

## CHAPTER SIX

# Cotonou and the WTO: Can Europe's trade agenda deliver a just partnership with developing countries?

Alastair Fraser, Action for Southern Africa & Nancy Kachingwe, MWENGO

On 27 September 2002 negotiations were launched over future trading relations between members of the African, Caribbean and Pacific (ACP) group of countries and the European Union (EU). The date was not marked by riots in the streets of Brussels, smashed windows or police brutality. As a result, the media took little interest. But these negotiations represent the cutting edge of the globalisation debate and are central to the prospects of some of the world's poorest countries.

One reason why these talks, which are taking place within the framework of the Cotonou Agreement, have attracted so little protest is that Europe portrays itself as a friend of the developing world, with historic ties to the former colonies that provide the basis of a 'special relationship'. A 'European model' supposedly presents the ACP with an alternative to the 'Washington Consensus', protecting Africa from the damaging impact of international trade rules established to serve the needs of rich countries.

However the EU is not using trade negotiations to protect Africa. Far from it. As the world's biggest trading bloc, Europe sets the agenda in the World Trade Organisation (WTO) and is one of the main architects of the global trade system. The EU is now using the Cotonou negotiations to pursue its global 'free market agenda'. This could open up new markets and new contracts for European multinationals, but it is much less clear what Africa stands to gain.

The Cotonou Agreement, signed in June 2000, replaced the 25-year-old Lomé Convention. The discussions now underway will go on for the next five years and will establish 'future trade arrangements', defining tariff levels, quotas, labelling and numerous other issues for imports and exports between the two regions for the next twenty years. Despite all of the warm words in the Cotonou

Agreement about an ‘equal partnership’ and putting development first, during these negotiations, the development needs of poor ACP countries will be pitted directly against the interests of the rich European countries.

### **The legacy of Lomé**

The first Lomé Convention, signed in 1975, attempted to establish a system of ‘managed trade’ to help promote development in the former colonies of the major European states. Rather than assuming that free market economics would automatically promote the interests of poor countries, the ACP states were supposed to gain preferential trade access for ACP exports to European markets. In recognition of the fact that the ACP economies were underdeveloped, these trade preferences were not ‘reciprocal’. In other words, the ACP countries could maintain their barriers to EU exports entering their markets, protecting fragile local producers and receiving income from taxes on imports.

However, over the years, Lomé’s potential was frustrated:

- Access to Europe’s markets has been limited by quotas, seasonal restrictions and exclusion of specific products.
- Europe has also re-introduced tariff barriers for goods which ACP countries produce more efficiently than Europe, such as dairy products, vegetables, nuts and fruits, wheat, flour and rice.
- The EU has also given better deals to countries which are not as poor as those in the ACP, but are politically favoured by the EU. As strategically favoured regions of the world were offered more ‘preferential’ access to the EU market than the ACP enjoyed, the relative value of the access offered to the ACP declined.
- Duties are also much higher for goods which have been processed in ACP countries. The EU ‘rules of origin’ clause has prevented manufactured ACP goods which require components from outside the region from entering the European market.

This has prevented the diversification of industries within the region and has kept Africa trapped in producing raw materials, while European companies dominate the much more profitable business of producing finished goods. After 25 years of Lomé, the ACP countries have found themselves ever more trapped in their traditional trading patterns.

The EU has argued that Lomé’s limited impact is a good reason to rip the system up and start again. However, where high tariff preferences have provided a real advantage for ACP producers, these preferences encouraged the emergence of new industries. For example, textiles from Zambia and furniture made in Swaziland have been encouraged through high tariff preferences. And

fish products from Namibia and Mozambique have experienced export growth well above average for developing countries.<sup>1</sup> Although overall exports to the EU have declined between 1988 and 1997, in those areas where the EU offered ACP countries significant preferences, exports increased by 83.6 per cent.<sup>2</sup> ‘Supply-side constraints’ have also prevented ACP countries from taking advantage of preferences. ACP producers found it difficult to adapt rapidly to product quality standards and to changes in world demand. As a result, ACP producers have not been well positioned to take advantage of trade preferences. However, this is no reason to argue that they might not potentially be very useful.

### **The EU’s agenda: One size fits all**

The real reason that the EU has been so keen to end the ‘managed trade system’ has little to do with its impact in poor countries, and much more to do with the EU’s commitment to the construction, through the WTO, of a liberalised global trading system. The EU has lost faith in the idea of managed trade, having become convinced of the argument that internal economic reform, or structural adjustment, is the key to development in every country.

In 1994, the US brought a trade dispute in the WTO against EU banana exports from the Caribbean. This gave the EU a convenient excuse to drop the preferential system and ‘WTO-compatibility’ became the EU’s fundamental condition for whatever regime replaced Lomé. The EU presented ACP countries with two options.

Under the first option, ACP countries could choose to abandon the Lomé Convention arrangements and export under the EU’s General System of Preferences (GSP). This would mean less generous treatment for ACP exports, and therefore a potential loss of earnings as ACP exports would become less competitive. Given that the EU is one of the top destinations for ACP exports, this would have serious economic consequences. However, access to EU markets through the GSP is on a non-reciprocal basis, and would therefore allow ACP countries to continue to provide some protection of local markets from subsidized EU exports.

The second option involves setting up a free trade area (FTA) with the European Union, called “Economic Partnership Agreements” (EPAs). Under this system, ACP exports would enjoy the same preferences as before but, unlike the Lomé Conventions or the GSP, ACP countries would have to reciprocate. This means that they would have to allow virtually unrestricted access to their markets for almost all EU products within a ten year transition period, removing import tariffs and quotas and export duties on specific products.<sup>3</sup> These policies,

which ACP countries currently use to protect domestic producers and jobs from external competition, would be abolished.

Despite the ACP's clearly expressed misgivings, the EU is pushing hard to ensure that EPAs are the only option on the table, and are trying to sell their free trade policies as 'development-friendly'. The Commission claims that EPAs will increase the flow of European investment and assist in the restructuring of ACP economies. But the models on which these arguments are based assume that the theoretical benefits of free trade between economies at similar levels of development will also apply in the concrete reality of the ACP–EU trade.

### **Liberalisation and development: a reality check**

Assessments of the losses and gains following the entry into force of various WTO agreements have shown that 'free trade' between highly industrialized, rich regions and economically underdeveloped poor countries will tend to favour the economically strong, unless very specific measures are taken to ensure balanced benefits. As a result, the EU is finding it difficult to convince the ACP of the benefits of EPAs. One eminent ACP trade negotiator recently commented, "we are faced with a situation in which the EU demands from us something of great value – free access for European goods and services to our markets – but in exchange offers nothing except the advice that if we are to develop, we must open up our markets and liberalise."<sup>4</sup>

The risks of intensive liberalisation in ACP countries are clear.

- **declines in inter-regional trade** as a result of "trade diversion": countries of the region will lose their markets in neighbouring countries. Instead of regional cooperation, there will be increased competition between countries of the region to attract "investment" from the EU.
- **dumping of cheap EU agricultural surpluses** (dairy products, cereals, beef etc) already threatens the viability of agriculture and agri-processing industries, particularly for the small scale farming sector which does not receive state support. Further reduction of ACP protection against these practices threatens the collapse of rural economies, and increased impoverishment and food insecurity.
- **significant declines in government revenue** as a result of the elimination of import taxes on EU goods. This will result in less funding for social and human development. The EU has already stated that it is not prepared to discuss new debt cancellation initiatives as a way of compensating for these revenue losses.
- **closures of local manufacturing and retail ventures**, especially small and medium sized enterprises (SMEs), where the majority of formal sector workers are employed, as a result of competition from cheap subsidized imports. In

the short term, this will result in job losses, unemployment and poverty. In the longer term it is likely to undermine industrial diversification strategies.

- **declining delivery of basic social services** as a result of selling off essential public services to European transnational corporations under privatization agreements: social services only available to those who can pay for them.
- **opening up to European competition for all government tenders:** local companies who derive their income from government contracts (supplies, services etc) will have to compete with EU companies in bids; and profits from these transactions will be repatriated as a result of “investment protection” deals.
- **continued capital flight from ACP economies** as a result of investment measures that prohibit restrictions on repatriation of profits. Government would not be able to give different treatment to local entrepreneurs as a means of supporting them to survive competition.
- **widening class divisions** between the haves and have-nots, and resultant increased social and political tension, as local elites remain the sole local beneficiaries of liberalization.
- **dispossession of indigenous land owners and lost livelihoods** to give way to operations such as European tourism and mining “investors”.

ACP countries, under World Bank and IMF structural adjustment programmes, and previous WTO agreements, have already experienced significant trade liberalisation and deregulation, with immensely damaging consequences. Governments and social movements in the ACP are becoming increasingly concerned that, rather than enabling ACP governments to deal with their existing development challenges, EPAs will exacerbate them. The Mauritian Ambassador to Brussels recently commented, “the Commission seems to argue that the ACP should liberalise, privatise and deregulate and FDI will inevitably flow – markets will be enlarged. In other words, simply put a policy framework in place and everything will be fine [...] ACP countries on the other hand have already been swallowing these bitter pills for the past two decades.”<sup>5</sup>

### **The EU’s twin-track strategy: Brussels and Geneva**

When the EPA option was first tabled by the EU in the Cotonou negotiations, ACP countries put up strong resistance. They argued firstly that “alternative trade arrangements” should be brought forward, and secondly that certain WTO rules should be reviewed in those areas which present difficulties for developing countries. The ACP stressed that ‘WTO compatibility’ is not a static, objective fact but a moving target.

The ACP have therefore appealed to the Commission to work with them in

Geneva to increase the flexibility of those WTO rules that are incompatible with the ACP needs, particularly those on Regional Trading Agreements and Special and Differential Treatment. The EU and the ACP together represent more than two-thirds of the membership of the WTO, and should be able to influence decisions about new rules in a direction that satisfies developing countries' demands.

However, though the EU claims that it is "prepared to join forces with the ACP ... to face the challenges of globalisation in the context of the WTO Doha Development Agenda"<sup>6</sup>, the experience of negotiations so far in both Brussels and Geneva suggest that these statements are pure rhetoric. Instead of joining forces with the ACP, the EU is pursuing its global liberalisation agenda through two different channels – the WTO and the multiplicity of bilateral agreements such as Cotonou. Where the EU has been able to win concessions through the WTO, it does so. Where it has found itself blocked in the WTO, the EU has pursued its agenda through bilateral agreements. A good example of this 'liberalisation through the back door' can be found in the EU's suggestion that the ACP agree to policy changes under Cotonou that are similar to its controversial WTO proposals relating to liberalisation in the trade in services. The EU's strategy is to ensure that what it might not get in the WTO negotiations, it can try to secure through bilateral deals with countries and regions, such as EPAs. Furthermore, if the ACP agree to certain proposals in the EPA negotiations, the EU's hand in the WTO negotiations is considerably strengthened.

## Conclusions

The European Commission claimed in 1992 that, "The ideological neutrality of Lomé rules out the possibility of the Community living by doctrines, be they neo-liberal or otherwise".<sup>7</sup> However, the EU's attachment to the EPA model, in the face of widespread ACP opposition, in the absence of evidence for its benefits and with clearly identified risks to African economies, suggests that European trade policy is now formed on the basis of ideology, and with little consideration for development.

This would not necessarily present a problem if the parties were negotiating from similar positions. However, the ACP countries are in a very weak bargaining position. Forty per cent of Africa's export earnings depend on trade with Europe, and for many products, this is as a result of previous EU trade concessions. Furthermore, the EU and its Member States make up over half the aid contributions to ACP countries. This dependency creates a situation in which the EU can confidently push the scandalous proposal that major liberalisation

is the only option, and that the ACP themselves should cover adjustment costs for this process.

African negotiators have been concerned for some time that the EU's preferred model will prevail, regardless of its impact, and debate has been reduced to damage limitation from their perspective. However, both official negotiators and ACP civil society groups have also considered whether ACP governments – individually or collectively – should refuse to negotiate new trade arrangements until the EU has made commitments to reform its agricultural subsidies, to fight with the ACP for changes in the WTO, to support debt cancellation and to provide aid to help tackle the challenge of economic re-structuring.

The very fact that such desperate measures are being considered illustrates the appalling marginalisation of development objectives within European trade policy, and the failings of both European Member State governments and the European Commission to reform their deeply ideological approach to trade and development.

## NOTES

ACTSA (Action for Southern Africa) is the successor organisation to the anti-apartheid movement and challenges decision-makers in the UK and the Europe Union (EU) to support peace, democracy and development in Southern Africa. It currently chairs the European Network for Information and Action on Southern Africa (ENIASA), a coalition of 19 organisations across Europe promoting international solidarity with Southern Africa.

MWENGO (Mwelekeo wa NGO) is a Harare-based organisation that strengthens the capacities of NGOs in Eastern and Southern Africa to articulate and implement a development agenda rooted in African experience and analysis.

1 'Beyond the Rhetoric of Economic Partnership Agreements, Issues to be Addressed in ACP–EU Trade Negotiations', Dr Rob Davies (MP) And Dr Kaire Mbuende (MP), 2002

2 Significant preferences are defined here as a greater than 3 per cent advantage over other regions. From 'Beyond the Rhetoric of Economic Partnership Agreements, Issues to be Addressed in ACP–EU Trade Negotiations', Dr Rob Davies (MP) And Dr Kaire Mbuende (MP), 2002

3 Based on the EU–South Africa Trade and Development Agreement, ACP countries might be asked to liberalise access to their market on goods that account for around 85 per cent by value of their imports from the EU.

4 H.E. Mr Edwin Laurent, Ambassador of St Lucia, quoted in conference report of 'The Cotonou Trade Negotiations: Building European solidarity for Southern Africa', Brussels, Thursday 10 October 2002. [www.actsa.org/downloads/cotonouconference](http://www.actsa.org/downloads/cotonouconference)

5 H.E. Mr Satiawan Gunessee, Ambassador of Mauritius, quoted in conference report of 'The Cotonou Trade Negotiations: Building European solidarity for Southern Africa', Brussels, Thursday 10 October 2002. [www.actsa.org/downloads/cotonouconference](http://www.actsa.org/downloads/cotonouconference)

6 EU Trade Commissioner Pascal Lamy in Fiji for Africa, Caribbean and Pacific Summit, Press Release, Brussels, 12 July 2002, <http://europa.eu.int/comm/trade/bilateral/acp/pr120702.htm>

7 CEC-DG VIII, 1992, pp 16, quoted in William Brown, *The EU and Structural Adjustment: The case of Lome IV and Zimbabwe*, *Review of African Political Economy*, 79, 1999, pp 26