Dossier on Preferential Trade Agreements

December 2007
(Vol. I, No. 2)

Table of Contents

1. Africa, Caribbean, and the Pacific (ACP) Group of countries sign EPAs with the EU

Economic and trade cooperation is the first pillar of ACP-EU cooperation (aid being the second pillar). The ACP non-reciprocal tariff preferences, signed by 77 ACP countries with the European Union in June 2000 in Cotonou (Benin), commonly called 'the Cotonou Agreement', are a fairly unique form of North-South cooperation which are to end by 31st December 2007. From 2008, a set of reciprocal Economic Partnership Agreements (EPAs), compatible with the rules of the World Trade Organisation (WTO), will have to be signed by these countries with EU in groups or individually, building on their own regional integration schemes.

With the threat of losing even the earlier trade preferences, all but a few relatively rich members (prominent among these being Nigeria which was subjected to tariffs on its failure/refusal to sign an EPA before the due date) hurriedly signed EPAs with the EU, thus preserving market access during late November and December 2007. Least Developed Countries remain eligible for duty-and quota-free access to the EU market without an EPA (under the EU's 'Everything but Arms' initiative), but they are encouraged to sign an agreement with the EU to open their own markets, enabling them to get benefits from expanded export possibilities with relaxed rules of origin.

Fourteen Caribbean nations, including Jamaica, Guyana, the Dominican Republic, The Bahamas, initialed the first comprehensive EPA on 16th December 2007, covering trade in goods and services, as well as rules governing foreign investment. The removal of barriers to 82.7 percent of imports from the EU over the next 15 years secured for the Caribbean bloc duty-and-quota-free access for all its exports, except rice and sugar, in the opposite direction. Cameroon (13th December) and Ghana (17th December) initialed 'interim' EPAs covering goods trade only, with issues such as services and investment to be addressed later. The East African Community initialed an agreement on 29th November. The Seychelles and Zimbabwe did so on 28th November while Mauritius initialed an interim deal on 4th December.

It seems that the 10 remaining Pacific Group countries, most of which have negligible trade with EU, are opting to take their time in deciding as they are considering the ramifications of an EPA. The Solomon Islands is more interested in possible free trade agreements with Australia, New Zealand and other Pacific countries.

Much criticism has come from civil society groups, development campaigners, and academics who have complained that the EU has successfully used the threat of imposition of tariffs to pressurize ACP countries into prematurely signing EPAs. The argument they give is that opening markets to EU exports could lead to trade diversion, cost poor governments customs revenue and destroy domestic infant industries, undermining their prospects of growth. Free Traders worry that consumers in ACP countries would end up buying goods from the EU rather than cheaper ones produced elsewhere. Brazil has warned that the agreements might even hurt South-South trade.

<u>CUTS Comments</u> *The EPAs by the EU with the ACP group of countries can possibly have a direct impact on India for products such as sugar, rice, fisheries etc, where India has a competitive advantage vis-a vis the ACP countries. With ACP countries entering into EPAs with EU, India might not be able to retain its competitive edge in these commodities in European markets, irrespective of whether it enters into a FTA with Europe, as there are no negotiations for tariff reductions between the EU and India for primary products (which constitute the negative list).*

One important lesson for India while negotiating FTAs with the EU is that the EC is a very tough negotiator and not very sensitive to the domestic concerns of the partner country when its own economic interests are at stake, which is amply demonstrated in the EC key messages, January-February 2008 (received from a Brussels based NGO and forwarded to the Commerce Ministry officials by CUTS on 14 February 2008). EC has made it explicitly clear that "For the EU, an FTA without procurement is not on the negotiating table." On the other hand India's position is very clear that government procurement is not on the agenda for FTA negotiations. India would like to finalise the comprehensive FTA pact by the end of this yea; however, the EU's stand is that "the substance of a final agreement is more important than its timeframe". Looking at the tough position taken by the EU the Indian negotiators should be (and are) aware that hard negotiations with the EU (as exemplified by the EPAs with ACP countries) are ahead. Commercial diplomacy skills should be deployed in a manner that leads to a FTA offering a win-win situation for both parties.