at fostering free-trade between countries at a similar level of development. It stipulates that they must liberalise 'substantially all trade' over a limited period of time, usually ten years.'[2] In other words, the EU and its Trade Commissioner cannot deliver on their guarantee of giving ACP countries a long timescale in which to liberalise with any legal certainty.

African countries want to negotiate a new trade and aid agreement with the EU, since Europe is still their most important trading partner. They want an agreement that allows them:

- to choose if, when and how they open up their markets to the EU
- the ability to shape the terms of their access to the EU market
- the legal certainty that this market access won't be open to a challenge at the WTO.

Instead, they are being forced into negotiating EPAs by a European Union that appears determined to offer them no alternative means of holding on to their existing access to Europe's markets.

A perilous strategy

'We fear that our economies will not be able to withstand the pressures associated with liberalisation, as prescribed by the World Trade Organisation. 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 Festus Mogae of Botswana, May 2004

For more than 20 years, trade liberalisation in developing countries has proved disastrous for poor people. Christian Aid argues that governments in ACP countries now need to be allowed to take a breather. Not only should the push for further liberalisation of their products cease, but because tariffs are already lower on average than those in rich countries, developing countries should be permitted to raise them where necessary.[3] ACP countries must be able to protect their infant industries.

New studies commissioned for this report look at the already disastrous impact of trade liberalisation on poor producers and at the likely effects of a further lowering of tariffs in three African countries.

In **Ghana** and **Senegal**, two countries currently involved in EPA negotiations with Europe as part of the Economic Community of West African States (ECOWAS), the enforced lowering of import tariffs on products such as tomato paste and chicken parts and meat has been followed by a deluge of products, sold at cut-throat prices, from Europe. These often undercut locally produced goods, causing factories that add value to local produce to close down. This in turn leads to great hardship in poor, rural communities where people's livelihoods rely on selling surplus food.

In **Mozambique** liberalisation resulting from EPAs would open up a thriving milling industry to more cheaply produced wheat-flour from Europe, undercutting locally milled flour. This would not only mean jobs losses in the milling industry but would have a knock-on effect among the small but growing number of Mozambican farmers who produce wheat.

These studies show that not only is liberalisation often a harmful policy for poor people, but that locking countries into a pre-determined pattern of liberalisation through EPAs will prevent them developing new industries in the future. This 'capping' of development will not serve to reduce poverty and will leave developing countries dependent on the same narrow range of primary commodities. This is not how now-industrialised countries developed.

Another study looks at the impact that major cuts in EU sugar prices will have on economic development and poverty in **Malawi**, one of the poorest countries in the world.

Malawi's sugar industry employs tens of thousands of people directly and many more in associated industries. A large share of its income comes from the guaranteed high prices it receives from the sugar it exports to the EU market.

But planned changes to Europe's Common Agricultural Policy (CAP) will see EU sugar prices fall by more than a third, costing the Malawian government and sugar industry at least 4 million euros. And while sugar-beet farmers in Europe will receive direct aid covering 60 per cent of their revenue loss,[4] Malawian farmers and workers are unlikely to receive such compensation.[5] This sounds like a clear warning of the sort of deal poor countries can expect if EPAs, in their current form, are allowed to go ahead.

It is clear that compensation from the EU for losses in ACP countries as the value of preferences is reduced or they are eroded will not be forthcoming. Christian Aid calls on the EU to make funds available to help cushion the inevitable blow that will fall hardest on the poorest, such as Malawian sugar farmers and workers and their families.

It is clear from these studies that not only is liberalisation already often a harmful policy for poor people, but that using EPAs to lock countries into a pre-determined pattern of liberalisation will deny them opportunities to develop new industries in future. This will scupper their efforts to reduce poverty and transform their economies, and will deny them the opportunity to use protection selectively as they develop, in the same way European countries have been able to do.

Regional development under threat

'The trade opening or "market access" part of these agreements are not at their forefront: it comes at the end after regional integration has kick-started growth.'

Peter Mandelson, EU Trade Commissioner, speech to the Civil Society Dialogue Group, 20 January 2004

EPAs are threatening existing but fragile regional groupings of African countries. They are already undermining the protection of important industries as groups of countries scramble to align their tariffs in readiness for negotiations with the EU.

African countries have long considered regional integration an important development strategy. It is both a means to overcome the limitations of small markets and an opportunity to pool resources for infrastructure and major production projects. But rather than let African regions decide on the appropriate design and pace of integration, the EU is forcing the issue. Commissioner Mandelson said recently that regional integration was one of the 'most attractive aspects of EPAs' and that the 'EU model has much to offer in that respect'.[6] This externally driven agenda holds several dangers.

The creation of regional markets and the promotion of new regional production to serve them is a key element of African efforts to become more internationally competitive. But regional integration in Africa will certainly not have 'kick-started' growth by the time the EU expects African countries to start opening up their markets to EU imports.

Clearly, regional markets, which first have to overcome very complex political, economic and administrative problems, should be firmly in place and have given rise to new patterns

of production before African countries consider opening up to competition from the EU. This is not possible within the European Commission's current timetable. As a result, there is a grave danger that EPAs will force governments to abandon trade policies that will be essential to make the most of new regional opportunities. This will make a nonsense of regional integration.

Government trade negotiators and regional secretariats are already overstretched. An acceleration of the process of economic union, putting further strain on the delicate negotiations over single regional markets, is likely to result in poorly designed regional integration schemes.

If African countries fail to open up their markets to their neighbours before opening up to EU imports, this will cut off any opportunity to develop industries in goods that can be traded regionally. The EU's model of regional integration in Africa could result in trade and its benefits being diverted to the EU, rather than encouraging increased trade and growth within African regions.

EPAs may well divide as much as unite neighbours in Africa. For instance, least developed countries have little incentive to sign 'free trade' EPAs, because they will continue to benefit from special access to Europe's markets under the Everything But Arms initiative even after the ACP waiver has expired. Each of the four regional groups in Africa with which the EU is negotiating comprise least developed and developing countries. The onus will be on the countries within each group to deal with their differences, which could lead to further disagreements.

Rewriting EPAs

'If EPAs carry through, African countries will have to kiss goodbye to their industrialisation efforts.'
Tetteh Hormeku, Africa Trade Network

Christian Aid is part of an international campaign to stop EPAs in their current form. We believe that since Europe's former colonies did not ask to open up their markets to EU imports and since hundreds of campaigning and non-governmental organisations in Africa have said that EPAs in their current form should be stopped, the EU must now listen and act. This report calls on Peter Mandelson to remove the reciprocal market-opening element from the EU's negotiating mandate and leave ACP countries to decide for themselves whether to liberalise.

The resulting one-sided or 'non-reciprocal' trade arrangement could be made WTO-legal if European member states were prepared to instruct the Commission to argue for changes to WTO law. The rules governing regional and preferential trade agreements between developed and developing countries need rewriting. Europe has already promised to support measures to make 'special and differential treatment' for developing countries more effective in the ongoing Doha round of talks. Such changes could be sealed at the WTO ministerial meeting in Hong Kong in December 2005.

On the other hand, if Commissioner Mandelson arrives in Hong Kong with EPAs in his briefcase, the EC could again be heading for a confrontation with developing countries of the kind that led to the collapse of talks in Cancun, Mexico, in 2003.

Christian Aid is calling on the EU to give ACP countries four guarantees:

1. **Continued and improved access to EU markets with legal certainty.**
2. **The right to decide whether, how and when to liberalise their own markets.**
3. **Finance to help them enhance regional integration, and develop their ability to trade and cope with the costs of adjustment caused by trade reforms.**
4. **Compensation for the loss of revenue caused by preference erosion.**

The UK government must use its pivotal role on the international stage during 2005 to influence the outcome of the EPAs debate.

Britain's declared position favours trade that works for poor people and, in its white paper of 2004, the Department of Trade and Industry states that poor countries should not be required to 'pay the price' for access to the markets of rich countries.

Christian Aid challenges the UK government to support this rhetoric with action. It should clearly state that EPAs are not currently compatible with its vision for trade with developing countries. Also, as the UK chairs the G8 and holds the presidency of the EU simultaneously, it should galvanise like-minded European countries to stop EPAs in their current form.

1. Telling the full story

What is driving changes in the trade relationship between Europe and Africa?

1.1. Europe's new trade agenda: partnership under threat

Since 1976, the European Union's trade, aid and political relationship with African, Caribbean and Pacific (ACP) countries – its former colonies – has been governed by a series of treaties commonly known as the Lomé Conventions. Each five-year convention allowed ACP exporters better access to European markets than any of their competitors in other developed or developing countries. At the same time, ACP countries were allowed to protect their markets from competing EU imports. These provisions recognised that trade between countries at unequal levels of development must be tilted in favour of the less developed partners if it is to help them generate revenue and grow.

The primary purpose of the Lomé Conventions was to promote economic development in ACP countries through aid and trade preferences.[7] The fourth and last convention was signed in 1996 and expired in 2000, although its provisions continue to govern trade between ACP countries and the EU under a waiver granted at the WTO until December 2007.[8]

The Cotonou Partnership Agreement replaced the fourth Lomé Convention in 2000. Its stated aims are to '*reduce and eventually eradicate poverty consistent with the objectives of sustainable development and the gradual integration of the ACP countries into the world economy*.'

Like its predecessor, the Cotonou Partnership Agreement emphasises the need to support the economic development of ACP states. It clearly recognises the right of ACP countries to make their own economic and development decisions.[9] It also states that trade between the EU and ACP should help foster sustainable development and eradicate poverty in ACP countries.[10]

But the EU's interpretation of Cotonou will bring dramatic, historic changes to the way in which the EU trades with its former colonies.

In September 2002, as stipulated in the Cotonou Partnership Agreement, the EU and ACP launched talks to negotiate regional trade agreements – the Economic Partnership Agreements (EPAs) – compatible with WTO rules. The EU is choosing to negotiate under the strict WTO rules that govern free-trade agreements between two or more countries. It therefore maintains that EPAs will require ACP countries to open up their markets to *'substantially all'* imports from the EU, over a limited time period.

EPAs, therefore, are free-trade agreements. So, under the guise of partnership and cloaked in the language of development, European states have chosen to neglect the WTO principle of special and differential treatment for less developed countries. The European Commission, with the blessing of EU member states, has set itself on the seemingly inexorable path of forcing open the markets of countries immensely poorer than those of Europe.

The mandate which EU member states – including the UK – have given the European Commission to negotiate free-trade agreements with their ex-colonies in Africa, the Caribbean and Pacific shows a radical shift away from their thinking on development and

trade of a few decades ago. They no longer seem to recognise that partnership between unequal regions cannot be based on unfettered free trade without undermining the less developed partner.

ACP governments and parliamentarians, along with NGOs and campaigning groups both in ACP countries and Europe, have expressed deep concern about the talks.[11]

According to President Festus Mogae of Botswana, ACP countries stand to lose from the new agreements, especially since they are already struggling with existing trade liberalisation. 'We fear that our economies will not be able to withstand the pressures associated with liberalisation, as prescribed by the World Trade Organisation. 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,' he said.

The source of deepest concern is that EPAs threaten to lock 77 developing countries, 48 of them based in Africa and among the world's poorest, into reciprocal trade agreements whose raison d'être is the mutual elimination of tariffs.

1.2 What is driving the EU's new trade agenda?

The European Commission claims that the EU has no interest in opening up ACP markets to its exports through EPA negotiations as the ACP markets in question are so small.

Their character as free-trade agreements, says the EU, has been determined by the global trade and geopolitical environment; the WTO rules demand that it be this way, and the trigger and timing is the expiry in 2007 of the waiver granted by a majority of WTO members in 2001. The EU says that the terms of EPA negotiations are also determined by legal constraints: the WTO's Article 24 of the General Agreement on Tariffs and Trade (GATT) which stipulates that regional trade agreements must be reciprocal and aimed at eliminating barriers to trade.

The EU's insistence on WTO compatibility can in part be traced back to the 1990s when the EU's trade arrangements with banana-producing former colonies was the source of a bitter trade war with the US. In 1999, the WTO ruled these trade arrangements illegal because the administration of banana imports discriminated between Latin American and ACP producers. The US subsequently sought compensation and imposed bruising tariffs on products from Europe as a sanction to force the EU to comply with the WTO's ruling. The EU has not forgotten the bloody nose it was given.

However, Europe's aggressive interest in the markets of ACP countries should not be discounted. As this report will show, basic EU value-added food products – such as canned tomatoes and frozen chicken parts – are already dominating many African markets. It will also demonstrate that WTO compatibility is a moving target; its rules on regional trade agreements are currently under review as part of the Doha Development Agenda round of world trade talks and could be changed to offer special treatment to developing countries.

The EU can also pursue options outside WTO regional trade agreement rules that would guarantee ACP producers continued access to EU markets, without requiring them to open up their own. One such option would be to improve the EU's existing system of preferential trade arrangements for developing countries – the General System of Preferences.

EPAs as negotiated free-trade deals are not inevitable. In Christian Aid's view, they are an unfortunate marriage of the flawed development thinking and new political and trade agendas of the EU.

1.2.1 Trade liberalisation as an instrument for development

The EU bills EPAs as 'instruments for development'.[12] This belief stems from two sets of ideas about how free markets will generate economic development and increase revenue. First, better EU market access will stimulate more investment in export products in ACP countries. Second, competition from imports will force traders, manufacturers and producers in ACP countries to become more productive and competitive.[13]

Since the 1980s, trade liberalisation has been pushed on developing countries as the policy option most likely to lead to increased growth and poverty reduction. Although trade liberalisation is not always the wrong policy, its imposition on developing countries during the 1980s and 1990s led to well-documented cases of job losses, increased poverty and de-industrialisation.[14] Despite mixed results, hotly contested evidence and the fact that this was not the way that most EU countries themselves developed, EU member states are now condoning the European Commission's pressure on ACP countries to eliminate almost all their protection against EU imports.[15]

EPAs as conceived by the EU will do little to help African countries kick-start production, increase productivity or boost trade in an international system where they already compete on unequal terms. Even the EU's own assessments have concluded that increased competition from European imports could have a devastating impact on emerging industries in all the ACP countries.[16]

In addition, tariff elimination will reduce government revenues, forcing finance ministers to make even more difficult spending choices between different essential public services. According to the World Bank, between ten and 30 per cent of ACP government revenue, aside from aid, is generated by levying tariffs on imports.

A recent IMF study revealed that middle-income countries recovered only 35-55 US cents for each US dollar of tax revenue they lost because of trade liberalisation between 1975 and 2000.[17] Low-income countries recovered essentially none.

The process of fiscal reform is difficult and long. The easiest fixes, such as imposing value-added tax, hit the poor hardest. This has important implications for the sequencing of trade liberalisation as part of a development strategy; EPAs currently do not allow the necessary flexibility.

1.2.2 Why preferential trade deals did not work

According to the EU, Lomé trade preferences have failed to bring about economic development in ACP countries; instead they have encouraged the unhealthy dependence of ACP economies on commodity exports. These arguments are borne out by some distressing statistics: ACP exports' overall EU market share has halved since 1975, and what remains is primarily composed of raw materials – 65 per cent in 2002.[18]

But these aggregate statistics hide the fact that trade preferences in many countries have helped specific sectors buck the general trend. For example, overall exports to the EU from southern African countries declined by 5.4 per cent between 1988 and 1997. But export products that have enjoyed better market access than the EU was offering under its

Generalised System of Preferences have expanded by 83 per cent. These include textiles in Zambia and Zimbabwe, furniture in Swaziland, and fish and leather products in Mozambique and Namibia. Exports have expanded in a similar way in Ghana, Mali, Senegal and Kenya.[19] These preferences have played an important role in countering countries' declining earnings from basic agricultural commodity exports, which have fallen by 50 per cent over the past 40 years.

As acknowledged by the WTO's 'wise men' in a report on the future of the international trading system:

> *…we have to accept that access to such treatment is now long established in the WTO and is reasonably regarded as part of the 'acquis' of its developing Members. Moreover, the commercial value to many firms in poor nations, struggling to find a small niche for themselves in a tough global economy, is real. Such firms frequently need some positive discrimination if they are to stand a chance. So, for every importer seeking to cope with the spaghetti bowl of PTAs [Preferential Trading Arrangements] there are manufacturers, farmers and traders in developing countries whose best opportunity lies in exploiting a small comparative advantage born of a preference.*[20]

Despite this, the European Commission is proposing to scrap special preferences for ACP countries and replace them with free-trade areas in the form of EPAs. This has more to do with the general trajectory of EU trade policy, which views free-trade-area agreements as an important vehicle for securing increasing spheres of political influence and market advantages for EU exporters over their major Organisation for Economic Cooperation and Development competitors, than with the actual performance of ACP countries in utilising non-reciprocal trade preferences. European Commission proposals are based on a very partial analysis of why some countries and regions have been able to effectively exploit non-reciprocal trade preferences while others have failed to do so.

The declining levels of overall imports from ACP countries into the EU demonstrates not that the fundamental principle of granting trade preferences is flawed, but rather that the underlying composition of ACP exports is dominated by poorly performing commodities, that there are shortcomings in the design of preference schemes, and that there has been a failure to increase the productivity of ACP industries and producers.

Withdrawing preferences suits the EU's political interests well. There is reluctance among new member states to grant preferences based on the old colonial ties of France and Britain. The EU as a whole also believes such schemes reduce ACP countries' interest in seeing tariffs reduced globally in WTO talks, as their advantage will be diminished.

However, although by no means a magic bullet, properly designed preference schemes need not be stumbling blocks to the successful integration of developing countries into the multilateral system. Preferences can help establish systems of non-reciprocal market access for poorer countries based on their level of development, which would allow a more managed process of integration through market opening.

While preferential access to rich countries' markets is not a complete or long-term solution, it defies logic to cut short the difficult task of fostering the sustainable structural development of ACP economies by forcing through premature reciprocal market opening. A better approach to that currently being adopted by the EU through EPAs would be to

improve the usefulness of preferences in the immediate term while at the same time helping ACP producers become more productive and competitive.

The onus should be on the rich EU member states to provide assistance to preference-dependent countries, such as those in Africa, to cope with the effects of preference erosion as a result of CAP reforms and multilateral trade negotiations, and to develop their economies so that they can compete for export markets once preferences are eventually eroded or withdrawn. The wholesale liberalisation of imports into the domestic markets of underdeveloped countries has no logical part to play in this process. Until larger regional markets have been built, investment has been mobilised and new production capacity has been developed on a far more competitive basis, it is unrealistic to expect that across-the-board market opening to EU imports would promote the competitiveness of ACP producers and manufacturers.

1.2.3 Politics: the WTO and regional trade agreement agenda

The EU's push for EPAs is inextricably linked to the WTO's political processes.

Whether or not EU exporters are pushing for better access to ACP markets, the political value to the EU of neutralising the potential for opposition to its agenda in the WTO from a large constituency of WTO members – the ACP countries – is considerable.

The WTO operates by one-country, one-vote consensus. Each country has nominally equal weight, and a coalition of developing countries (called the G90 and including a high proportion of ACP countries) has been pursuing a collective strategy that has enhanced the voice of developing countries. This was clearly demonstrated in 2003 at the WTO's meeting in Cancun where a coalition of developing countries, including some from the ACP, successfully blocked the inclusion of the 'new' or Singapore issues in talks.

The EU was at the fore in seeking agreements on three of these issues – investment, competition and government procurement – and was criticised for its obstinacy in pushing them at the expense of agreement in Cancun. It is no surprise that these same issues are now up for negotiation in EPAs.[21]

But aside from the likely gains the EU will make from ACP countries by including these issues in EPA negotiations, it will also enable them to foster a 'community of interest' with the ACP in future WTO negotiations. It will make an acceptance of issues rejected in Cancun all the more likely in future rounds of world trade talks.

In their open letter of 10 May 2004, EU Commissioners Pascal Lamy and Franz Fischler told a majority of the countries now negotiating EPAs that they would not be required to make any concessions on non-agricultural market access (NAMA) as part of the Doha round.[22] It was hoped this offer of a 'round for free' would smooth the way towards reaching a deal. But the promise has proved hollow since these countries are now having to negotiate their tariff levels for NAMA, with respect to imports from the EU, under EPAs. A 'free' round is ultimately likely to prove costly.

Negotiating free-trade deals to get better market access than is possible via the slow pace of WTO negotiations is a tried and tested EU strategy. It has been negotiating free-trade-area agreements with various developing countries and regional groupings since the mid-1990s. These range from Mercosur and Mexico in Latin America, to Algeria, Morocco, Tunisia, Egypt and South Africa in Africa, to some Middle Eastern countries. In many of

these agreements, the European Commission has successfully negotiated better market access for EU exports, as well as more rules on investment and intellectual property protection that are more favourable to them than is possible at the WTO.

It is no coincidence, then, that the EU and US have pursued an agenda of 'competitive regionalism' since the collapse of talks at Cancun,[23] seeking to not only promote their own trade interests but also increase their influence at the WTO.

1.3 What African countries want from trade with the EU

Despite Europe's new rhetoric of partnership, many people in Africa believe it wants to continue to dictate, as it has since colonial times, the shape and terms of Africa's access to the European market.

Europe's bloodied nose in the banana trade war with the US, the political pressures it faces at the WTO, and its ideological approach to development and trade – and not the needs of African governments – are shaping the choices now facing Africa.

Neither African governments nor their enterprises or citizens have asked to negotiate EPAs on the terms currently offered by the EU. No African government has ever proposed the voluntary opening of its market to EU imports as part of a national development or industrialisation strategy. So why have even the 34 least developed African countries, whose exporters face no tariffs or quota restrictions in the EU market, signed up to negotiate free-trade agreements with the EU?[24]

The short answer is that ACP countries have no option but to negotiate EPAs in order to maintain and possibly improve their most important aid and trade relationship.

African countries, along with Caribbean and Pacific islands, once sat at the pinnacle of the pyramid of special market-access schemes into the EU. Not only have they been knocked off this perch[25] but, with the exception of a few countries,[26] badly designed preferences and inadequate support for industrial development have failed to transform their primary-product-based economies and help them escape the commodity trap.

African countries therefore view regional trade negotiations with the EU as an opportunity to redress some of the flaws in their current, eroding preference regimes and to get more aid to develop new technologies, improve transport links and kick-start competitive enterprises. In short, they believe they can negotiate a better deal from the EU in formal regional negotiations than in relying on the goodwill of European governments to grant them preference schemes.

For example, the Everything But Arms preference scheme makes it more difficult for products to qualify for free entry into the EU market than the regional Cotonou Agreement. Its terms have been entirely determined by political forces in the EU, and it could be withdrawn at any time without negotiation or notification.[27]

So African governments want:

- **CAP-related supplementary duties on exports removed.** Even though European countries charge zero tariffs on more than 95 per cent of current African exports, some higher value-added products still face very high tariffs. For most ACP countries this is not a product of conventional tariff escalation but rather the result of special supplementary duties charged on agricultural inputs used in value-added food products. For instance, the EU levies no tariffs on raw pineapple exports from Kenya, but up to 27 per cent on canned pineapples, because of the sugar used in the preservation of the canned fruit. These and other residual tariffs need to be removed.[28]
- **restrictive rules of origin revised.** Rules of origin mean products only qualify for a zero tariff on entering the EU if exporters can show that most of the constituent parts are also produced in the exporting country or in another African, Caribbean or Pacific state. Aside from the fact that certifying the origin of a product's parts is a cumbersome administrative exercise, which few exporters can afford, many African enterprises rely on cheap imports from Asia and elsewhere to manufacture competitive products. The Commission is reviewing rules of origin as part of the ongoing General System of Preferences review. However, current proposals are not promising and ACP countries have no say in these talks.
- **punitive non-tariff barriers addressed.** Exporters of agricultural products, which constitute the majority of goods Africa supplies to the EU, have to prove that these products comply with very strict EU food-safety regulations. This prevents many small and medium-size entrepreneurs from exporting, often not because their products do not comply, but because they cannot afford to have them certified as compliant.
- **better access for products that compete directly with those produced in the EU.** Where African agricultural exports compete directly with EU products they tend to incur tariffs, albeit at a lower rate than competitors from non-ACP regions. These products are also subject to strict limits on the volume that can be exported under preferential tariffs. For example, Namibia can only export a small quantity of grapes to the EU between November and January at zero tariffs. All African sugar exports to the EU, whether from developing or least developed countries, continue to face quota restrictions.
- **more development finance.** At present, only about two per cent of the European Development Fund (EDF) budget is allocated towards trade, business and agricultural-sector development activities.[29] African governments want *additional* funds to help them develop legal frameworks, institutions, skills, better electricity supplies and transport, all of which will make their enterprises more competitive. They also want further funds to improve regional institutions, laws and transport links to assist the development of regional markets across Africa.

EPA negotiations between the EU and existing regional groups in Africa may remove some of these barriers. However, the European Commission has told African negotiators that they cannot expect *any* additional funds to those already committed under the existing five-year EDF. For the slightly improved market access they may get, African countries will be asked to pay dearly by eventually eliminating all tariffs on EU imports. For many of Africa's poorest people, this does not represent a fair deal and contravenes the principles that should underlie an economic *partnership* agreement.

1.4 Is this a real partnership?

Individual EU member states have rhetorically sworn their allegiance to 'making trade work for poor people'. Some have gone as far as to suggest that poor countries should not be forced to 'pay the price' for access to rich countries' markets.[30] It is not unreasonable, then, to suggest that the EU's new trade partnership with Africa should be based on the developmental needs of ACP countries, especially those in Africa.

Agreements should recognise the inequality in economic and political power between Africa and Europe, and the mutually agreed aims, objectives and outcomes should reflect this. But the reluctance or even refusal of European negotiators and politicians to give way to a host of African requests belies the notion of partnership.

Come back in a better mood, European official tells ACP ambassadors

At a recent meeting between ACP and EU trade negotiators, one senior EC trade directorate official dismissed ACP ambassadors' requests that they be allowed to exclude at least 30 per cent of products traded with the EU from tariff-elimination commitments.

He told them to come back when they were 'in a better mood'.[31]

A comparison between the outcomes desired by the ACP and EU respectively from EPA negotiations shows up the failure of the European Commission and its member states to listen to Africa.[32] Some of the African requests outlined below are not even based on their original wishlist (see 1.3, page 13) but are attempts to limit the potential damage of the EU's EPA agenda.

Africa asks the EU...	**The EU replies...**
Open up African markets to EU exports at a very slow pace – at least a five-year moratorium before starting tariff elimination, and then only when African countries reach agreed development indicators. African governments should be able to exclude as much as a quarter of the products they trade with the EU from tariff-elimination commitments	The EC disagrees with all these proposals. It says WTO rules will not allow this type of regional trade agreement. This despite the fact that the Cotonou agreement stipulates that the parties should 'collaborate and cooperate closely in the WTO with a view to defending the arrangements reached, in particular with regard to the degree of flexibility available'[33]
Cooperate in the Doha round to change the rules governing preferential trade agreements. GATT Article 24, for example, needs to incorporate special treatment for developing countries in regional trade agreements with developed countries	There is enough flexibility in Article 24 already – the EU will not cooperate with the ACP to change the rules governing preferential trade agreements
Common rules of origin for all African exporters to the EU	Will negotiate rules of origin with the four regional groupings separately
Systematically investigate the impact of Common Agricultural Policy reforms on ACP economies, including the shift to direct payments, and include this in EPA negotiations	Will only investigate the impact of export subsidies on a case-by-case basis
More resources, in addition to the EDF budget, to help them develop infrastructure and increase productivity – to take advantage of EU market access and cope with competition from EU imports	No extra resources in addition to what has been budgeted under EDF

2. Climbing the slippery slope

How can a new trade relationship with the EU boost development in Africa?

If EU politicians and governments listen to Africa and truly grasp the economic, social and political dilemmas facing African countries, they must conclude that the European Commission needs to change tack. The current course set by the EU under EPAs is unlikely to reward African countries with the extra market access they require without threatening their right to protect their industries as part of an industrial development strategy. Instead, it would force the pace and scope of trade liberalisation, causing major damage to African countries' economies.

But if European member states are prepared to change the direction of EPA negotiations, which are currently sliding down a slippery slope, African countries could receive a huge economic boost. The EU needs to stop forcing African countries to open up their markets to EU exports and allow African voices to shape the outcome of EPA negotiations. It should increase its financial backing to help African countries transform their economies, and work with them and other concerned countries to change the outdated and inadequate WTO rules that prejudice the outcome of trade negotiations.

2.1 Stop forcing trade liberalisation

Poverty will continue to taint the lives of most Africans unless more African industries start producing an increasing number of value-added goods of better quality and at lower cost, for domestic and regional markets. This has never been achieved in a free-trade environment and requires appropriate trade policies if it is to be nurtured.

After three decades of 'structurally adjusting' their economies, according to the scriptures handed down from the International Monetary Fund (IMF), many African economies are now far more open and 'integrated' into the global economy than their European counterparts. For example, the UK, France and Germany have more restrictions on trade than Mozambique, Mali and Zambia.[34]

However, rather than liberalisation making them stronger and more productive, their economies – and by implication the majority of their people – have become increasingly vulnerable to uncertain international prices, shrinking or restricted markets and foreign-government policies over which they have no control.[35]

2.1.1 Liberalisation damages industries and poor producers

Two new studies from Christian Aid show how the lowering of import tariffs on European exports in Senegal and Ghana have already had a profoundly damaging impact on the producers of first- and second-stage agricultural products there.

Case study 1: Senegal – tomatoes and poultry

The Ghanaian and Senegalese experience of gradually opening up their local markets to European imports over the past decade illustrates the dangers of prematurely exposing local producers and industries to cheap imports. This experience challenges the European Commission's arguments and shows that it is not simply a matter of delaying tariff elimination for a few years, but whether the policy is appropriate at all.

The tomato industry
Prior to 1994, the Senegalese government used high tariffs and quotas selectively to protect and promote domestic industries. In 1994, it started opening up its economy to comply with the conditions of a series of structural adjustment loan agreements with the World Bank and IMF, prompted by its debt crisis. It devalued its currency, the CFA, and gradually reduced tariffs between 1994 and 2001 from an average of 36 per cent to 14 per cent, with the highest tariffs falling from 70 per cent to 42 per cent. The government also eliminated import quotas and licences altogether.

Before it began to liberalise, Senegal had had a thriving tomato industry. With almost limitless sunshine and a superb irrigation system in the Senegal river valley, it became the 23rd largest tomato producer in the world. Producers were able to sell their tomatoes to state-owned tomato-paste factories, which fully supplied the national demand for tomato paste, a key ingredient in traditional Senegalese cuisine. Tomato production was the best-paid activity available to rural households in the early 1990s.[36]

But the lowering of tariffs on EU triple-concentrate tomato imports, coupled with the privatisation of Senegal's tomato-paste factories and the withdrawal of government support for farmers weakened a once-integrated and stable industry. Many farmers no longer had access to the credit necessary to enter the costly business of commercial tomato production, especially in light of increased competition from Europe. By the 1996/97 growing season, local tomato production had fallen to only 20,000 tonnes, from 73,000 tonnes in 1990.

Compared to their Senegalese counterparts, European commercial tomato farmers have easy access to credit and qualified labour. This means they can produce tomatoes more cheaply for the European processing industry. In addition, EU member states paid out US$300 million in export subsidies to their tomato processors in 1997 alone.

This created yet another problem for the Senegalese farmers that had managed to continue growing tomatoes. The next link in their local marketing chain – the tomato-paste factories – stopped buying their tomatoes. These factories found it cheaper to import triple-concentrate tomato paste from Italian processors and transform it into double-concentrate for the local market, than buy and process local fresh tomatoes.

As a result, the prices they paid to local tomato farmers fell from CFA50 (five pence) to about CFA25 a kilo during this time,[37] and imports of European tomato paste soared from 221 tonnes in 1993/94 to 4,600 tonnes only three years later.

The poultry industry
The Senegalese poultry sector plays a very important social and economic role. It employs around 10,000 people, and has an annual turnover of about CFA25 billion. It used to be a stable sector with a well-integrated local production chain[38] – from raising breeding chicks to slaughtering mature chickens for the growing market. Chicken consumption increased from 1.5kg of chicken per person per year in 1990 to 2.5 kg in 1997.

This growing urban demand led to the development of semi-industrial poultry farms and supply industries around major cities. By 2000, these farms were already producing around a third of the country's total poultry meat, with smaller traditional farms supplying the remaining two-thirds.[39]

All this changed in 2000, when the government lowered tariffs on imported chicken parts from 60 per cent to 20 per cent. This decision was made to align Senegalese import tariffs with the common external tariff agreed, under the influence of the World Bank,[40] by its fellow members of the West African Economic and Monetary Union (WAEMU). It led to an 11-fold increase in the volume of chicken meat imported into Senegal between 1999 and 2003.[41]

Three-quarters of this meat came from the EU – principally Holland and Belgium – mostly in the form of frozen chicken parts, which sell for as little as half the price of the local equivalent. This was in part because of a general expansion of EU poultry meat exports – up from 400,000 to one million tonnes between 1992 and 1999 – resulting from the reform of the EU cereals sector.

Cereal farmers in Europe are able to undercut their Senegalese competitors largely because of the direct payments they receive from the European taxpayer. As a result of these subsidies, the EU producer price for wheat, fodder and barley, which make up about half of the ingredients in poultry feed, dropped by around 50 per cent between 1990 and 2002. This has led to the price of poultry feed in Europe falling by almost a third. Given that poultry feed makes up 70 per cent of the cost of poultry production, this has made EU exports more price competitive.[42]

Changing consumption patterns have led to the emergence of a new trade in the parts of the chicken that are not consumed in Europe. This has contributed to the exponential rise of exports of chicken parts to Senegal, from 1,787 tonnes in 2000 to 9,312 tonnes in 2003. These cheap imports have depressed chicken prices in Senegal.

As a result, local chicken production has dropped by a third, leading to around 2,000 job losses and the closure of seven out of every ten chicken farms in Senegal.[43] This has destroyed the livelihoods of many small farmers and has put almost all industrial producers out of business. Their most important market outlet – the local hotel industry – now sources around 90 per cent of its chicken from Europe in the form of frozen chicken parts.

The collapse of the chicken industry has also cost many of Senegal's maize farmers their livelihoods. Locally grown surplus maize is mostly used for chicken feed, although production has never been sufficient to supply the entire poultry industry. But the collapse of commercial chicken farms as a result of European imports of frozen chicken parts has cost maize producers and their families around CFA7 billion in lost sales.[44]

At the same time, imports of subsidised cereal meal and pellets from the EU have risen almost four-fold since 1993.[45] Given the competition local chicken producers are facing from cut-price chicken parts imported from Europe, they are highly unlikely to source more expensive locally grown cereals should they decide to rebuild their businesses in the future. This will jeopardise the government's plans to encourage increased cereal production and enhance food security.

What about the future?

Despite the damage inflicted by a succession of structural adjustment programmes during the 1990s, Senegal has a relatively well-developed industrial sector compared to its neighbours. It still has much to lose.

Two-thirds of Senegal's manufacturing output, half of which is concentrated in the agro-processing industry, is sold on the domestic market. Most value is added to agricultural

products through the transformation of locally grown peanuts into oil; locally grown and imported cereals into food products and animal feed; imported sugar into various consumer products, such as fizzy drinks; locally grown tomatoes into paste; and imported milk powder into milk products.

Private enterprises undertake most of this processing. Therefore, any future developments that reduce local demand for these processed agricultural products – such as the elimination of import tariffs under EPAs – will reverse current efforts to industrialise.

Already, EU exports of wheat flour, chicken parts, flour-based foods, potatoes, onions and various other food products have expanded massively over the past ten years, and now amount to around one-fifth of EU exports to Senegal.[46]

The experience of producers and enterprises that cultivate, market and transform tomatoes and poultry has shown how much damage a premature reduction in tariff protection can cause. It also illustrates the threat that agro-processing and agricultural sectors in other African countries will face when they are no longer protected from EU imports, especially those benefiting from public subsidies, against which they cannot hope to compete.

2.1.2 African countries using selective trade protection

Today, some African countries are beginning to employ selective trade restrictions to protect and promote what they view as sensitive or strategic industries or agricultural sectors. Developing such industries is part of their attempt to break out of their dependence on raw commodities. It is a strategy aimed at developing self-sustaining and integrated national and regional economies that provide secure income-earning opportunities for their populations.

In Mozambique, the government has levied restrictions on sugar imports to encourage investment in local sugar refineries that produce sugar for the local market. And in Ghana, the government has recently announced the ambitious Rural Enterprises Development Programme, which involves financing new rural industries while raising tariffs on imports of potentially competitive products.[47]

A realistic first step to industrialisation for most African countries, with the majority of their populations still at least connected to if not based in rural areas, is to set up and support factories and companies that add value to basic agricultural products by processing, packaging or completely transforming them. This can create secure outlets for small and medium-size farmers (see Ghana: tomatoes and poultry production, page 20); secure, high-quality jobs for factory or company workers; and demand for intermediate products, such as packaging or added ingredients.

But to get such companies off the ground, aid-dependent African countries face a constant battle with their main creditors, the IMF and World Bank.

In Mozambique, the World Bank and IMF have in the past tried to remove the government's restrictions on cashew exports and sugar imports respectively. In 2003, the IMF insisted that the Ghanaian government ignore an act of parliament designed to increase tariffs on chicken imports threatening the local industry.

Influential policymakers within the IMF and World Bank, supported by their main shareholders, the G7 countries (including the UK, France, Germany and Italy from the EU), are opposed to any trade intervention to promote industrial or agricultural development.

But their views and policy prescriptions are based on a mix of questionable political, theoretical and empirical assumptions.[48]

Case study 2: Ghana – tomatoes and poultry production

In Ghana, imports of prepared and preserved tomatoes and poultry meat from the EU pose a major threat to the development of local value-added food and agricultural production. These cut-price, highly subsidised products are entering Ghana's domestic market in already substantial and ever-growing quantities.[49] Between 1993 and 2003 there was a staggering 628 per cent increase in processed tomato imports and a 144 per cent rise in the already high level of poultry meat imports.

The tomato industry

The influx of tomato paste from Europe is of particular concern because local processing can provide a safety valve for the fresh tomato market when there is a glut – the excess can be canned or made into concentrate to save it from perishing. This is of great importance to Ghana's large number of poor tomato farmers who, in spite of a lack of firm links into the processing and marketing chain, still grow tomatoes.[50]

The 27,000 tonnes of prepared EU tomatoes that entered Ghana in 2003 at a cost of 25 million euros in lost foreign exchange, overtook the market for locally processed tomatoes and further depressed the expansion of domestic tomato-processing industry. The absence of ready and secure markets discourages farmers from producing at full capacity, resulting in very low average tomato yields.[51] This in turn precludes the build up of a strong and sustainable supply base of fresh tomatoes, which is necessary for the development of a local processing industry.

Because the local processing industry is nearly non-existent, tomato paste from the EU is dominating the domestic market.[52] Shifting consumer tastes in favour of imported tomato paste, filled with additives, is also capping the potential market for local produce.[53]

In spite of the proliferation of, and increasing predilection for, imported tomato paste in the country's markets, the Ghanaian Ministry of Food and Agriculture is attempting to kick-start domestic tomato processing.[54] The Ministry has identified two policy measures it will need to introduce to help the infant tomato-processing industry take off – tariff protection and production support. Donors are happy to allow production support, but the government recognises that introducing tariff protection will require great 'diplomacy' on its part.[55]

A protected industry can improve its efficiency and competitiveness only if the supply of fresh tomatoes is increased. Giving farmers support in the form of fertilisers and affordable credit can boost yields. In addition, investment can repair ageing irrigation systems, such as those in the north of the country that were built using British aid money in the 1970s, and ensure a consistent year-round supply of tomatoes.

The poultry industry

Ghana imports more than 30 per cent of total EU frozen chicken exports to west Africa. With the reduction of tariffs under structural adjustment programmes and the West African Economic and Monetary Union (WAEMU) common external tariff, west Africa has seen an eight-fold increase in EU chicken imports, which are likely to increase even further.[56]

Recent surveys show that local consumers are dissatisfied with the quality of the imported meat, which they regard as tasteless and fatty. In some cases, this meat is even reported to be unfit for human consumption.[57] However, most Ghanaians eat imported meat because it

is significantly cheaper than locally produced and processed chicken. Locally grown broilers are sold at 28,000 cedis (£1.60) per kilo, whereas poultry imported from the EU costs only 16,000 cedis (92p) per kilo, less than the local cost of production.

The livelihoods of some 1,000 registered and many more unregistered small-scale poultry farmers are now under threat, and already there are signs that the industry is collapsing.[58] Faced with inadequate government support and difficulties in accessing loans, small-scale farmers are grappling with very high production costs, especially for feed (some ingredients of which are imported).[59]

In spite of the current stagnation, there is potential for an indigenous poultry industry in Ghana.[60] But one is difficult to envisage unless the Ghanaian government is able to raise appropriate tariffs on imports of EU poultry meat. Although this is theoretically possible without breaching WTO rules, it has been forbidden by the IMF.[61] The National Poultry Farmers' Association estimates that tariffs would need to be in the region of 80 per cent, four times their current level, to allow local producers and processors to compete fairly with EU imports.[62]

According to the Ministry of Food and Agriculture, increased government revenue from higher import taxes could be used to subsidise chicken farmers and support the overall development of the poultry industry.

What about the future?

A boost in local tomato processing and poultry meat production will increase significantly Ghana's overall economic activity, given the size and importance of these two sectors.[63] At present, only 13 per cent of the country's agricultural produce is processed inside Ghana. However, the presence of cheap EU imports is depressing local production and processing, and jeopardising the future development of the processing industry.

To unlock the growth potential of both the poultry and tomato industries, Ghanaian producers and enterprises need properly designed and well-targeted trade policies – including increases in import tariffs – as part of a national agricultural and industrial development strategy. Although this would be permissible under WTO rules, a contractual agreement between the EU and Ghana to eliminate 'substantially all' tariffs and other barriers on EU imports threatens to scupper any such prospect.[64]

2.1.3 Liberalisation capping development

Tariff elimination under EPAs not only risks destroying much of Africa's existing agricultural and agro-processing industry, and the livelihoods of millions of workers and producers with it, but will also damage the prospects for future industrial development.

If tariff elimination on *'substantially all'* EU imports goes ahead, African entrepreneurs will be unlikely to develop value-added industries requiring advanced technologies – such as certain types of food processing – that will face competition from similar EU exports in their national or regional markets. Even as things stand, most existing private enterprises in Africa cannot compete with the capital and know-how of their European counterparts to produce goods for which there is an existing or even potential future demand in their own or regional markets.[65]

African entrepreneurs that wish to add value to locally grown agricultural products and sell them to consumers and companies nationally or regionally will need conditions under

which they can produce competitively and reach these markets. They will therefore require massive investment in Africa's trading infrastructure.

They will also need protection from imports, especially products that are sold below the cost of local production as a result of the public subsidies they receive. Many European agro-processors will still be receiving such subsidies in 20 years' time. Even though these subsidies will not be linked to the level of output, and are therefore not considered to be distorting prices, direct payments to farmers still allow them to sell at lower prices than they would be able to otherwise.[66]

This competition will increase if African governments agree to eliminate their tariffs on EU exports. The marketing advantages that European brands such as Nestlé already enjoy in African markets, combined with cheaper prices, will prevent African countries developing industries in the future that add value to locally or regionally grown cereals.[67]

A third new study from Christian Aid shows how the opening up of Mozambique's markets to products from Europe under EPAs threatens to 'cap' the development of the country's industries.

Case study 3: Mozambique – the future of the milling industry

Under EPAs, imports of wheat flour from the EU would undermine Mozambique's thriving milling industry and destroy future prospects for development in the country's value-added wheat sector. This capping of development is one of the most profoundly worrying aspects of an EPA that demands reciprocal market opening.

The milling industry in Mozambique has real potential for development. The country doesn't produce much wheat but has successfully developed a domestic milling industry by processing and adding 20 per cent value to imported wheat.[68]

Milling is one of the few manufacturing activities left in a country where traditionally large employers, such as the textile and clothing sector, are collapsing.[69] In Mozambican terms it is a big and dynamic industry, accounting for around one-fifth of the country's manufacturing output and employing more than 3,000 people.[70] It also stimulates economic activities such packaging and distribution, and the production of bread, pasta, pastry and biscuits.

The industry has developed as a result of a conscious government policy. Tariffs on the industry's main input – imported wheat – have been kept as low as 2.5 per cent to keep its costs down. Tariff-free wheat imports are now made available to larger Mozambican mills by the National Institute of Cereals, which is considering extending such provision to medium- and small-scale milling companies. However, a 25 per cent tariff is levied on imported wheat flour to protect the output of the mills. Mozambique has selectively used liberalisation and protection to help promote the industry.

The positive and dynamic growth of wheat mills and the expanding wheat-flour market in Mozambique have prompted the government and private investors to protect the industry from outside competition and provide new investment capital. A new milling plant is under construction in Beira, not far from Rotanda, the only area in Mozambique that grows wheat and has the potential to expand its wheat production. A secure market outlet would encourage local families to increase their wheat production, providing them with a secure livelihood.[71]

However, Christian Aid's research shows that if the proposed EPA liberalises trade in wheat flour, the milling industry in Mozambique will face a significant set-back. If import tariffs on flour are removed, wheat flour from Holland and Belgium will enter Mozambique at a price significantly lower than that of locally milled flour.[72] Given that the market for wheat flour in Mozambique is relatively small, even limited amounts of imported flour will create major disruption in the domestic market.[73]

According to an EU-funded study investigating the potential impact of an EPA between Mozambique and the EU, wheat-based cereal milling and bakery is a 'dynamic' industry and will be damaged if the government eliminates tariffs on EU imports.[74]

Premature exposure to increased competition will cap the development of this young, yet potentially strong, industry. And any contraction in the industry could prove catastrophic for its workers. Profit margins in milling are not high and are very sensitive to increased competition.

Higher tariffs on processed agricultural imports from the EU – at an average of 23 per cent, tariffs are double the rate imposed on unprocessed agricultural imports – have to date helped industries in southern Africa, such as wheat-milling, to develop. In some countries, tariff rates are much higher than this 23 per cent average. They are 30 per cent in Mozambique, 67 per cent in Botswana and 42 per cent in Zimbabwe.[75] Eliminating these tariffs on EU exports in a bilateral contractual agreement will not only threaten existing agro-processing industries, but also *lock them into their current low-value-added patterns of production.*

Without such industries, most African economies' reliance on commodity exports will be compounded. According to the United Nations Conference on Trade and Development (UNCTAD), there is a clear link between dependence on exports of primary commodities and the incidence of extreme poverty.

The millions of households who make a living from cultivating these products have, with some exceptions, seen no significant increase in their incomes, life expectancy, health or education. In fact, many have seen their incomes dry up as a result of the long-term downward trend in real commodity prices since the 1960s, or sudden international price crashes. Real commodity prices of least developed country exports alone declined by more than 30 per cent between 1986 and 1999.[76]

Commodity sectors offer people little prospect of breaking out of poverty. Since 1999, international cotton prices have dropped one-third, almost halving the prices received by Mozambican cotton growers. According to one of the thousands of women who try to make a living from cotton, 'Many of us grow cotton although it doesn't yield us anything, but we are forced to continue. The problem is that there are no other jobs for women. If there were... women would certainly… not cultivate cotton.'[77]

In most African countries, the bulk of the population – often 60 to 70 per cent – is only just surviving by growing and sometimes selling their own food, hawking low-value goods, or selling their labour piecemeal and cheaply.

Countries that have successfully broken – or are breaking – out of this kind of dependency and survival economy, such as Mauritius (one of a few African countries), South Korea and Taiwan, have done so partly through careful industrial and agricultural development

planning. Trade restrictions were an integral component of these strategies.[78] African governments should be allowed to use such restrictions as part of their efforts to encourage development and reduce poverty. This will be impossible if they enter into a contractual agreement with the EU to eliminate all existing tariffs and other barriers on EU imports.

The UN-appointed Zedillo Commission, reporting to the 2002 Monterrey Conference on Financing for Development, captured the growing unease surrounding this potential denial of previously successful policies. It noted that: 'However misguided the old model of blanket protection intended to nurture import-substitute industries, *it would be a mistake to go to the other extreme and deny developing countries the opportunity of actively nurturing the development of an industrial sector*.'[79]

Peter Mandelson, the new European Trade Commissioner, and his bureaucrats have been at pains to emphasise that African countries will be able to negotiate much longer transition periods before they are required to eliminate tariffs, and exclude 'sensitive' products from their free-trade agreement with the EU. They normally cite the South African government as an example. It was able to exclude 14 per cent of products imported from the EU from any tariff-elimination commitments in its bilateral trade agreement with the EU.

In principle, therefore, the Mozambican government should be able to exclude its milling industry from any future trade liberalisation commitments in its EPA. But even if it is allowed to do so[80] such an approach still ignores the dynamic nature of development. Such exclusions can only be based on an assessment of existing production and trading patterns. It is very difficult to predict which products will be in demand in ten or 20 years' time. If more competitive and productive EU enterprises are already given free access to African markets, African entrepreneurs will not be able to respond to domestic or regional market opportunities.

2.2 Support home-grown regional integration

The EU is failing to acknowledge that building regional markets and competitive regional industries in Africa is a complicated process. It will take much longer than the arbitrary trade liberalisation schedules envisaged under EPAs. Fast-tracking common external tariffs among groups of African countries and forcing them to open up to EU imports prematurely would deny many producers and manufacturers vital national and regional markets.

For many decades African governments have tried to cooperate more closely to develop regional transport and communication links; coordinate their economic development and environmental strategies; and reduce trade barriers among their often-artificial neighbouring national borders.

It is widely acknowledged that such strategies, if successfully implemented, could create sufficiently large markets to encourage local and foreign entrepreneurs to invest in economic activities that require large-scale production to be competitive.[81]

But until now, regional schemes in Africa have been mostly unsuccessful in creating larger and more integrated markets. This is because most political leaders have not actively promoted the idea for fear of losing their power to make national policies; hence regional coordinating institutions have remained under-funded and without clout.

In addition, many African enterprises produce or export more or less the same products as each other, so they are more interested in access to industrialised countries' markets than those of their neighbours. Moreover, the difference in economic size between larger

economies, such as South Africa, Kenya and Nigeria, and their neighbours has meant that smaller economies in Africa have often been wary of integration. They fear that the larger economies will reap most of the investment and income from market integration.

These realities have resulted in many regional schemes repeatedly failing to take off or making only very slow progress. Uganda, Tanzania and Kenya, for example, have tried unsuccessfully since the 1960s to create a regional market. In their latest attempt they have announced plans to create a common external tariff by 2009.

The member countries of the Southern African Development Community (SADC) initially joined together to fight apartheid in South Africa through economic sanctions. But they worked for 15 years on developing transport and communication links among themselves, as well as joint environmental and industrial development strategies, before deciding in 1996 to negotiate a regional free-trade agreement. They now plan to have a common external tariff in place by 2010.

Even Europe's experience of regional integration has been one of selective regional trade liberalisation, which began among the coal and steel industries in the 1950s. Only in 1967 did member states establish a common external tariff – nine years after they had first agreed to form a customs union in the 1958 Treaty of Rome.

Despite their own experience and that built up from their long-standing support of African regional groupings,[82] EU member states are now using EPAs to push African groups into aligning their tariffs and other trade barriers at a much faster rate than they would do without external pressure. The destruction of the chicken industry in Senegal after the government reduced tariffs on imported chicken as part of aligning its tariffs with the West African Economic and Monetary Union (WAEMU) common external tariff in 2000 (see Senegal – tomatoes and poultry, page 16), illustrates the dangers of rapid regional integration.

EPAs may repeat this kind of mistake many times over.

Technically, African regional groupings can only agree to eliminate their tariffs on EU imports if they are signed up to a common external tariff among themselves. For instance, eight members of the Economic Community of West African States (ECOWAS) have not yet signed up to the WAEMU common external tariff, which is much lower than their existing tariffs. They are now accelerating their efforts to align their own tariff regimes with the common external tariff so they can meet the 2007 deadline for finalising EPA negotiations.

Similar discussions are underway in the SADC grouping. Its plans to establish a common external tariff by 2010 are partly motivated by the need to have one in place before they can agree to a schedule to eliminate tariffs on EU imports under EPAs.

The very integrity of two long-standing southern African regional groupings, the Common Market of Eastern and Southern Africa (COMESA) and SADC, is under threat because governments that are members of both groupings now have to choose under which one they will negotiate a new trade deal with the EU.

In all fairness, countries that presently belong to several regional groupings would eventually have had to choose which one to align to – at least as far as reducing their trade barriers is concerned – with or without pressures from EPA negotiations. Governments are

already finding it difficult to divide their political attention among several negotiating forums and it will be impossible for them to adhere to more than one common external tariff.

But the speed and nature of these choices are difficult political and economic decisions. They need to be based on a careful assessment of which regional arrangement will best serve a country's poverty-reduction and development goals. Such decisions should not be influenced by the artificial deadlines imposed by the European Commission and EU member states. Even the World Bank has cautioned developing countries to consider carefully whether new agreements, particularly with developed countries, are helpful on top of existing regional integration schemes.[83]

It is highly unlikely that African regional groupings will have built robust regional markets and mobilised sufficient investment to develop competitive regional production by the time EPAs will require them to open up to EU imports – within the next ten years, according to WTO rules. Competition from cheaper EU imports to neighbouring markets will therefore undermine any government efforts to attract domestic or foreign investment in sectors that could serve these markets.

The situation in southern Africa provides a warning of what may happen as Europe forces the pace of regional alignment. The EU already has a free-trade agreement with South Africa which requires it to dismantle tariffs on imports from Europe from 2005 onwards. Neighbouring countries that are members of the Southern African Customs Union (SACU) fear that this will have a devastating impact on their industries. For example, many southern African firms producing cloth, pasta and biscuits (Botswana); refrigerators (Swaziland); televisions (Lesotho); and wheat flour and meat (Namibia) for the South African market fear that they will not be able to compete with duty-free EU imports once the South African government starts dismantling tariffs.

EPAs between the EU and other African regions pose a similar risk to regional trade and development integration.[84]

2.3 Let Africa shape the outcome of negotiations

One of the reasons the EU is now actively promoting reciprocal free-trade agreements with African countries is its belief that the old system of preferences failed to increase and diversify trade and production in Africa.[85] But what it does not acknowledge is that Africans have never been actively involved in shaping the trade preferences granted under the various Lomé Conventions. No negotiations took place – their scope and terms were entirely decided by EU member states in the context of their donor-recipient relationship with their former colonies.

African entrepreneurs, exporters and governments may be able to improve their access to EU markets through EPAs if they are allowed to shape the structure, format, terms and schedule of negotiations. But the reality suggests that it is still business as usual. The European Commission has shaped the negotiations in such a way as to prevent the voices of African governments, parliaments, enterprises, farmers and poor communities influencing their outcome.

The EU first proposed and initiated EPA negotiations amid much scepticism and reluctance from African, Caribbean and Pacific countries.[86] A very rapid phase-one of negotiations, pushed by a Commission unwilling to negotiate with the ACP countries as a single group, did not allow enough time to develop an overall ACP-EU legally-binding framework to guide the conduct of the regional EPAs.

The Economic Community of West African States (ECOWAS) member states were the first to enter into regional negotiations hoping their haste would get them a better deal. Despite the rush, it took them and the European Commission 14 months to develop and agree on the 'road map' for regional negotiations because of serious initial disagreements. The Commission refused to offer additional funding to help develop the productive capacity of ECOWAS states, insisting that this should be paid for out of existing EU aid funds.

ECOWAS member states also asked to be allowed to deepen their regional integration prior to eliminating tariffs on EU imports. The Commission refused this request.[87] As a compromise, it agreed that negotiations on tariff elimination would not start before September 2006.

Negotiations have now been structured in a remarkably similar way in all four African regions (ECOWAS, SADC, WAEMU and COMESA), which are at very different stages of regional integration, creating the impression that they were derived from a common EU source.[88]

African governments are aware that they are at a disadvantage in these negotiations. They are entirely dependent on EU generosity to pay for good-quality – *independent* – sector-level studies to help them make decisions and formulate positions.[89] They need to fully understand the potential impact that import-tax revenue losses, tariff dismantling or new rules of origin will have on poverty, women, the spread of HIV/AIDS and different industries and economic sectors, in each country, and across each region.

Many of the existing studies are not particularly useful to African negotiators. They tend to draw conclusions from econometric models only and do not investigate thoroughly, as Christian Aid's partner organisation the Integrated Social Development Centre (ISODEC) has done in Ghana, how different products and sectors will be affected if tariffs are eliminated on all EU imports.[90] Very few governments have yet commissioned these studies, and most of them are undertaken by European consultants, sidelining African researchers.[91]

African governments also do not have enough qualified bureaucrats to manage EPA negotiations in addition to very important ongoing regional and WTO trade negotiations.

The Cotonou Partnership Agreement entitles a wide range of civic organisations in Europe and Africa to participate in EPA talks. In reality, very few groups that will be affected by the new trade deal are playing any meaningful part in negotiations.

In most African countries, senior bureaucrats make national trade-policy decisions without any meaningful contribution from parliaments, enterprises, development organisations or farmers' associations. The needs and interests of small- and medium-size businesses, small-scale farmers and poor communities are therefore not represented.

Governments were supposed to have set up national negotiating forums to bring together government representatives, unions, farmers, businesses and other affected groups to discuss their needs and interests. This was meant to inform the positions of governments in the regional trade negotiating forums, and the positions of ambassadors and ministers who negotiate directly with the European Commission.

However, national consultations are taking place only sporadically or not at all in many countries. This is leaving most of those who will be affected by the outcome of negotiations

as mere bystanders in the process. Regional secretariats and ambassadors are continuing to hold discussions with the European Commission without the kind of information that could have been gathered from national consultation processes.[92]

According to Richard Kamidza from the Southern and Eastern African Trade, Information and Negotiations Institute (SEATINI): 'The process now seems to be firmly under the direction of the COMESA secretariat and ambassadors in Brussels, with government officials and the private sector to some extent guessing what to do. Other non-state actors – civil society, media and MPs – are still restricted to the periphery of engagement.' [93]

This should concern the UK government in particular, which has recognised the need for the active involvement of all stakeholders in national trade policymaking and has invested considerable resources in programmes to encourage this process in least developed countries.[94] The behaviour of the Commission is threatening to undermine these efforts.

Left in the hands of mandated technocrats and technical committees in the European Commission and African regional secretariats, the negotiating process so far lacks legitimacy, transparency, accountability and broader democratic representation. The EC has also eroded the credibility of this process by using its leverage as a donor to shape the outcome.

If EPAs are to address the development needs of African countries, more African voices need to shape their outcome. This will require:

- bureaucrats on both sides to transfer ownership of the process to national governments and stakeholders
- more impartial and accessible financial and technical assistance from the EU that will enable both national governments and civic bodies to engage in the negotiations
- negotiations to be conducted in an open, transparent and inclusive way, with details, including the outcome of impact studies, brought into the public domain as a matter of routine
- the pace of negotiations to be set by African negotiators' level of preparedness and their corresponding ability to make informed decisions
- that national impact assessments ask the right questions, take account of national development objectives and inform each step of the negotiations.

2.4 Increase development finance

A major reason even least developed African countries want to be at the negotiating table is because they believe EPAs will provide much-needed development assistance to help boost their productivity and enhance their trade performance, so that their enterprises can take advantage of more open EU markets.[95] The EU has reinforced this hope by pledging to fully integrate EPAs with its existing development funds for Africa – disbursed through the European Development Fund (EDF) for ACP countries – and allocate adequate resources for this purpose.[96]

However, disbursements through the EDF are extremely slow and cumbersome – it often takes up to 13 years to fully disburse a five-year programme. What is even more discouraging is that only 1.8 per cent of the latest EDF budget is earmarked for trade development activities. Given the scale of social needs in African countries, this amount can only be increased by allocating additional funds to the budget.

Aware of the limitations and inadequacies of the EDF, African countries have called upon their European counterparts to commit 'additional resources' to the EPA process – a request that has thus far fallen on deaf ears.

During phase-one of the EPA negotiations and in subsequent regional negotiations, the European Commission Trade Directorate constantly reiterated that resources for the next five years (2005-2010) of the EDF have already been allocated and that it only has a mandate to negotiate trade issues and not financial packages.

This is a disingenuous position. European Union member states will undermine their own stated commitment to reduce poverty in Africa if they force tariff elimination on African countries without increasing the level of aid they contribute to the EDF in the coming five years.

The erosion of special preferences for some of Africa's traditional commodity exports to the EU is another reason why African governments want increased development finance from European member states.

Many African countries rely on special preferences for their beef, sugar and banana exports to the EU, which generate a major share of their foreign exchange income and domestic economic activity. These protocol agreements, which have been in place since 1975, will now be replaced by whatever market-access terms African governments manage to negotiate under their respective regional trade deals with the EU.

This may mean the end of the large and predictable quotas under which African countries are able to export these products at zero tariffs to the EU market, which would severely damage the beef and sugar industries in particular. Additional development finance would help governments to encourage these industries to become more productive by supporting skills-training programmes and improving infrastructure; foster the development of other economic sectors; and deal with the short- and medium-term social and economic fall-out of industry closures.[97]

Since 1975 a number of African countries have been benefiting from the very high internal EU prices they have received for an agreed quota of sugar exports to the EU under the Sugar Protocol. This has enabled their sugar industries to attract foreign and domestic investment, allowing them to consolidate, expand and modernise. The sugar industry fulfils a multifunctional role in these countries and through its links to other sectors of the economy is a major pillar of economic development.

However, recent reforms in the EU sugar regime will see EU prices drop by up to 37 per cent. This will not only hit the foreign exchange coffers of governments. If sugar enterprises are unable to make up the lost income in the short-term, it will put the livelihoods of hundreds of thousands of people – involved in all stages of growing, processing and selling sugar – at risk.

Case study 4: Malawi – the future of the sugar industry

Sugar is not just another cash crop in Malawi. It is a vital industry delivering a wide range of direct and indirect benefits to the Malawian economy and its people.

Three out of every five Malawians live below the poverty line and the government depends on foreign donor funding for about 80 per cent of its annual budget.[98] Sugar exports earn the country MK1.1 billion (US$1=MK18,600) in foreign exchange, constitute five per cent of its gross domestic product and contribute MK908 million to central and local government coffers from income and corporate taxes.

The sugar industry employs 13,000 people directly, and another 15,000 through subcontracting.[99] It has stimulated other parts of the local economy; Malawian companies producing products used in sugar processing, and those using sugar in their products depend on the industry as source of income and raw materials. These companies, in turn, employ even more Malawians.[100]

Under the terms of the Sugar Protocol, Malawian exporters can supply the EU market with 20,000 tonnes of sugar a year at zero duties and prices that are about a third higher than the world price. Guaranteed market access and high prices have drawn private investors to the sugar industry, bringing with them much-needed capital and technological know-how.

Illovo Sugar Group, the main investor and shareholder of SUCOMA, Malawi's largest sugar producer, has improved sugar production, as well as conditions for its workers and the surrounding communities.[101] Sugar estates are situated in rural areas where poverty is high and basic services and transport are lacking. SUCOMA provides housing, water and electricity to its employees and their families. It also provides them and surrounding communities with free healthcare and schooling.

The proposed EU sugar-price reforms will damage the economy and could exacerbate poverty. Lower prices for the 20,000 tonnes of sugar exported under the Sugar Protocol will cost the country 4 million euros in export earnings. This will reduce SUCOMA's profits and government revenues from sugar taxes. Lower earnings may force the company to retrench workers, cut services and lower the prices it pays smallholder farmers growing sugar under contract. This would be disastrous for communities in the Chikwawa and Nkhotakota districts, where sugar is the mainstay of the local economy.

EU member states have not yet come up with any measures to mitigate these short- and medium-term effects of lower sugar prices.

A true spirit of partnership would see the EU treat sugar producers and exporters in countries such as Malawi in the same way as sugar-beet farmers in Europe. European member states are likely to refund 60 per cent of the income sugar-beet farmers stand to lose as a result of lower prices, through direct aid payments.[102] But they are not prepared to consider similar compensation for ACP sugar growers and exporters.[103]

Sugar-producing ACP countries, especially least developed countries such as Malawi, are deeply concerned about the proposed phasing out of the special EU market access and high prices they used to enjoy.[104]

Estimating that the proposed price cuts will cost their countries about US$333 million a year, least developed countries that are members of the Sugar Protocol have asked for better-managed market access over an extended transition period in conjunction with a more modest and gradual reduction in price.[105]

European trade officials, however, have dismissed their arguments as alarmist, ignoring the findings of existing in-depth, country-specific impact assessments. The EU is backing out of its initial proposal to provide 'accompanying measures' to support ACP countries to diversify out of sugar, find new markets for sugar exports and become more productive sugar producers. Member states are not prepared to pay ACP producers compensation.[106] They are only prepared to respond to 'specific requests' for assistance, based on 'actual needs' in the Sugar Protocol countries.[107]

The abrupt and unaccommodating way in which the EU is ending its long-standing commitments under the Sugar Protocol is a worrying harbinger of its approach to EPAs.[108] It is signalling its intent to shift from a clear system of preferences for its former colonies to free-trade agreements that offer neither proper financial assistance nor respect the right of ACP countries to make their own economic decisions.

2.5 More legal security for African exporters

It would be wrong to conclude from the controversy surrounding EPAs that entering into trade arrangements with the EU will necessarily be bad for the African countries of the ACP. On the contrary, even least developed countries hope to use the negotiations to improve the terms of their access to European markets. However, their priorities are very different to those currently being set by the EU. A true economic partnership agreement, which addresses Africa's development needs and priorities, would give African countries:

- legal security for continued and better access into EU markets
- flexibility and the right to decide how and when to liberalise their own markets
- sufficient and timely financial assistance to help regional integration, and improve their ability to cope with the costs of adjustment caused by trade reforms
- compensation for the loss of revenue caused by preference erosion.

There are several options open to the EU and ACP countries that could help them negotiate such agreements. One option is to make regional trade schemes between developed and developing countries more flexible. Another is to improve the way preferential trade schemes for developing countries are designed and enforced at the WTO.

2.5.1 Changing WTO rules on regional trade

'The developed countries do not expect reciprocity to commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of developing countries, ie the developed countries do not expect developing countries, in the context of trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs.'
Article 5, 1979 decision or 'enabling clause' of GATT

The 'special and differential treatment' (S&DT) of developing countries, which allows them to implement agreements more slowly or benefit from exemptions, is a founding principle of the WTO. It recognises:

- the need to discriminate in favour of poor countries, whose industries will suffer in competition with their more advanced counterparts, but who could benefit from increased access to the markets of developed countries
- the difficulties rapid liberalisation presents developing countries – given their inability both to manage and cope with adjustments
- the need to give developing countries the flexibility to adopt their own development strategies, including enhancing their capacity to take advantage of international trade.

Although S&DT has been problematic – mostly because current provisions are not sufficiently far-reaching, and are vaguely defined and difficult to enforce – its principles are fundamental to trading arrangements between developed and developing countries.[109] In 2001, the Doha Development Agenda committed to clarifying S&DT and making it effective.[110]

However, EPAs are not being negotiated under S&DT principles but under the strict rules that govern regional trade agreements at the WTO (GATT Article 24). These rules were conceived before trade agreements between rich and poor countries were contemplated, and therefore contain no provision for special treatment for poor countries entering into such deals. They stipulate that all signatories to a regional trade agreement must liberalise 'substantially all trade' over a limited period of time – usually ten years.[111]

In its public statements, the European Commission says it appreciates the importance of special treatment in EPAs. At the same time, it insists that it is compelled to negotiate these unique agreements under strict WTO rules to ensure they adhere to WTO law. The vague provisions of WTO rules governing regional trade, the Commission claims, gives it the 'wriggle room' needed to reconcile this apparent contradiction and offer the ACP countries 'asymmetric' market access, with a longer period over which to reciprocate with a lower level of liberalisation. They cite earlier trade agreements that have strayed from the accepted interpretation of current rules in this manner to support their position.[112]

There are several disadvantages to this approach for ACP countries.

First, it falls far short of giving them enforceable rights to balance their development needs and trade commitments. That means they will not be able to raise tariffs on EU products to

protect their industries. Rather, everything will depend on the outcome of the EPA negotiations. Their experience of negotiations to date shows that the European Commission is unlikely to agree to their requests to exclude entire sectors or large percentages of their products from tariff elimination (see box on partnership on page 15).

ACP countries will also need to decide in advance which areas of their economy will need protecting in the future. This requires them to predict development. If the predictions prove inaccurate, too bad; EPAs will have locked them into the wrong course of action.

Second, this asymmetrical approach is flawed because it does not offer the legal certainty the Commission claims. Asymmetrical EPAs will still be open to challenge if they do not conform to the accepted interpretation of WTO rules on regional trade agreements. As current talks attempt to more clearly interpret and strictly enforce these rules, they are likely to become more rather than less constraining. As their number and scope increase, so does the likelihood of disputes. In the absence of legal certainty, the local economy is less likely to receive domestic public or private investment.

Under the Doha Development Agenda there is a clear opportunity to address the lack of provision for special treatment under Article 24 of GATT.[113] The ACP countries have put together a proposal to improve the deal they could get under the rules of regional trade agreements.[114] But so far, the Commission has been dismissive of their efforts to incorporate the principle of more flexibility into Article 24.

Fixed deadlines for trade liberalisation, argues the Commission, are useful to ‘lock in’ the process of trade reform within countries. In turn, they will provide a stable environment to encourage investors. However, this approach is politically flawed. High-handed external interference is no way to guarantee a country’s genuine commitment to reform. Rather, there is evidence that governments will commit to reforms only if they view them to be in their best economic or political interest.

This approach also assumes that the progress of development will always be linear rather than unpredictable, a bit like taking two steps forward and one step backward. Liberalisation will not always play a positive role in this process. Indeed as this report indicates, premature liberalisation often has a detrimental effect on a country’s economy and people and thus provides a disincentive to investors that outweighs any incentives derived from countries being ‘locked in’ to reforms.

Investor surveys show that formal investment agreements, special investment incentives and free-trade agreements are low down the list of factors that influence foreign investors’ decisions about where to invest.[115] And experience in industrialised and high-income developing countries shows that only economies with already capable and well-functioning local enterprises receive the kind of foreign investment that brings industrial growth.[116]

Regional trade agreements, therefore, must include the principle that developing countries should not be forced to open their markets to developed countries according to arbitrary timescales and market shares. Instead, if developing countries are keen to enter into a regional trade agreement with developed countries, they should be able to choose when and how they want to open their markets based on a set of agreed development benchmarks.[117]

2.5.2 Improving preferential market access

As well as reforming the WTO rules governing regional trade agreements, there is a need to change the way the WTO views preferential access to rich countries' markets. Preferential treatment should give developing-country exporters, including those from Africa, guaranteed and legally secure access to the EU market, without requiring them to open up their markets in return.

Besides the Cotonou preferences, which EPAs are supposed to replace, the EU operates two other preferential schemes – its Generalised System of Preferences applying to all developing countries, and the Everything but Arms initiative which applies to just least developed countries and offers free access to the EU for all their products except sugar, bananas and rice.[118] The WTO 'enabling clause' allows developed countries to grant different sets of developing countries better access to their markets as long as the criteria for granting preferences to some and not others are 'objective and transparent'.

It is therefore possible for the EU to design a preference scheme that would offer Cotonou-equivalent levels of market access to countries at similar levels of development to the ACP and with similar development needs, without exposing their weaker member states to competition with larger developing countries. But to make this happen, EU member states will need to muster the political will to defend such an agreement at the WTO. They will need to instruct the European Commission to pursue this matter in its WTO discussions on their behalf. And they will need to take this into account in their current review of the EU's General System of Preferences and the provisions of the Everything But Arms agreement.

The EU's conclusions on the poor track record of its preference schemes are politically self-serving and miss the target. In order to make such schemes truly useful, their design needs to be improved.

Under current WTO rules, these schemes are unilaterally devised by 'grantor' (developed) countries and are not legally binding. Preferences under these schemes can be withdrawn or modified at the whim of the grantor or because of challenges by third parties at the WTO. For example, the EU's preference scheme granted to countries, such as Afghanistan, that are attempting to diversify away from their dependence on growing illegal narcotics was recently and successfully challenged by India as being discriminatory.

This lack of legal certainty further undermines the usefulness of preferences and acts as a disincentive to public and private investment. There are options that would give recipient countries legal certainty – including renegotiating the provisions of the enabling clause under the Doha talks on S&DT.[119]

The unilateral design of preference schemes is a major reason why they have failed to increase trade flows between developed and developing countries. They are primarily designed to protect rich countries' farmers or industries, rather than promote developing-country exports.

The number of 'missed' preferences – that is, when exporters have chosen to forgo available preferences – demonstrates that there are factors that prevent African exporters exploiting the opportunity to enter EU markets on favourable terms.[120]

Particularly onerous to small producers are the 'rules of origin' that products need to comply with to qualify for preferential access. These rules are designed to ensure that more

advanced developing countries do not ‘free-ride’ on preferences awarded to less developed nations. However, they have in fact penalised exporters and producers in poor countries that cannot process goods sufficiently and have to source most of the constituent parts of what they export from outside their own country and therefore do not qualify for special market access. This does not correspond to modern supply-chain realities where producers source parts and disperse processing across a wide range of countries. Current rules of origin, therefore, do not benefit producers in countries wishing to diversify away from commodity production and become more integrated in global supply chains.

Overcoming these problems would go some way to enabling ACP countries to use preferences as a transitional strategy to develop their economies and the international competitiveness of their industries, just as more developed countries did in the past.

Non-reciprocal or preferential market-access schemes can only ever be one element of promoting development through trade. They will become less and less useful as global tariffs are reduced under successive rounds of trade negotiations. However, preferences are still a critical lifeline for many developing countries, and in the right circumstances can be a useful tool for their development.

At the very least, the dismantling of preference regimes should not be undertaken rapidly or without making effective compensation available to help poor countries cope with the resulting income losses and develop new industries.

3 Recommendations

It is clear from this report that there is not a strong legal case for requiring reciprocal market access commitments from ACP countries. At least two WTO-compatible options are available that would allow trading arrangements that are desirable to African governments.

Neither is there a strong pro-development case for linking reciprocal market-access commitments from ACP countries to the 'trade and development' aspects of EPAs – which are assisting regional integration, overcoming the problems of preferences and supporting the growth of ACP economies.

After careful analysis, Christian Aid believes EU interests and objectives are playing too great a role in shaping the outcome of current EPA negotiations. As a result, African countries – among them some of the world's poorest – are now in a defensive position. They have no option but to negotiate their market opening in return for maintaining or, they hope, improving arguably their most important aid and trade relationship.

EPAs are history-making agreements. For the first time in the long development relationship between the EU and its former colonies, the less developed partner will have to make trade commitments to its more developed partner. As this report has shown, this will in all likelihood undermine African countries' development efforts. It will destroy existing industries and put a cap on the emergence of new, basic processing and manufacturing businesses.

3.1 Recommendations to EU member states and the Commission

For reasons outlined, EPAs in their current form must be stopped. As a matter of the highest priority – since EPA negotiations have already begun – the EU must seek a new deal for African countries that guarantees them:

- legal security for continued and improved access to EU markets
- flexibility and the right to decide whether, how and when to liberalise their own markets
- sufficient and timely financial assistance to help promote regional integration, their capacity to trade and their ability to cope with the costs of adjustment caused by trade reforms and the erosion of preferences.

Finally, the EU's trading relationship and negotiations with ACP countries should support rather than seek to drive local development strategies, especially efforts to create larger regional markets.

If EPAs are truly to be tools for development, the European Commission must:

- push for the inclusion of special and differential treatment for developing countries in WTO rules governing regional trade agreements. This must go beyond prolonged transition periods and asymmetry, and leave open the possibility for non-reciprocity. Market opening in developing countries must be linked to development benchmarks and should not be undertaken unless it will contribute to poverty reduction[121]
- improve its own Generalised System of Preferences as well as WTO rules governing preferential trade schemes. Preference schemes must deliver market

access that corresponds to the export interests of developing countries. They must also provide legal certainty so that they can be used with confidence to stimulate investment, develop economic capacity and increase international competitiveness
- try to persuade EU member states to provide additional financial assistance as part of their economic partnership agreement with African, Caribbean and Pacific countries, beyond their commitments in the next five-year European Development Fund. This must be targeted at increasing the capacity of ACP enterprises and producers to trade and compete internationally and providing compensation for the loss of preferences.

Above all, these measures must be entirely independent of whether or not and when ACP countries decide to open up their markets to EU imports. If trade liberalisation is a good policy for ACP countries, they will choose it and the EU must respect their choices.

3.2 Recommendations to the UK government

In 2005, the UK government is in a unique position to influence the outcome of the debate surrounding EPAs. The UK government's stated position favours trade that works for poor people and, in its white paper of 2004, the Department of Trade and Industry stated that poor countries should not be required to 'pay the price' for access to the markets of rich countries.

The UK government must follow through on its rhetoric and:

- **use the political opportunities of 2005** (setting the Africa agenda for the G8 meeting, presiding over the EU and participating in the five-year review of the Millennium Development Goals and the sixth WTO ministerial meeting) to push for a visible change of direction in the EU negotiating position and the EPA process to ensure that development rather than mercantilist trade interests guide the economic partnership with Africa
- **hold the European Commission to account** for its positions and conduct in EPA negotiations with Africa. This could involve setting up a group of like-minded European member states to influence the rest and put pressure on the European Commission to argue for the inclusion of effective special and differential treatment in WTO rules that govern trade relations between developed and developing countries.

Endnotes

1 The Doha round of trade talks was originally scheduled to finish at the ministerial meeting in Hong Kong in December 2005, but because of the collapse of talks at the Cancun meeting and subsequent wrangling and delays, this timetable now seems unlikely to be met. The ACP waiver may well, therefore, last longer than was expected, although ACP countries clearly cannot rely on this.
2 WTO understanding on interpretation of Article 24 of GATT, 1994.
3 See *Taking Liberties*, Christian Aid, 2004.
4 'EU sugar regime overhaul: too radical for some, too weak for others', published on 15 July 2004, see http://www.eu ractiv.com/Article?tcmuri=tcm:29-128646-16&type=News
5 At a meeting of the ACP Ministers Responsible for Sugar with the EU Agriculture Council on 24 January 2005, Trade Commissioner Mandelson emphasised the centrality of EPAs and expressed the idea that the Sugar Protocol would be integrated into the EPAs in a way that ensures full compatibility with WTO rules on regional trade agreements. However, the ACP position is that the Sugar Protocol, because of its legal status, cannot be integrated into the EPAs and, moreover, any negotiations that involve the Sugar Protocol should be on an all-ACP basis and not subsumed by the EPA negotiations.
6 At International Development Select Committee hearing, 7 February 2005.
7 The Convention also provided schemes to compensate the commodity-dependent ACP countries for sudden and large drops in international commodity prices.
8 This waiver allowed the EU and ACP to retain the preferential trade agreement made in the Lomé Convention, even though it was technically illegal under the WTO rules on regional trade agreements. The waiver was granted for a period of two years beyond the conclusion of the Doha round. So the December 2007 date is based on an assumption that the Doha round will be concluded with the Hong Kong ministerial at the end of 2005. This timetable seems unlikely to be met, and earliest the Doha round is likely to be concluded is the end of 2006.
9 Article 4, Cotonou Agreement 2000, states 'The ACP states shall determine the development principles, strategies and models of their economies in all sovereignty'.
10 According to Article 34: 'Economic and trade cooperation shall aim at fostering the sustainable and gradual integration of the ACP into the world economy, with due regard for their political choice and development priorities, thereby promoting their sustainable development and contributing to poverty eradication in the ACP countries.'
11 See 'Why EPAs Need a Rethink', Christian Aid briefing, 2004, www.epawatch.net.
12 European Commission (undated). Economic Partnership Agreements: Means and Objectives.
13 Karl Falkenberg, EU Director for Trade, commented in January 2005 at a meeting of African trade ministers and European Commission staff in Dar Es Salaam that 'There are forces of inertia in each of the African economies – competition is needed. Reciprocity [opening up to EU exports] is supportive of… development'.
14 'The policy roots of economic crisis, poverty and inequality', *Structural Adjustment Participatory Review Initiative*, Zed Books, London 2004.
15 *What works? Trade, Policy and Development*, Christian Aid, 2003. *Taking Liberties*, Christian Aid, 2004.
16 Sustainability Impact Assessment of Trade Negotiations of the EU-ACP Economic Partnership Agreements, Mid-Term Working Draft, October 2003.
17 *Tax revenue and (or) trade liberalization*, Baunsgaard and Keen, September 2004, draft report, IMF Fiscal Affairs Department.
18 European Commission (undated), Economic Partnership Agreements: Means and Objectives. Since the start of the first Lomé Convention, the ACP's overall share of the EU market has more than halved.
19 Rob Davies and Kaire Mbuende, 'Beyond the rhetoric of economic partnership agreements: issues to be addressed in EU-ACP negotiations', March 2002.
20 *The Future of the WTO: Addressing institutional challenges in the new millennium*, report by the Consultative Board to the Director-General Supachal Panitchpakdi, WTO, January 2005.
21 For details of what the EU wants to negotiate with ACP countries see 'Why EPAs Need a Rethink', Christian Aid briefing, 2004, www.epawatch.net
22 Developing countries, apart from least-developed countries, are also required to bind at twice their current tariff levels under current NAMA proposals – this deprives these countries of the opportunity to raise these tariffs to useful levels should this become desirable as part of their industrial policy. For this reason, many have criticised the 'round for free' offer on its own terms, as disguising increased market opening commitments from developing countries.
23 UNCTAD, *Swimming in the Spaghetti Bowl: Challenges for developing countries under the new regionalism*, 2004.
24 The EU's Everything But Arms scheme, which is a legal preference scheme registered under the GATT enabling clause, gives duty-free and quota-free access to ALL existing and potential exports of ALL least-developed countries. All raw sugar, rum and banana exports, however, still face restriction, which will only be phased out by 2009.

25 The EU's expanding web of free trade areas with developing countries, new preferential trade schemes such as the Everything But Arms agreement, and the overall reduction of EU tariffs after each round of multilateral trade negotiations have gradually reduced the advantages African exporters used to have in the European market.
26 African countries such as Namibia, Zimbabwe and Mauritius, which enjoyed a significant margin of preference over other suppliers, were able to diversify their economies based on the special market access they enjoyed over competing suppliers of beef, sugar, textiles and clothing.
27 Most African least-developed countries still prefer to trade with the EU under the Cotonou agreement rather than the Everything But Arms agreement, as the former places far fewer restrictions on the products that qualify for free entry into the EU market.
28 See IDS and Bureau Européen de Recherche, 'EU Agricultural and Fisheries Market Access for Developing and Transition Countries', Sussex, February 2000.
29 European Research Office, 'The ACP guidelines and the EU negotiating mandates: a comparison and commentary', Brussels, 2002. ACP Sustainable Economic Development Department, 'ACP-EU negotiations of EPAs, areas of convergence and divergence', 28 September 2003.
30 UK government, *Making globalisation work for good*, 2000. See *Taking Liberties*, Christian Aid, 2004.
31 This remark was made at a negotiating meeting of the ACP-EU Working Group on Market Access in 2005, and relayed to Christian Aid by a senior official at the Brussels-based ACP Secretariat.
32 ACP Secretariat, 'ACP-EU negotiations of economic partnership agreements: areas of convergence and divergence', Brussels, September 2003.
33 Article 37.8, idem
34 Based on the 2002 IMF Trade Restrictiveness Index, quoted in *Rigged Rules and Double Standards*, Oxfam, 2002.
35 *Taking Liberties*, Christian Aid, 2004.
36 For evidence see research presented at an UNCTAD workshop on 'Improving Market Access. Conditions to Promote Export Diversification in Developing Countries', New York, January 2002, cited in Demba Moussa Dembele, *Debt and Destruction in Senegal*, World Development Movement, London, November 2003, *Le Senegal: dans la tourmente des importations agro-alimentanes*, Groupe de Recherche pour une Stratégie Economique Alternative, Brussels 2005 (mimeo), commissioned by Christian Aid.
37 Andrew Pendleton (Christian Aid), interview with Senegalese chicken farmers, January 2003.
38 Although many industrial producers rely on overseas supplies of chicken feed and breeding chicks.
39 Total poultry meat production in Senegal amounted to 24,000 tonnes: 8,000 tonnes produced by the industrial sector, 16,000 tonnes by the small-scale sector.
40 See Benedicte Hermelin, *La politique agricole de l'UEMOA: aspects institutionnels et politiques*, April 2003. Written for FAO Agricultural Policy Support Service, Policy Assistance Division. Also, Farmer organisations of the WAEMU (UEMOA) member countries believe that the common external tariff (CET) has been set at too low a level, and is damaging to their agricultural sectors. The CET was decided before the WAEMU Common Agricultural Policy was put in place, and farmers were not at all involved in the process of deciding at what level to set the tariff. See Bibiane Mbaye Gahamanyi *State of the EPA negotiations between West Africa and the European Community*, ENDA, Dakar, February 2005, upcoming in ACP-EU Civil Society Information Network newsletter.
41 Chicken meat imports went from 1,137 tonnes in 1999 to 11,950 tonnes in 2003. According to the Poultry Association of Senegal, this figure was closer to 14,000 in 2003, quoted in RADI-Christian Aid framework document *Trade Justice Campaign in Senegal*, 2004.
42 Paul Goodison, European Research Office, *Analysis of EU agricultural and food product exports to Senegal*, September 2004, research commissioned by Christian Aid.
43 Production in the industrial sector alone dropped from 7,007 tonnes in 1999, to 5,982 tonnes in 2003, according to Momar Ndao National President of the Consumer Association of Senegal, quoted in Denis Horman, 'Le Senegal dans la tourmente des Importations agroalimentaires'.
44 Denis Horman, 'Le Senegal dans la tourmente des importations agroalimentataires', Brussels, November 2004, research commissioned by Christian Aid.
45 EUROSTAT figures, 1993-2003, compiled by European Research Office for Christian Aid, 2004.
46 European Research Office calculations using the EUROSTAT database show that imports of wheat flour have increased 74-fold; foods prepared with flour 23-fold; poultry meat seven-fold; and potatoes and onions more than three-fold since 1993. EU exports of food and agricultural products represented 22 per cent of total EU exports to Senegal in 2003, up from an average of 19 per cent for the previous three years.
47 For more detail see Christian Aid, *Taking Liberties*, 2004. The Ghananian programme – especially the trade component – may still be shot down by the World Bank.
48 They assume that developing country governments will prioritise the interests of well-organised protected industry, that trade openness has led to economic growth and increased competitiveness in most countries and that markets are perfect. None of these assumptions are based on the real experiences of African countries.
49 In 2004, EU tomato processors received 319.3 million euros in production aid, while poultry producers benefited from lower cereal prices, the result of the shift from price support to direct aid under the CAP reform (unit costs have declined by 25 per cent since the onset of cereal sector reform, given that animal feed in 2002

made up 70 per cent of the cost of poultry production). European Research Office, 'EU imports into Africa 1993-2003', commissioned by Christian Aid, October 2004.
50 By providing an outlet for surplus tomatoes at peak times of the year, the local tomato-processing industry absorbs production gluts, mitigates post-harvest losses and sustains producer prices for fresh tomatoes.
51 In a recent questionnaire, farmers point to the lack of local processing plants and storage facilities as main obstacles for selling their produce at remunerative prices throughout the year. Data from the Statistics, Research and Information Directorate of the Ministry of Food and Agriculture in Ghana reveals that average tomato yield in rain-fed conditions in 2003 was only 7.5 metric tonnes per hectare, 50 per cent below the achievable yield of 15 metric tonnes.
52 90 per cent of the tomato paste presently consumed in Ghana is imported from the EU. There is only one large-scale processing plant currently operational in the town of Wenchi, which exploits only ten per cent of its production capacity. Due to competition from EU produce, the local processor is struggling to keep production costs low and is therefore unable to pay contracted farmers high enough prices to secure sufficient and uninterrupted supply of raw materials (ISODEC research).
53 A recent survey by Christian Aid partner ISODEC shows that imported brands of tomato paste, such as Salsa and Gino, are preferred because of their strong red colour and sweet taste (due to the high content of additives and carbohydrates, which Ghanaian consumers are not aware of). Local tomato paste on the contrary is fresh, and free of additives but perceived as sour.
54 The Ministry of Agriculture has distributed 60 master processing machines to tomato-producing areas countrywide, each with the capacity to process 200kg of tomatoes per hour. In conjunction with the Food and Agriculture Organisation it is setting up a Processing Promotion Centre for technical support and a tomato processing factory in Techiman. Production is expected to start in June and with a production capacity of two tonnes per hour will be the second-largest processor after the plant in Wenchi. Information obtained from an interview with a senior agriculture officer at the Agricultural Engineering Service Department, December 2004.
55 The term 'diplomatic' refers to the difficulties that the government faces in its attempts thus far to apply tariffs in order to protect local industries. See *Struggling to be heard*, Christian Aid, 2003, and *Taking Liberties*, Christian Aid, 2004.
56 West Africa is becoming an increasingly important market for EU exports of fresh, chilled or frozen poultry meat and edible offal. In 2002, the region accounted for eight per cent of total EU chicken-part exports, almost eight times higher than in 1996. EU consumption of chicken meat is set to rise by nine per cent and since the trade with Ghana consists of poultry parts that are a by-product of consumption of the prime cuts in the EU, the availability of poultry parts for exports will increase by nine per cent. Paul Goodison, European Research Centre, *Analysis of EU agricultural and food product exports to Ghana*, September 2004, research commissioned by Christian Aid.
57 85 per cent of exported poultry meat from the EU tested unfit for human consumption as it is highly infected with salmonella and other dangerous microbes, according to *Importation massive et incontrolee des poulets congeles en Afrique: le cas du Cameroun*, a report jointly published by Service d' Appui aux Initiatives Locales de Development, and the Citizens Association for the Defense of Collective, 2004.
58 Afarwa Farm in Tema, Ghana, reports having to slaughter 10,000 day-old chicks a week and Pomadze Poultry Enterprise Ltd, one of the leading local hatcheries, collapsed. Production in the remaining 11 hatcheries is currently utilising an average of 38 per cent of total production capacity.
59 Because feed alone forms 70-80 per cent of the total cost of production, local producers cannot increase their price competitiveness through expanding production in a cost-efficient way, which can only be done if access to cheaper fodder is available or feed inputs are provided by the government.
60 See GAWU DHS, CIECA, ABEID, GRAPAD, *New ACP-EU trade arrangements: new barriers to eradicating poverty?*, Eurostep, Brussels, March 2004; UK DFID and government of Ghana, *Ghana Trade Policy Project – Assessment of the Competitiveness of Local Agriculture and Industrial Protection*, March 2002.
61 The Ghanaian Minister of Finance included in the 2003-04 budget an increase in the tariff on poultry meat from 20 to 45 per cent, but under threats from the IMF to withhold future loan disbursements the new tariff line was not applied in practice, although it remained in the statute books. See *Struggling to be heard*, Christian Aid, 2003 and *Taking Liberties*, Christian Aid, 2004.
62 It is important to note that this 80 per cent tariff is well within the rates allowed under the WTO. Ghana's bound agricultural tariff is at 125 per cent, to be reduced to 99 per cent over a ten-year period.
63 See *The National Farmers' Day In Perspective*, GNA, 11 May 2003.
www.ghanaweb.com/GhanaHomePage/features/artikel.php?ID=46124
64 Ministry of Food and Agriculture warns about the lack of an entrenched legislative framework, through which trade and agricultural policies can be directed. This is reflected in ad-hoc and inconsistent policies that weaken the ability of stakeholders to make long-term plans and commitments. Policies are also changed when it is considered politically expedient to do so, such as in the recent example of the attempted and failed increase of the import tariff on poultry. A legislative framework is essential in order for policies to be carried out effectively.
65 Companies in Africa face a range of obstacles such as small market outlets, lack of information, technical skill shortages, absence of suppliers, and poor support institutions.
66 This can be seen in the impact which the rolling out of the new CAP instruments in new EU member states

is having on production. The latest European Commission 'Prospects for EU Agricultural Markets' survey shows the following estimated expansion of cereal production in EU member states between 2002 and 2011: 12.8 per cent for wheat, 12 per cent for soft wheat, 6.1 per cent for maize, 15.4 per cent for pig meat production and 37.2 per cent for poultry meat production. If the rolling out of EU CAP programmes to new member states were genuinely non-distorting then such dramatic increases in production would not take place.
67 For an in-depth analysis of cereal price trends in Europe and the impact of lower EU cereal prices on the poultry, pigmeat, flour and processed food and drinks industry and exports, see Technical Centre for Agricultural and Rural Cooperation, ACP-EU, Cereals executive brief, August 2004.
68 Mozambique produces only 100 tonnes of wheat a year and consumes more than 200,000 tonnes. Consumption demand is met through commercial imports from the EU, USA and South Africa, as well as through donations sold at world market prices to the domestic milling industry.
69 Exclusive of Mozal (the big aluminium plant in Mozambique) food, beverages and tobacco production accounts for 75-80 per cent of the total value of industrial output, 19 per cent of which is attributed to the milling industry and its production of wheat flour. Instituto Nacional de Estatisrica, Mocambique, Statistical Yearbook, Anuario Estatistico, 2003.
70 The industry accounted for 19 per cent of the total value of Mozambique's industrial output in 2003 and had a 13 per cent annual growth between 2002 and 2003. It encompassed 781 mills in 2003, and employed a total of 3,229 people in 2002. The three biggest mills involved in the production of wheat flour accounted for 30 per cent of the total workforce within the milling sector.
71 The construction of the plant will be finished in April 2005. The total project cost is US$4.95 million, for which the World Bank provided an investment guarantee facility of US$2.5 million.
72 In 2003, imported wheat flour from the EU was less than one tonne but just ten years earlier, prior to the development of Mozambique's domestic milling capacity, these imports were as high as 32,245 tonnes. Source: European Research Centre, *Scoping study*, commissioned by Christian Aid, 2004. 'It is possible to get flour from Holland and Belgium at a cost including freight (CIF) price cheaper than the CIF price of imported, high quality hard wheat from the USA that is utilized in the largest cereal milling plants In Mozambique', National Assessment Study of an EPA between Mozambique and the EU, NAS. Carlos Nuno Castel-Branco, Michael Davenport, Leonardo lacovone, José Sulemane, Main Report, Final Version 03, 31 August 2004, p 72.
73 The EU has lost major markets in the Middle East as local mills have been set up according to local tastes and demands. This has led to a 40 per cent downsizing in milling capacities in France, similarly in Italy, thus prompting EU producers to fall back on African, particularly west African, markets. One day's supply from a Rotterdam mill is virtually the national demand in Mozambique for a whole year, therefore even one ship load could severely disrupt the local market – particularly since the EU has just reinforced export refunds for wheat exports of two million tonnes to help clear the market in the face of a large crop production. Paul Goodison, European Research Centre, *Recent trends in the EU milling industry*, February 2005.
74 Ibid. This report was commissioned by the Mocambican Ministry of Industry and Trade to assess the possible impacts of the establishment of an EPA with the European Union. The study was undertaken by Carlos Nuno Castel-Branco, DPhil, (team leader and development economist), José Sulemane, DPhil, (macroeconomist, fiscal analyst), Michael Davenport, DPhil (trade specialist) and Leonardo lacovone, MSc (trade specialist).
75 Economic Commission for Africa, 2004 Trade and Regional Intergration Division of the World Bank, 'Economic and Welfare Impacts of the EU-Africa Economic Partnership Agreement'.
76 According to the 2002 Least Developed Country Report published by UNCTAD, the traditional commodities of LDCs 'are concentrated in sectors within which world demand is either slower than average or declining'.
77 Quoted from research commissioned by the Economic Justice Network of FOCCISA and Christian Aid, *Women and cotton production in Mozambique*, November 2004, soon to be published.
78 Most East Asian economies used infant industry protection, export subsidies and targets, credit allocation and direction, and local content rules to build their industrial base. Amsden, *Asia's next giant*, Oxford University Press, 1989; Joseph Stiglitz, 'Some lessons from the East Asian Miracle', *The World Bank Research Observer*, 1996; Robert Wade, *Governing the market*, Princeton University Press, 1990; L Westphal, *Technology strategies for economic development in a fast changing global economy*, Economics of Innovation and New Technology, 2002; World Bank, *The East Asian miracle*, Oxford University Press, 1993; Sanjaya Lall, *Reinventing industrial strategy: the role of government policy in building Industrial competitiveness*, TIPS, Johannesburg, June 2004.
79 Zedillo Commission, Executive Summary, 2001, pp 9-10.
80 It took the South African government four years of hard and dedicated negotiating, thorough research and good coordination with industries and labour unions to get a more favourable trade deal with the EU. This amount of time, institutional development and resources are not available to the Mozambican government.
81 Jaime de Melo and Arvind Panagariya, MP, eds, *New dimensions in regional integration*, Cambridge University Press, 1993; Maurice Schiff and Alan Winters [SW], *Regional integration and development*, World Bank and Oxford University Press, 2003; Manuel de la Rocha, 'The Cotonou Agreement and its implications for the regional trade agenda in eastern and southern Africa', World Bank Policy Research Working Paper, June 2003.
82 The European Union has been a valuable development partner for many African regional groupings almost since their inception. The European Commission and bilateral EU donors have for many years supported regional integration schemes in Africa, mostly through making funds available for regional transport and

communications, as well as other development programmes and the operating costs of regional secretariats.
83 *Global Economic Prospects*, World Bank 2005.
84 Keith Jefferies, Botswana Institute of Development Policy, 'EU-SA Trade Development and Cooperation Agreement: options for industry restructuring', paper for workshop in EU-SA TDCA Agreement, Gaborone, Botswana, July 1999.
85 'Information Note to the College from Commissioners Lamy and Nielson on Progress in EPA negotiations', European Commission, Brussels, 21 October 2004.
86 Ambassador Vijay S. Makhan, Assistant Secretary General of the OAU, 'The EU has effectively used its trump card of being the provider of development finance for ACP cooperation to secure acceptance of its negotiating position', *Africa Agenda*, vol 3, no 3, 2000.
87 A five-point roadmap for ECOWAS was already adopted at the trade and finance ministers' meeting in Accra in November 2003. However, after prolonged discussions and under EC pressure the roadmap had to be amended at a Ministers' meeting in August 2004.
88 'Negotiating economic partnership agreements between African sub-regions and the EU', note prepared for the African Trade ministerial meeting organised by the African Union in Kigali, 24-28 May 2004.
See www.acp-eu-trade.org/documents/ILEAP%2014-05
04%20Paper%20for%20Kigali%20on%20%20EPA.pdf
89 For instance, at the Regional Negotiating Forum I, II, III of east and southern Africa (ESA) held in April, July and October 2004.
90 UNECA has developed impact assessments that are not sector-specific and dynamic but based on welfare estimates from economic models. The Project and Management Unit established by the ACP Secretariat and the EC is supposed to facilitate studies aimed at helping trade negotiators formulate their negotiating position. However these studies funded by the EC are available exclusively to national governments and not non-state actors who are part of the national negotiating forum.
91 Richard Kamidza 'Non-state actors' participation in the ESA configuration', Southern & Eastern African Trade Information and Negotiation Institute, 2004, www.seatini.org
92 Observations of the Southern & Eastern African Trade Information and Negotiation Institute (SEATINI) currently the only civic body participating at regional level in the ESA-EU negotiations. See 'Non-state actors participation in ESA' at www.seatini.org/publications/articles/2004/esa-epa.htm
93 Richard Kamidza 'Non-state actors' participation in the ESA configuration', SEATINI, 2004, www.seatini.org
94 The Integrated Framework for Trade-Related Technical assistance to Least Developed Countries inaugurated by six multilateral institutions (IMF, ITC, UNCTAD, UNDP, World Bank and the WTO) and to which DFID is a contributing donor.
95 Peter Aoga, *EcoNewsAfrica*, 'Development support from the EU is one of the most important motivating factors for ESA countries to negotiate an EPA, especially for those classified as LDC', reporting from the second Regional Negotiating Forum of ESA held in July 2004 in Uganda. Views expressed during unstructured interviews with various African ambassadors and trade officials at their respective permanent missions in Brussels, October 2004.
96 Directives for the negotiations of Economic Partnership Agreements with ACP countries and region, 9930/02 Annex I, DG E II, section on Complementarities, p 14.
97 Rob Davies and Kaire Mbuende, op.cit.
98 World Bank, African Development Indicators, 2004.
99 *Malawi Economic Report 2003*, Ministry of Economic Planning and Development; SUCOMA Annual Financial Statements, 2004.
100 The sugar industry is an important supplier of inputs to the beverage, biscuits and confectionery industries and other down-stream economic activities, such as trading and transportation. At the same time the industry itself is a significant consumer of electricity, postal, telephone and bank services and other up-stream business activities supported by its operations.
101 According to its 2004 annual report, SUCOMA carried out comprehensive rehabilitation and capacity expansion programmes for its two mills at Nchalo and Dwangwa. In addition, the company adopted improved farming methods and other agricultural practices with the objective of improving productivity and quality of production. SUCOMA annual financial statements, 2004.
102 The 60 per cent compensation is not the end of the story. EU producers will also pay a lower levy on their sugar produce as the price for this produce becomes lower. With EU prices nearly 200 euros lower, the levy paid by farmers will be about 16 euros per tonne less, which translates in an effective compensation of farmers of 68 per cent. http://www.euractiv.com/Article?tcmuri=tcm:29-128646-16&type=News
103 At a meeting of the ACP Ministers responsible for sugar with the EU Agriculture Council on 24 January 2005 Trade Commissioner Mandelson emphasised the centrality of EPAs and expressed the idea that the Sugar Protocol would be integrated into the EPAs in a way that ensures full compatibility with WTO rules on regional trade agreements. However, the ACP position is that the Sugar Protocol, because it is already a WTO-legal agreement, cannot be integrated into the EPAs and moreover, any negotiations that involve the Sugar Protocol should be on an all-ACP basis and not subsumed by regional EPA negotiations.

104 Officials from the affected countries have expressed their concerns on numerous occasions. See: the ACP submission on the EC communication of 14 July 2004 concerning the reform of the EU sugar regime. www.acpsec.org/InternalSheet.aspx?ArticleFileName=2004/sugardeclaration en.html&sessLang=1 and the 6 October 2004 press release following the ACP workshop on sugar reform www.acpsugar.org/finalacppressrelease2.doc as well as statements made by the LDC ministerial spokesperson at the EU Agriculture Council Meeting with the ACP ministers responsible for sugar, 24 January 2005, Justus Lipsius Building, Brussels, see www.acpsugar.org/24ldcspokesman.doc

105 The request was put forward by an LDC ministerial spokesperson at the EU Agriculture Council Meeting with the ACP Ministers responsible for sugar, 24 January 2005, Justus Lipsius Building, Brussels. See speech at www acpsugar.org/24ldcspokesman.doc See also LDC proposal regarding the adaptation of the EBA initiative in relation to sugar at www.sugartraders.co.uk/proposal0304.pdf

106 The EC committed itself to ‘supporting the process of adaptation in the countries affected by EU sugar-sector reform’ in response to oral questions submitted in the context of the ACP-EU Joint Parliamentary Assembly meeting in the Hague in November 2004. Two months later, ACP and LDC Ministers were presented with the EC’s ‘action plan’ (at a meeting held on 24 January 2005 in Justus Lipsius Building, Brussels). Claiming to be setting out plans for countries that will suffer as a result of the sugar price cuts, this action plan does not offer compensation, only to respond to ‘specific requests’ on the basis of ‘the actual needs of the countries concerned’.

107 While the EC has committed the EU to providing funds for ACP sugar restructuring through the EU budget, no financial provision has been made for this support in the 2005 EU annual budget. So 2006 would be the first year in which such funds would become available. However, as it takes a considerable amount of time to set up the administrative arrangements for European-based management of these funds, unless alternative provision is made in parallel with the budget debate it is likely to be mid-to-late 2007 before such funds actually become available in ACP countries.

108 However, lessons learned from the reform of the Banana Protocol and consequent financing of various adjustment programmes show that a genuine commitment in the country to undergo economic diversification is paramount to its success. ‘Beyond EU Sugar Reform: Financing Diversification in ACP Sugar Exporting Countries’, Trade Hot Topics, *Commonwealth*, issue 39, see www.thecommonwealth.org/shared asp files/uploadedfiles/{CE4AE9A2-1164-4111-A678-B433EC42E1D5} trade%20hot%20topics%2039.pdf

109 J Stiglitz, *An agenda for the development round of trade negotiations in the aftermath of Cancun*, Commonwealth Secretariat, 2004.

110 Paragraph 44, Doha Ministeral Declaration, WTO, 2001.

111 WTO understanding on interpretation of Article XXIV of GATT, 1994.

112 EC, *Economic Partnership Agreements: Means and Objectives*. Undated. Cites South Africa’s agreement to liberalise 86 per cent of EU originating imports over 12 years.

113 Paragraph 29, Doha Ministerial Declaration, WTO, 2001.

114 WTO, ACP submission on regional trade agreements call for flexibility in meeting ‘substantially all trade’ requirements and that the transition period be consistent with ‘trade, development and financial situation’ and not less than 18 years, April 2004.

115 UNCTAD, *World Investment Report*, 1998 and 2002.

116 Ibid.

117 Such an approach is entirely consistent with the principles of S&DT and the rules of the WTO. A successful challenge to the EU’s system of preferences by India, established in WTO case law that it is possible to differentiate treatment of developing countries based on objective and transparent criteria. Systems for identifying such criteria and to manage graduation out of special treatment as they progressively develop, already exist and could be developed further at the WTO. The idea of EPA benchmarks has been explored by some ACP member states and researched by African academics. Tekere and Goodison, ‘Rethinking the negotiations: linking poverty eradication and free trade’, Harare and Brussels, 1999.

118 Sugar, bananas and rice exports will only enjoy free access to the EU market from 2009 onwards.

119 See also Page & Kleen, *Special and Differential Treatment of Developing Countries in the World Trade Organization*, (ODI 2001), which suggests that introducing a system of notification of schemes to the WTO, so that these could be subject to the WTO’s enforcement mechanisms, as well as clarifying through legal judgement the obligations on transparency and non-discrimination.

120 UNCTAD, *Improving Market Access for LDCs*, 2001.

121 Such benchmarks are already contained in the ACP countries’ proposal for a so-called EPA-lite, which will place emphasis on building regional markets and developing production capacity to serve enlarged regional markets *prior* to the establishment of any substantive tariff elimination commitments vis-à-vis the EU. A special and differential treatment clause in Article 24 should make this possible.

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Christian Aid works in some of the world's poorest communities in more than 50 countries. We act where the need is greatest, regardless of religion, helping people to tackle the problems they face and build the life they deserve. At home and overseas, we campaign to change the structures that keep people poor, challenging inequality and injustice.

Christian Aid is a member of the Trade Justice Movement, a growing group of organisations campaigning together for fundamental changes to the unjust rules and institutions governing international trade. Christian Aid is also a member of the Stop EPAs campaign, an international alliance of organisations concerned that, in their current form, EPAs between Europe and its former colonies will prove disastrous for poor people.

Cover photo: Children sorting maize. If poultry farmers in Ghana were protected from cheap imports, maize farmers could also benefit from the increased demand from poultry feed. However, maize farmers also face competition from cheap maize imports
Credit: Christian Aid/Penny Tweedie

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