

## CHANGE IN ACP COUNTRIES TRADE REGIME

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### *Abstract*

*The ACP countries and the European Union agreed “to conclude new WTO-compatible trading arrangements, removing barriers to trade between them progressively and enhancing co-operation in all areas relevant to trade”. To this end, they agreed to negotiate “Economic Partnership Agreements (EPAs)” between them. The primary building block of EPAs is the establishment of a free trade area, which progressively abolishes substantially all tariffs between the Parties, as well as all non-tariff measures, such as quotas and measures having equivalent effect.*

**Key words:** African Caribbean Pacific group of states, European Union, Economic Partnership Agreements, trade regime, free trade area, least developed countries

### INTRODUCTION

On 27 September 2002, the ACP and the EU officially launched the negotiations on EPAs. After almost three decades of non-reciprocal preferential access to the EU market, EPAs are meant to replace the existing trade regime by reciprocal agreements that are fully WTO-compatible, while providing for differential and asymmetric treatment. For the period of negotiations, until end of 2007, the current preferential trade regime is extended.

Phase I negotiations were held at an all-ACP level and beginning in late 2003 some regions moved into Phase II of negotiations. Phase II will take place at a regional level and will aim to finalize the EPAs by 2007. In October 2003, Phase II negotiations were launched in Central Africa (CEMAC) and Western Africa (ECOWAS). Sao Tomé & Príncipe will negotiate with CEMAC and Mauritania, which left ECOWAS in 1999, will negotiate an EPA in conjunction with Western Africa (See Figure 1).

#### Principles of EPAs

The EPAs are set to enter into force by 2008. They would cover trade in goods, agricultural products, fisheries and services, and would address tariff, non-tariff and technical barriers to trade. Other trade-related areas should also be covered, including by increased cooperation between the EU and ACP countries within the framework of EPAs. Such areas include competition, protection of intellectual property rights, standardization and certification, sanitary and phytosanitary (SPS) measures, trade and investment, trade and environment, trade and labour standards, consumer policy regulation and consumer health protection, food security and public procurement.

With the objectives of fostering sustainable development, integrating the ACP into the world economy and fully complying with WTO rules, the basic guiding principles of EPAs are:

*Development.* The new trading arrangements have to be seen within the context of the overall objective of the Cotonou Partnership Agreement, ensuring sustainable development and economic growth in ACP countries that will contribute to poverty eradication.

*Reciprocity.* The EPAs will be (enhanced) Free Trade Arrangements, which will be compatible with the multilateral rules of the WTO.

*Regional integration.* EPAs will build on and should reinforce the regional integration process of the ACP. Regional EPAs should contribute to foster the integration of the ACP in the world economy, stimulate investment and contribute to lock in the necessary trade reforms.

*Differentiation.* Considerable weight is given to differentiation and special and differential treatment. EPAs will take account of the different levels of development of the contracting parties, providing for sufficient scope for flexibility, special and differential treatment and asymmetry.

From the EU's point of view, EPAs should make it possible to simultaneously incorporate the three following dimensions:

*Facilitating the regional integration of ACP States.* The Cotonou Agreement encourages the conclusion of EPAs on a regional rather than a national basis, which stimulates the consolidation of regional economic organizations in ACP countries. This approach should also lead to work rationalization and economies in available resources both within the EU and in ACP States. Under the terms of the Agreement, the ACP States themselves have to determine whether they wish to enter into trade negotiations with the EU on a national or a regional basis.

*Taking the special case of Least Developed Countries (LDCs) into account.* Given the fragile nature of their economies, LDCs (40 of which are in the ACP group) will not be required to negotiate EPAs with the EU in order to retain their present level of access to the Community's market. In other words, LDCs will be able

to retain the Lomé regime beyond 2008, if they so wish it. Although it is not contained within the Cotonou Agreement, attention should also be drawn to the EU's "Everything but Arms" initiative which applies to all 50 LDCs in the world (whether ACP states or not) and which was adopted by the EU at the end of February 2001. This initiative, which came into effect on 5 March, 2001, removes all customs duties and quotas in the Community market for products originating from LDCs, with the exception of arms. The trade in three sensitive products, sugar, rice and bananas, will nevertheless be progressively liberalized during a transitional period, leading to free trade in bananas in 2006 and for rice and sugar in 2009.

*Liberalizing trade between ACP States and the EU on a reciprocal basis in conformity with WTO rules.* The Lomé regime does not allow for reciprocity in trade concessions, which contravenes the Most-Favoured Nation clause contained within the WTO Agreements. This means that ACP States will in the future, via Economic Partnership Agreements, have to grant the same trading preferences for Community products entering their territory as they enjoy for their products entering the EU. ACP States will therefore have to open up their markets to European competition, and the financial assistance measures contained within the EPAs will help with the transformation. For those non-LDCs who do not wish to negotiate EPAs with the EU, the Community's Generalized System of Preferences regime (accepted by the WTO) could then be applied. The European Union has been the main actor in the trade and development nexus, internally by removing numerous barriers to imports and externally by developing its networks of free trade agreements (FTAs).

The FTA means the necessary liberalization for the trade development. Besides advantages, it will bring about also temporary disadvantages for developing countries. Owing to the easier approach to their market, the EU can become a serious competition for the home producers. Trade liberalization means, basically, removing custom duties and other obstacles in the flow of goods and services. This influences the level of incomes into the regional budgets in the structure of which just custom duties form the prevalent part. The level of the mentioned negative effects will have differentiated impact on the individual regions.

As a result of these agreements, the European Union now trade duty- and quota-free with more than 30 countries in Eastern Europe, Africa, Latin America and Asia. Apart from reciprocal free trade agreements, it has also initiated two non-reciprocal trade arrangements: the GSP and ACP trade schemes.

Trade is a crucial driver of growth, yet in Africa with 10% of world population, represents less than 2% of world trade. Most African economies are small and provide limited national markets for local trade that can spur faster growth rates for development. As a result, the pursuit of netter access to foreign markets is,

therefore, a crucial component of Africa's development strategy.

#### ACP - EU Trade

The degree of participation by ACP States in international trade differs significantly across and within different regions. The regional distribution of trade among ACP States shows such diversity.

In 2004, trade between both regions amounted to € 54,8 billion (See Table 1, 2). The ACPs had a trade surplus with the EU(25) of € 1,9 billion. The EU is the ACPs' main trading partner, particularly because of its trade links with Sub-Saharan Africa. The EU absorbs more than one third of all SSA exports (excluding South Africa) and is therefore its main export market.

ACP exports to the Community are scarcely diversified: in 2004 ten products account for 59 % of total ACP exports. Petroleum oil is the most important ACP export (22% of total ACP exports). It is followed by diamonds (11%), cocoa (6%), ships/boats (3,5%), petroleum gas (3,5%), sugar (3%), aluminium (3%), aircraft (3%), wood (2%) and gold (2%). The bulk of ACP exports are raw materials (as finished goods represent 21% of ACP exports to the EU) and in particular, agricultural products (29% of ACP exports to the EU).

Share of non fuel commodities in total exports was 99,8% in case of Zambia (copper) and Liberia (rubber, timber), as well as in case of Mauritania, Guinea Bissau, Samoa, Chad, Mali, Benin and Uganda, where the dependence on one export commodity was over 90%.

EU(25) exports to the ACP in 2004 constituted mainly petroleum oil (5%), ships/boats (4%), medicaments (4 %), cars/motor vehicles (3%) and aircraft (3 %).

#### **CONCLUSION**

Opportunities to increase levels of inter-regional, intra-regional and international trade in the ACP countries are constrained by, inter alia, the small size of their economies, lack of regional integration among ACP countries, lack of horizontal diversification, lack of vertical integration, and high transportation costs. These constraints combined, make ACP trade and trade-related economic performance, vulnerable to short-term price shocks or long-term declining commodity prices.

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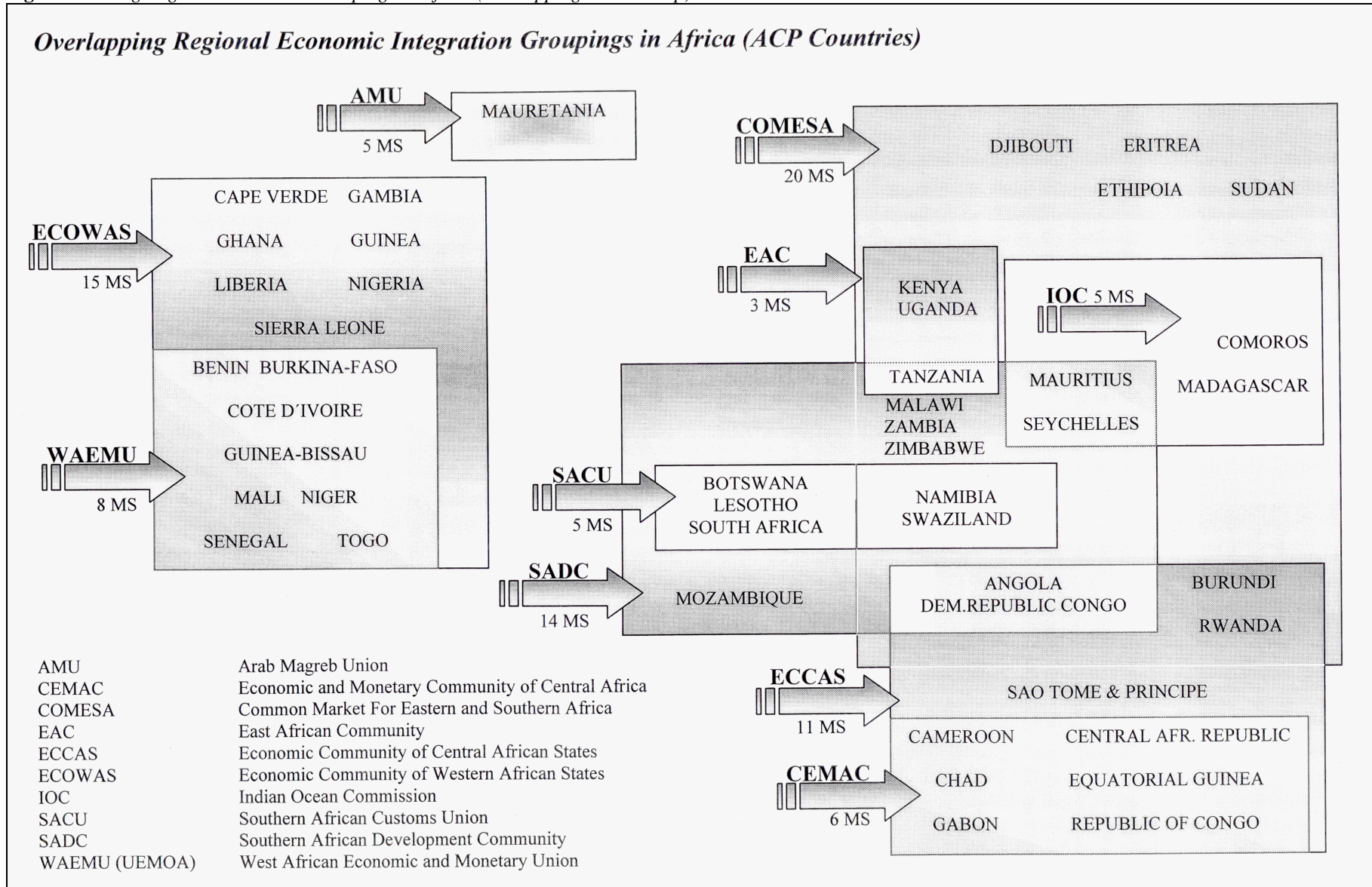
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Fig. 1. : Existing Regional Economic Groupings in Africa (overlapping membership)



**Tab. 1. :** *EU(25) - ACP Trade in mio EURO*

<b>External trade</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Total trade	56 304,5	60 482,1	58 928,1	57 323,0	54 820,3
Agri trade	12 045,7	12 845,8	13 344,5	13 463,8	12 164,9
Agri share	21,4	21,2	22,6	23,5	22,2
Total imports	29 189,4	32 158,5	30 670,6	29 795,4	28 346,7
Agri imports	8 350,8	8 644,8	9 107,1	9 282,3	8 462,3
Agri share	28,6	26,9	29,7	31,2	29,9
Total exports	27 115,1	28 323,6	28 257,5	27 527,6	26 473,6
Agri exports	3 694,9	4 201,0	4 237,4	4 181,5	3 702,6
Agri share	13,6	14,8	15,0	15,2	14,0
Trade balance	-2 074,3	-3 834,9	-2 413,1	-2 267,8	-1 873,1
Agri trade balance	-4 655,9	-4 443,8	-4 869,7	-5 100,8	-4 759,7
Total E/I ratio in %	92,9	88,1	92,1	92,4	93,4
Agri E/I ratio in %	44,2	48,6	46,5	45,0	43,8

Source: EUROSTAT 2005

**Tab. 2. :** *EU(25) - ACP LDCs Trade in mio EURO*

<b>External trade</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Total trade	19 016,1	20 914,5	20 384,1	19 436,0	18 476,1
Agri trade	4 075,8	4 087,3	4 158,3	4 005,8	3 664,7
Agri share	21,4	19,5	20,4	20,6	19,8
Total imports	8 443,4	9 710,9	9 530,8	8 322,8	8 199,6
Agri imports	2 200,9	2 065,7	2 094,6	1 991,9	1 871,6
Agri share	26,1	21,3	22,0	23,9	22,8
Total exports	10 572,7	11 203,6	10 853,3	11 113,2	10 276,5
Agri exports	1 874,9	2 021,6	2 063,7	2 013,9	1 793,1
Agri share	17,7	18,0	19,0	18,1	17,4
Trade balance	2 129,3	1 492,7	1 322,5	2 790,4	2 076,9
Agri trade balance	-326,0	-44,1	-30,9	22,0	-78,5
Total E/I ratio in %	125,2	115,4	113,9	133,5	125,3
Agri E/I ratio in %	85,2	97,9	98,5	101,1	95,8

Source: EUROSTAT 2005

