

EU Trade Negotiations with ACP

**A comparative analysis of the negotiations of Economic Partnership Agreements
between the EU and Africa, Caribbean and Pacific group of states**

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Introduction

The EU is widely viewed as a leader in international trade negotiations on both the multilateral level, within the framework of the World Trade Organization (WTO), and on the bilateral level, having concluded bilateral trade agreements with 36 countries and regional trade agreements with eleven regions (Commission, 2009a; Elgström & Strömvik, 2005). One of these regions is that of the Africa, Caribbean and Pacific group of States (ACP). Currently, relations are regulated through the EU – ACP Partnership agreement signed in Cotonou 23 June 2000. For most ACP countries, especially the African ACP countries, trade with the EU constitutes their most important trade revenue, and a significant part of their overall state revenue. The EU imported, in 2007, products to the value of € 40.2 million and exported goods to ACP countries to the value of € 39.7 million. However, the ACP remains only a marginal trading partner for the EU. ACP exports to the EU constitute only 3.19 per cent of EU total imports, and ACP imports from the EU only constitute 2.81 per cent of EU total export (Commission, 2009b).

Both towards the ACP and on a global basis, the EU's trade strategy has undergone changes over the last decades. The most important change has been the abandonment of non-reciprocal trade benefits for regions such as the ACP and the demand for reciprocity in all trade agreements, in line with article one of the General Agreement on Tariffs and Trade (GATT). Such non-reciprocal agreements are in direct conflict with the non-discrimination principle found in article one and three of the GATT-agreement (GATT, 1947). The first two generation of agreements between the EU and ACP, Yaoundé and Lomé, were non-reciprocal. The present EU-ACP partnership agreement is in the process of rectifying this dimension with the aim of becoming a reciprocal agreement in compliance with WTO rules. This change is being achieved through the negotiation of Economic Partnership Agreements (EPA) between the EU and seven regional bodies of ACP: West Africa, Economic Community of Central African States (CEMAC), Southern African Development Community (SADC), Eastern and Southern Africa (ESA), the East African Community (EAC), Caribbean and the Pacific. The Caribbean is the only region which has initiated a full EPA with the EU, whilst the other regions remain in the process of negotiating.

When the original deadline for the conclusion of EPA agreements between the EU and the ACP regional entities expired in December 2007, the non-reciprocal trade benefits so far enjoyed by the ACP countries came to an end. The ACP regions maintained the choice between the threat of being forced back to the *Generalised System of Preferences* (except for the LDC which could export duty-free to the EU under the Everything But Arms (EBA) agreement) or continue negotiations with the aim of initiating a comprehensive regional EPA agreement. ACP countries could also sign individual or regional interim EPA agreements to secure market-access while continuing to negotiate the overall EPA agreement. This project seeks to establish a research-based understanding of patterns of behaviour in the negotiations of EPA agreements. What combinations of conditions lead to either successful signing or prolonged negotiation of an EPA? The contributions to the existent literature on this field are two-fold: First, a comparative analysis of structural variables is undertaken between the countries which have reached an EPA agreement and those which are still negotiating. The

analysis of the two groupings provides an insight to the correlation between likelihood of achieving an EPA agreement and five structural dimensions: local economy; trade with the EU; foreign aid and investment; democracy; and selected economic variables. Second, the correlations found in the comparative analysis will be validated and expanded in a regional analysis carried out on the basis of empirical findings from interviews with expert from DG Trade, DG Development and the ACP Secretariat who have participated in the negotiations of the EPA agreements.

I. Theorizing EU external negotiations

The EU is often characterized as a conservative and difficult international negotiator (Bal, 1995; Elgström, 2005; Kohler-Koch, 1995). It is claimed that the EU is handicapped by the complexity of its institutions and that this, in many cases, leads to the EU protecting the 'lowest common denominator interests of its member states' (Elgström & Strömvik, 2005, p. 117; Meunier, 2000; Smith, 2000). When the EU is acting externally, as one actor, the positions presented are negotiated a priori by the 27 member states of the Union. The process of obtaining common international positions requires smooth interaction between the member states and can be expected to be a time consuming process. Furthermore, a renegotiation of a common mandate is often required, as negotiations with external partners will often fail in the first round.

Theories of *asymmetric negotiations* deal with the phenomenon of power asymmetry in international negotiations. The main contributors to the understanding of asymmetric negotiations are William I. Zartman (1987; Zartman & Rubin, 2000), Johan Ravenhill (1993) and William Mark Habeeb (1988). Zartman and Ravenhill analysed the negotiations leading to the Lomé-treaty between the EU and ACP countries, whilst Habeeb developed a general theory regarding asymmetric negotiations. The negotiations between the EU and ACP countries are and have always been asymmetric. The EU is the most powerful actor in the negotiations by offering with its offer of trade benefits to ACP countries. In a negotiating situation between a strong and a weaker part, it is not unreasonable to think that the stronger part will draw the majority of benefits in its favour. This is the starting assumption applied by the majority of researchers on the topic, also by Zartman, Ravenhill and Habeeb. However, one has seen in many situations that the weaker part has obtained results better than expected. This is what Zartman and Rubin calls 'the structural paradox' (Zartman & Rubin, 2000, p. 3). How does a weaker actor increase its leverage and obtain a successful outcome in an asymmetric negotiation situation?

The negotiations leading up to the Lomé IV treaty, between the EU and ACP countries, are frequently used as an example of the structural paradox. The ACP countries obtained increased concessions, such as development assistance, from the EU without providing significant concessions in return. As Ravenhill (1993) points out, the ACP countries principal strength in the negotiations was their weakness. ACP countries managed to make the EU maintain the benefits granted under the first three Lomé agreements and further extend these benefits in favour of the ACP countries. By arguing that further EU concessions would not damage their markets due to the frailty of the ACP countries' markets, the ACP countries

induced further concessions. The Lomé IV negotiation is a remarkable and interesting example of a weaker part obtaining benefits beyond its power and surely an illustration of Zartman and Rubin's approach.

Ole Elgström and Maria Strömvik (2005) challenge the traditional view of the EU as a conservative and difficult negotiator. They claim that the EU's structural features do not necessarily become a disadvantage within international negotiations. In most trade issues the Union is given exclusive competence which means that the Union speaks formally with one voice, the Commission, which negotiates on behalf of the Union with a negotiation mandate set by the Council of the EU. Furthermore, Elgström and Strömvik (2005, p. 121) hold that the specific negotiation situation matters. In an asymmetric situation the Union's alternatives to an agreement are broad and the need to conclude a deal is reduced in comparison to multilateral negotiations. It would be much easier for the European Union to say no to a bilateral agreement with the ACP than opting out of multilateral symmetric negotiations within the WTO framework. Elgström and Strömvik (2005, p. 125) conclude by characterizing the EU as 'an unusually skilled negotiator'. This description is based upon the nature of EU civil servants working in an international, multi-level, network-type environment on a day to day basis acquiring advanced negotiation skills. The high competence of EU civil servants provides the Union with advantages in negotiations with other actors and their negotiators who do not possess the same skills and experience. The Union may also be seen as relatively adapted to the changing global conditions, including the many levels of cooperation and integration between states that the on-going globalisation produces.

Nevertheless Elgström (2005, p. 87) recognizes that the EU can be a difficult negotiation partner. When he discusses the EU's role within the negotiations of the Cotonou agreement, Elgström points out that the prior internal EU negotiation process leads to a 'take it or leave it' situation for the other part. This understanding is based on Robert Putnam's (1988) description of the EU negotiation process as a 'two level game'. The two distinct phases of internal and external bargaining adds complexity to the position eventually agreed by the Union's members. The common position becomes difficult to unravel in a new negotiating process with a third party (e.g. ACP). The result being that the counterpart facing the EU within an international negotiation has smaller chances of obtaining concessions from the EU than if this internal pre-negotiation process was avoided. Elgström concludes that the Cotonou agreement is a symbol of the total power asymmetry that has emerged between the EU and ACP countries. The normative consensus of the Union has won over the norm-based power of the weak and now leaves little room for concessions given from the EU to ACP countries. 'Good governance', 'WTO compatibility' and 'integration into the world economy' is now thoroughly covered in the text of the Cotonou-agreement and the initial benefits granted to the ACP countries are transformed into reciprocal trade benefits. In summary, one may describe the EU as a powerful, skilled and difficult negotiation counterpart that is successful in the achievements of its goals.

Alternatively, the EU may not always be considered a skilled and powerful actor within international negotiations. Sophie Meunier and Kalypso Nicolaïdis (2006) describe the

European Union as a conflicted trade power. Their argument is based on two aspects. Firstly, the EU is conflicted within, through the bargaining of its member states, who is in turn are influenced by a variety of domestic actors. Secondly, the EU is a conflicted trade power due to the numerous conflicting guiding principles that often stand in contradiction to each other. For example, the EU is emphasising the importance of multilateral trade negotiations whilst concluding bilateral trade agreements with a variety of actors. Another example may be drawn from the EU's commitment to economic development through trade whilst upholding a comprehensive protectionism towards European agriculture. Such inconstancies may damage the leverage possessed by the EU within certain negotiations whilst increasing the possibility counterpart to obtain concessions from the Union.

The claims defended by theories of asymmetrical negotiations are being challenged by new perspectives on the EU either as an unusually skilled negotiation power or as a conflicted trade power. Both perspectives argue, however, that the EU maintains to hold the power asymmetry in their favour and achieves to use this power in its preference. The structural paradox may no longer represent a valid description of the negotiations taking place between the ACP and the EU as held by Elgström. Nevertheless, six out of seven ACP groupings have not reached a full-fledged regional EPA agreement with the EU. Does this mean that the ACP regional entities have increased their leverage in the EPA negotiations after all? Three years after the initial deadline for the end of the negotiation process talks continue without any concrete sign of the ACP countries giving up the important principles in their negotiation mandate.

II. Analysis of structural dimensions

The analysis of structural dimensions were undertaken based on a created dataset with statistics collected from the World Bank statistical database from the topics of agriculture and rural development and economic policy and external debt (World Bank., 2010), DG Trade's country and region fiches from 2007 (Commission, 2009b) and the UNCTAD Handbook of Statistics (UNCTAD, 2008). The dependent variable divides the countries into those which have reached an EPA agreement with those which are still negotiating. The independent variables chosen for the study are: dependence on agriculture in local economy, import from the EU, export to the EU, dependence on foreign aid, foreign direct investment, democratization and three economic factors: debt, inflation and GDP growth. Table 1 indicates correlation for the variables with the likelihood of an EPA agreement.

Table 1 Spearman Correlation for variables

	EPA agreement
Agriculture	-0.3488
Import from EU	-0.5673
Export to EU	-0.2098
Aid	-0.3615
FDI	0.3637
Democratization	-0.4810
Debt	0.2269
Inflation	-0.1626

GDP growth	-0.3081
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Dependency on agriculture in local economy shows a negative correlation of 0.35 per cent with reaching an EPA agreement. Interviews with EU experts confirmed that agriculture remains a very sensitive issue in the EPA negotiations. The process of negotiating the level of liberalization and the length of the transition periods can be time consuming and one of the most difficult things to agree on. Technically, the aspect of negotiating liberalization of tariffs for agricultural goods is straightforward. The tariffs must diminish or be dismantled, without major technical difficulties. Negotiating an agreement on services is on the contrary much more complicated and requires time for technical alignment. However, the issue of liberalization of tariffs on agricultural goods is politically sensitive both for the developing countries in the ACP and for the EU. It is only during the last decade that the EU has reformed its Common Agricultural Policy (CAP) to be less protectionist. On the basis of these observations we expect some causal impact of dependence on agriculture in local economy on likelihood of reaching an EPA agreement.

An EPA agreement implies that the EU would achieve duty-free quota access for their goods exported to the markets of the ACP countries and, therefore, a loss of state revenue to the ACP countries. High levels of import from the EU show high negative correlation with EPA outcome, 0.567 %. Export to the EU shows a low negative correlation with EPA outcome, 0.2 %, however we expect particularities of export to be of importance in the negotiations. Table 2 below lists the main products exported to the EU are listed for selected countries. In the negotiating group there is a sharp contrast between the non-LDC and the LDC countries. Non-LDC countries are mainly dependent on the export of petroleum. The importance petroleum as a commodity can offer these countries increased leverage in their negotiations with the EU which may be a reason for prolonged negotiations. The group of countries that have chosen to enter into an interim agreement have similar profiles with mainly agricultural goods exported to the EU. The exception is Botswana, which is an advanced economy that remains dependent on the export of their specialised goods such as diamonds and meat.

Table 2 Main Products exported to EU

Negotiating	Non LDC	Nigeria	Petroleum	Cocoa	
		Congo Brazzaville	Petroleum	Copper	Woods
		Gabon	Petroleum	Woods	Sheets for veneering
	LDC	Angola	Petroleum	Diamonds	Oils
		Ethiopia	Coffee	Cut Flowers	Raw skin of Sheep
		Senegal	Groundnut oil	Molluscs	Fish
Interim	LDC	Cameroon	Petroleum	Woods	Cocoa
		Tanzania	Fish	Tobacco	Coffee
		Uganda	Coffee	Fish	Cut Flowers
	Non LDC	Botswana	Diamonds	Meat	Nickel
		Kenya	Cut flowers	Leguminous vegetables	Tea
		Côte d'Ivoire	Cocoa	Petroleum	Rubber

Source: (Commission, 2009b)

Data for aid shows negative correlation of 0.36 on EPA outcome whilst FDI shows the same value of positive correlation with EPA outcome. Consensus ruled on the importance of FDI

for the EPA negotiations when consulting EU experts. The Caribbean is the region which shows an overall higher level of FDI than other ACP regions and also the region with the most advanced economic development. According to the interview objects economic development leads to increased understanding of the benefits of free trade and foreign investment. The experts were not surprised by the fact that the Caribbean countries showed a higher mean of FDI than the other regions. Moreover, the experts referred to the fact that regions that are less developed and less open to foreign investment are more likely to be afraid of involvement of external actors.

On the issue of aid it was claimed that high levels of aid over a longer period could increase the ACP regions leverage in its negotiations with the EU. This would be in line with what Zartman and Rubin refers to as the structural paradox. In ACP regions with a high percentage of LDCs the negotiations over aid has been an important part of the negotiation process. Aid is considered to be a stumbling block in the negotiations in the regions of West Africa, Central Africa and Eastern and Southern Africa. The experts held that the negotiations over aid could interfere with the timing of the negotiations – consequently dragging them out, but not with the likelihood of reaching an agreement as aid from the EU is provided through the European Development Fund, and not directly through an EPA.

In order to measure the level of democracy in the ACP countries the classification and data developed by Freedom House was adopted. Countries are divided into a scale of three categories, namely free (value one), partly free (value two) and not free (value three).

Figure 1 Levels of Democracy

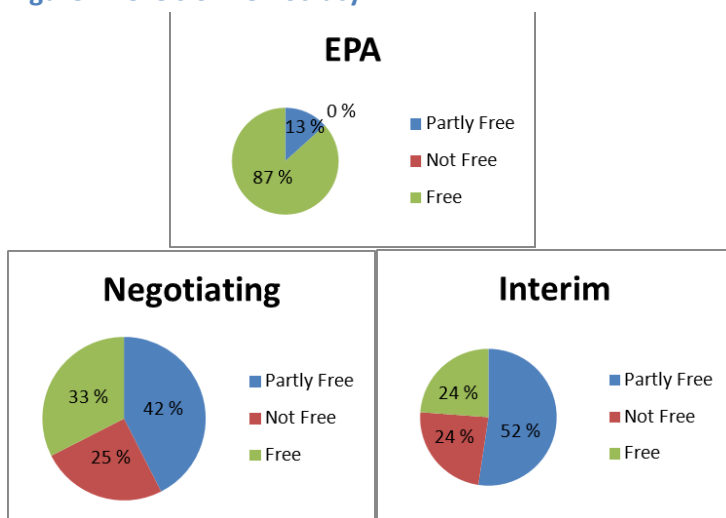


Figure 1 above illustrates the levels of democracy according to the three groupings of EPA, interim agreement and the group of negotiating countries. Within the group of countries that have entered into an EPA agreement we find 87 per cent of free countries and the remaining thirteen per cent is classified as partly free. None of the countries with an EPA maintains the status of not free. The groups of EPA negotiating countries, both those with an interim agreement and those which have returned to GSP or EBA maintain similar patterns. Approximately 75 per cent of the countries of each group have the status of free or partly free,

with partly free being the largest bulk, while the amount of not free countries equals around 25 per cent. A negative correlation of 0.48 is found between democratization and the likelihood of reaching an agreement. High values, representing the not free and partly free countries, are therefore negatively correlated with the likelihood of reaching an EPA agreement. It is however difficult to measure the exact trend of correlation between democracy and the likelihood to enter into an EPA agreement with the EU. Democratization is a complex concept and can only be portrayed in simplistic terms through statistical methods.

GDP growth is negatively correlated with EPA outcome by 0.3 per cent while inflation and debt shows even weaker values of correlation. Stability in economic factors therefore does not seem to be of importance for the likelihood to reach an EPA agreement with the EU, maybe with the exemption of GDP growth. However, when we presented the findings to the trade experts at DG Trade and DG Development, stability in economic factors were considered of importance to the likelihood to reach an agreement by the majority of interview objects. GDP Growth was considered to correlate with willingness to negotiate and achieve a free trade agreement. The experience of the trade negotiators suggest that economic advancement increases the willingness to negotiate because the counterpart has a clearer vision of how an agreement can benefit their country. Also the variable debt was considered to be important. High levels of debt make it difficult for a country to undertake the fiscal reforms that are needed to adapt in order to secure state revenue from other sources than border taxes. The high levels of debt in the Caribbean region are considered to be a challenge in the implementation of the regional EPA agreement.

Causal influence of structural variables

On the basis of the correlations described in table 2 we created four models and ran a logistic regression analysis. The results are presented in table 3 below. Model one, three and four presents statistically significant results with GDP Growth used as control variable. The strongest model, number four, show significant negative causal impact of democratization on EPA outcome and weak negative impact for import on EPA outcome.

Table 3 Logistic regression for structural variables

	(1) EPA	(2) EPA	(3) EPA	(4) EPA
EPA agric	-0.114* (-2.32)			
import	-0.182** (-3.16)		-0.221** (-2.90)	-0.202** (-2.61)
gdp_growth	-0.306 (-1.38)	-0.0790 (-0.59)	-0.406 (-1.65)	-0.461 (-1.62)
aid		-0.134 (-1.72)	-0.379* (-2.13)	
demo		-2.429** (-2.91)		-4.265** (-2.61)
_cons	6.756** (2.95)	3.605* (2.54)	8.458* (2.50)	11.70** (2.90)
N	53	65	53	53
pseudo R-sq	0.599	0.366	0.637	0.691

t statistics in parentheses

* p<0.05, ** p<0.01, *** p<0.001

III. Regional Analysis

We now turn to an in-debt analysis for each negotiating region. The regional analysis will complement and validate the comparative analysis by discussing the five structural dimensions in a regional context and look beyond the structural conditions analysing the main stumbling blocks in each negotiating regions. The facts and analysis presented in this section is based on the expert interviews made with EPA negotiators from DG Trade, DG Development and the ACP Secretariat held under the promise of anonymity. The paper concludes with a short analysis of key areas and policies for a successful outcome of EPA negotiations.

Southern Africa

The EPA negotiations with Southern Africa are heavily influenced by the nature of regional integration in the area. The main regional integration mechanism is the Southern African Development Community (SADC)¹, however only eight out of fourteen members participate in the SADC EPA configuration. These countries are: Angola, Botswana, Lesotho, Mozambique, Namibia, South Africa, Swaziland, Tanzania and South Africa (from 2007) (SADC, 2008). The remaining members of SADC negotiate in other EPA configurations, respectively with ESA and Central Africa. Other regional integration mechanisms exist in the region such as the Southern African Customs Union (SACU) consisting of Botswana, Lesotho, Namibia, South Africa and Swaziland. The existence of a customs union implies certain conditions in the negotiations of a Free Trade Agreement. First, a customs union is a

¹ Members of SADC: Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia & Zimbabwe.

free trade area which applies a common external border for tariffs. Second, the members coordinate their trade policies towards external actors. The existence of SACU is therefore of great importance since an EPA agreement cannot be initialized with one of the SACU members without the participation of SACU as a whole. Trade relations between the EU and South Africa have since 1999 relations have been governed by the Trade and Development Cooperation Agreement (TDCA). Botswana, Lesotho, Swaziland and Mozambique have signed an interim EPA agreement with the EU, which now regulates rules for the export of commodities from these countries to the EU, while imports from Europe remains under the TDCA agreement, which Botswana, Lesotho, Swaziland are de facto members of, through SACU. Namibia and Angola have so far rejected to take part in any of the agreements. Thus, the overlapping nature of the respective integration mechanisms complicates rule-harmonization in the EPA negotiations.

A second factor complicating negotiations in the region is the power asymmetry found in Southern Africa. South Africa is the prime economic engine, and more than 40 per cent of the EU trade volume with sub-Saharan Africa constitutes trade with South Africa. South Africa is an emerging economy on the world market that can be compared to countries like India and Mexico rather than its neighbours on the African continent. South Africa has an established and competitive market for export of agricultural goods and a less developed but highly potential market for production of manufactured goods. The predominance of trade in agricultural goods is not a factor which retains economic development for South Africa. On the contrary, it has shown to be a positive factor for the development for the country. Agriculture, however, plays a bigger role in the in the regional bargaining over an EPA agreement with the EU. The southern African satellite states have not developed markets to the same extent as South Africa. Lesotho relies on the export of some textile products, Swaziland is mainly dependent on the export of sugar, while Namibia has a niche market for premium quality beef. Botswana exports mainly diamonds and beef. The satellite states are therefore inward looking and wish to maintain preferential access for the products they are specialized in. The power asymmetry and negotiations taking place between the southern African countries result in a leading role of South Africa with the dominance of its interests towards external actors. The satellite states struggle to contradict South Africa in major issues because they are heavily dependent on trade with the country. Also on behalf of the EU there exist an intention of differentiation between South Africa and the satellite states. South Africa is not a developing country and the EU does not want to grant the same preferential conditions to South Africa as it does to developing countries or LDCs. South Africa seeks to align itself with the trade preferences that EU gives to South Africa's biggest competitors outside the African continent, such as Chile, India and Brazil. Today Chilean wine enters the European market with lower tariffs than the South African wine. The struggle and bargaining for preferential access does not only take place between South Africa and its neighbours but is part of a bigger game in the world market.

Liberalization of tariffs on agricultural goods was emphasised as a sensitive issue by the most of the interviewees. The dependency of some of the smaller states in the region on export of agricultural goods, such as Lesotho and Swaziland, was pointed out as one of the reasons for

the complicated negotiations on tariffs. The issue of foreign aid, however, show a different pattern in the region of Southern Africa. South Africa is not a beneficiary of the EDF. The aid dimension in the region has therefore never been a determinant factor for the negotiations. On the contrary, the motivation for attracting foreign direct investment is important for the small states in the region. Swaziland, Lesotho and Botswana are keen on the progress of negotiations on investment and services. South Africa, however, wants to keep its monopolistic and predominant position in the region regarding the provision of services and attracting foreign investors. The issue of investment is therefore considered a stumbling block in the negotiations of the regional EPA.

West Africa

The West African EPA group consists of the fifteen states of the Economic Community of West African States (ECOWAS)² and Mauritania. Trade between West Africa and Europe is extensive. The trade flows cover a wide variety of agricultural commodities, especially timber and cocoa. Agriculture constitutes 34.2 per cent, calculated as average, of the local economy in the region of West Africa. Sierra Leone and Togo depend respectively 50.2 per cent and 43.7 per cent on agriculture (World Bank., 2010). Nigeria however, the region's economic leader, exports mainly oil which enters at zero tariffs in the European market. The issue of liberalization of tariffs on agricultural goods is therefore sensitive. Both the threshold and the pace of liberalization create discord between the West African EPA group and the EU contributing to a difficult negotiation process.

Furthermore, the issue of aid is dragging out the length of the negotiations with West Africa. Historically, West Africa has received huge amounts of aid from Europe for many decades through the European Development Fund. Thirteen of the sixteen negotiating states are classified as LDCs and are therefore high net receivers of foreign aid. Liberia for example, depended in 2007 on 124.3 per cent of GNI on foreign aid. The thirteen countries also have the possibility to export duty and quota free to the EU through the EBA. The struggle for aid has shown to be a psychological and cultural barrier in the negotiations. The main argument held by the West African negotiation team is that the fiscal reform that must take place in order to liberalize tariffs on commodities is expensive and there is a need to compensate for that cost in form of increased international aid.

The third element that is creating difficulties in the negotiations with West Africa is the role of Nigeria as the main economic leader in the region. Nigeria constitutes half of the region area wise and 2/3 GDP-wise. Nigeria has the potential to have a market and be a producer of goods that are competitive with in the European market. They are attractive as a potential market of goods; however, most of Nigeria's income comes from revenue on the export of oil. A small sector of producers of manufactured goods is concerned and is lobbying for further trade liberalization through an EPA agreement. They have, however, so far remained unsuccessful. Also, Nigeria's role in the region as the economic driver is to foster integration. They do so in the political field, but economically ECOWAS has not advanced according to the plan of becoming a customs union. Nigeria has a high level of import of products from its

² Benin, Burkina Faso, Cape Verde, Ivory Coast, Togo, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Niger, Nigeria, Senegal, Sierra Leone and Mali. (Ivory Coast is temporarily suspended)

neighbouring countries and have traditionally applied a comparatively protectionist policy. Nigeria has therefore been sceptical to the negotiations of a free trade agreement, and without Nigeria on board the negotiations will not advance. Additionally, Nigeria has during the last years found itself in a political limbo with severe domestic issues to be solved. The country has had civilian rule since 1999 but have been facing political difficulties. Previous Vice-President and now President, Goodluck Jonathan, fired in March 2010 the entire Nigerian cabinet and replaced it with a new one, keeping only 13 of 38 ministers. A happening by many seen as an act of consolidating authority (BBC News., 2010). Jonathan recently won the 2011 elections with more than 57 % of the vote (BBC News., 2011).

Two interim agreements have been concluded with Ivory Coast and Ghana. Ivory Coast signed its individual EPA in 2007 due to the need to maintain market access for goods. A regional agreement would be a better option for the country, but an interim EPA was preferred to the option of moving back to the GSP. The political situation in Ivory Coast deteriorated substantially during the last three months of 2010 over disputed election results, leading the sitting president to refuse to step down. In the aftermath of the political crisis Ivory Coast was expelled from ECOWAS and received sanctions from the EU (Aljazeera, 2010). The other interim agreement was initialled with Ghana in 2007, but is not yet put into force. Ghana therefore finds itself in a limbo with the threat of returning to the GSP if the negotiations of the regional EPA do not advance. As long as there is relevant progress of the negotiations the EU will not impose the GSP upon Ghana.

Regarding economic factors it was pointed out that it is not surprising that Ivory Coast and Ghana has advanced further in the negotiations by concluding an individual agreement, due to the fact that they are middle-income countries. The higher the GDP growth level, the higher the attitude of considering benefits of a Free Trade Agreement, held one of the interview objects. Finally, the dimension of Foreign Direct Investment was considered to be of importance for the negotiation process in West Africa. The interview objects, both from the EC and from The ACP Secretariat emphasised that without further FDI there is no future for West Africa. On a technocratic level it is understood that West Africa must agree on further regulations and reform of investment rules and improve its rule of law. Nevertheless, the issue of liberalization of investment rules is balanced out with other issues that remain politically more important, which again leads to giving less priority to the issue of investment rules. FDI is considered an important issue in the negotiations but not a stumbling block as it is left out of discussion.

Eastern and Southern Africa and the East African Community

When negotiations were launched in Mauritius February 2004 the ESA EPA group consisted of the Eastern and Southern Africa grouping (ESA)³ including the countries of the East African Community (EAC)⁴. In 2007 the EAC decided to break out of the group and continue individual negotiations with the EU. The region of eastern and southern Africa remains unconsolidated, and there are several overlapping levels of integration. Tanzania for example,

³ Comoros, Djibouti, Eritrea, Ethiopia, Malawi, Mauritius, Madagascar, Seychelles, Sudan, Zambia and Zimbabwe.

⁴ Kenya, Uganda, Tanzania, Rwanda and Burundi.

is a member of SADC and EAC, and has consequently chosen to negotiate within the EAC negotiating group. The EAC is a customs union and is therefore forced to negotiate together as they have common market protocols and a common external border for tariffs on goods. They are the only region that negotiates in its entirety as a customs union with the EU. Moreover, many of the countries in the regions are members of the Common Market for Eastern and Southern Africa (COMESA), which is a common market for nineteen member states stretching from Libya to Zimbabwe. The overlapping nature of regional integration is one of the major constraints for the advancement of the ESA and EAC EPA negotiations hold the interviewed experts from the European Commission. Lack of cohesion and clearly drawn lines between the negotiation groups creates an unstable environment for the advancement of the negotiations.

The other main stumbling block for the negotiations in the region is the struggle for development assistance. The countries in the two negotiating groups have over a longer period received high levels of aid from the EU and several of the countries are highly dependent on aid. In Table 4 below aid dependency is described as percentage of GNI for selected countries in the region (World Bank., 2010).

Table 4 Levels of Aid for selected countries in Eastern and Southern Africa

Country	Aid (% of GNI) (2007)
Burundi	47.9
Eritrea	11.3
Ethiopia	12.5
Kenya	4.7
Malawi	20.6
Rwanda	21
Tanzania	17.4
Uganda	14.8
Zambia	10.4
Zimbabwe	11.6

The framework for the Development assistance in the EPA agreement was negotiated for the ESA and the EAC groups together before 2007. The negotiations were based on the 10th EDF for the revised Cotonou agreement and runs for the period 2008 – 2013. There is therefore no possibility for EAC to renegotiate the amount of development assistance in its individual EPA. Additional assistance can only come through special commitment from a EU member state and must be negotiated individually. Since the first EDF that ran from 1959 – 1964 the EU has consequently increased the levels of development assistance to their ACP partners. Increased and continued development assistance to the eastern and southern African countries was pointed out as a major challenge in the on-going negotiations. Aid is seen as a tool for compensation of loss of trade preferences – which is not its aim. Rather than being compensation, development assistance is offered as help to carry out adjustments that are necessary in order to accomplish the rules of the new trade system. Expectance of increased development assistance is considered a major stumbling block in the negotiations as these expectations cannot be met by the EU. Additionally, there are structural challenges in the

connection with the implementation of the development funds. The EAC secretariat, for example, is not qualified for distributing the funds acquired through EDF, only the ESA secretariat can do so. The breaking out of EAC from the ESA group is now creating trouble since the ESA secretariat must remain responsible for the implementation of the development assistance assigned for EAC countries. There is also a lack of capacity to manage funds including analysis of allocation of funds and ability to use the assistant in a fruitful way.

Negotiations on market access for trade of goods are nearly fully agreed with the two regions. The liberalization plan is agreed and implemented in the two interim agreements that are completed with the region: one for EAC as a whole (although not yet signed) and one with Seychelles, Zambia, Zimbabwe, Comoros and Madagascar. Liberalization of tariffs on agricultural goods has played an important role during the negotiations. There is high dependency on Agriculture in the region. There is concrete interest on behalf of the region to include regulations on services and investment. Especially Kenya, Uganda and Rwanda are positive to such negotiations. Tanzania, however, remains reluctant to negotiations beyond liberalization of market and development cooperation. The EU is the biggest donor of aid to Tanzania, but poverty has kept on growing over the last decades. For Tanzania, the real stumbling block in the negotiations is the will to undertake fiscal reforms, move from protectionism and open its market and economy in a sustainable way, holds one of the experts from DG Trade.

Central Africa

The Central African EPA Group consists of the countries of the Monetary and Economic Community of Central Africa (CEMAC)⁵ plus the Democratic Republic of the Congo and São Tome é Principe. CEMAC is a customs union with a Common External Tariff (CET) and a common market. Beyond this economic cooperation, the regional integration remains weak. One of the main objectives of the central African EPA is to enhance regional integration, although so far this is not achieved. Only one country, Cameroon, has chosen to initial an individual interim EPA, depending heavily on the export of agricultural products such as bananas and cocoa to the EU. In 2007, 66 per cent of Cameroon's total exports went to the EU and in turn 45 per cent of products imported originate in the EU(Commission, 2009b). The other non-LDCs in the region, Gabon and Congo, are currently benefitting from the GSP as of first of January 2008.

The issue of market access for goods has been a major issue in the negotiations with Central Africa. Major differences in position for the EU and Central African countries has made talks difficult and time-consuming, and is considered a stumbling block in the negotiations. High dependency on imports from the EU is also considered a structural condition which has influenced the negotiation process by the experts that were interviewed. In 2007 the CEMAC countries in the central African EPA group imported 45 per cent of their total imports from the EU while their percentage of export of goods was 26. Moreover, the state of the negotiations with the central African EPA group has come to a standstill and no joint

⁵ Cameroon, the Central African Republic, Republic of Congo, Gabon, Equatorial Guinea and Chad

meetings have been held since February 2009. This further emphasizes the extent to which these particular EPA negotiations are facing difficulties.

Development cooperation has also been a major issue in the negotiations with the Central African EPA group. Five out of the eight negotiating countries are LDCs, which receive extensive aid from the EU and benefit from duty free access to the EU market through the EBA scheme. The countries are however concerned in the negotiations with the increase of development support and have been able to cause a deadlock in the negotiations since they do not need the EPA agreement for duty-free access for their goods. Discussions on rules of origin are still on-going and further negotiations are needed on the following issues: export taxes, the Most Favoured Nation Clause, safeguard provisions and anti-dumping measures.

Pacific

The Pacific region is quite different from the other ACP regions. The Pacific ACP islands do not really constitute a region except in geographical terms. There is no regional integration between the islands that could facilitate the negotiations of an EPA with the EU. The islands are generally made up of small landmasses with vast Exclusive Economic Zones (EEZ) in the ocean surrounding the islands. Moreover, the economy of the Pacific islands differs substantially from the other ACP regions. Only Papua New Guinea and Fiji exercise significant trade with the EU. The Pacific ACP region (PACP) share of EU trade constitutes only 0.06 per cent and they mainly export palm oil, copper, sugar, coconut and fish to the EU. Papua New Guinea and Fiji concluded an interim EPA agreement with the EU in 2007 to maintain and improve the trade preferences for their main exports. The remaining non-LDC countries now export to the EU under the GSP system (Commission, 2009b).

The process of negotiating a market offer for agricultural goods was fairly easy compared to other regions, held the experts from the European Commission. Negotiations were held mainly with representatives from Fiji and Papua New Guinea as they are the only two countries in the region with substantial trade with the EU. There has, however, been a strong interest for negotiating of a fisheries agreement with the EU which would ensure flexible rules of origin on for fisheries products. The PACP group wishes to obtain rules of origin on fisheries products which are more flexible than established under the overall Cotonou-agreement.

For Fiji and Papua New Guinea, successful fiscal reform has secured state revenue from other taxes than import taxes from products that are liberalized through the interim EPA agreement. The Pacific islands have introduced a luxury tax on products they don't produce internally and in that way solved the tariff revenue problem. On the question of development cooperation the negotiations with the Pacific has also been less difficult, affirms the experts interviewed. Most of the islands are middle-income economies which are not dependent on aid to the same extent as other ACP regions. EPA negotiations have to a further extent been dealing with an agreement on services and investment. PACP countries are seeking Foreign Direct Investment and are working on the development of the tourism sector to boost development.

The most important challenge in the negotiations with the Pacific islands has been for the EU to adapt to the specific needs of the Pacific region. An EPA agreement with the Pacific has

shown the need to have a distinct content and structure from that of the other EPA agreements negotiated. The Pacific islands also depend on previous regional engagements with Australia and New Zealand through the Pacific Agreement on Closer Economic Relations (PACER). This agreement requires all members to consult with Australia and New Zealand before initialling economic negotiations with an actor outside PACER. Australia has opted for equivalent treatment, as would be given to the EU under an EPA agreement. The Pacific ACP countries have therefore been considering if returning to the GSP and EBA schemes would constitute a better option for them. However, this solution would not include regulations on trade in services, investment and rules of origin which they are seeking. These issues were considered by the EC and ACP experts consulted to be the main reason for the dragging out of the negotiations.

Caribbean

EPA negotiations with the Caribbean were launched in April 2004 and concluded in December 2007, just in time before the WTO waiver expired that ended the non-reciprocal trade preferences granted. The level of development in the Caribbean region was highlighted as a main reason for the successful negotiations. There is only one LDC in the region, Haiti, while all other states are middle-income countries. The region as such is therefore ahead in development compared to the other ACP regions. A second element that was stressed was the advantage of the already established CARICOM negotiation machinery. The Caribbean Community had before the start of the negotiations with the EU vast experience in negotiating trade agreements inter alia through its trade deal with Canada. Highly qualified staff and low turnover were factors that helped the process advance. The capacity building taking place during the negotiations with the EU was highly recognized by both parts. The Caribbean received support from the International Monetary Fund in order to carry out fiscal reform inter alia for securing tax revenue from other sources than border taxes and thus evade loss in revenue due to liberalization of trade in goods. Successful reforms contributed to an easier negotiation process on the liberalization of trade.

Additionally, the political will of reaching a deal was present in the region and this factor is considered indispensable by the experts consulted for the successful completion of the negotiations. One expert from the ACP secretariat considered, nevertheless, the political push to conclude negotiations in the Caribbean to be too harsh. Several problematic issues were not handled thoroughly enough and incorporated in the agreement without being sufficiently discussed, held the expert. The consequences of the pressure to conclude negotiations are now visible in the implementation of the agreement. The Caribbean has received vast criticisms over the last years for non-compliance with EPA agreement (Agritrade, 2010; Jessop, 2010; Pascal, 2010).

The dimension of aid and development cooperation was pointed out by the experts consulted as one of the main issues during the negotiations. The EU is by far the largest aid donor to the region. In addition, the region receives the largest amount of aid per capita due to their small populations. The request for further development assistance was strongly present in the Caribbean mandate, but without success. In general, the Caribbean economies rely only to a certain extent on agriculture (11 %), while services and industry make up the vast majority of

the economy. Tourism constitutes a large part of the earnings of the island economies in the Caribbean. Cruise ships, boats and cargo ships are the main articles traded between the Caribbean and the EU, constituting 17.2 per cent of Caribbean exports to the EU and 28.6 per cent of total import from the EU. The region's most exported agricultural good, banana, only ranks seventh of the most exported products and constitutes only 5.3 per cent of total exports to the EU (Commission, 2009b). There is reasonable cohesion in the region but the fact that the Dominican Republic has chosen not to join the CARICOM cooperation breaks with the regional balance. The Dominican Republic has to a certain extent been a complicating factor in the negotiations holds the experts consulted.

Conclusions: Key areas and policies for successful outcome

In the structural and regional analysis we have seen that liberalization of tariffs on agricultural goods and the struggle for increased levels of development aid to compensate for liberalization are two of the main stumbling blocks in the negotiations of new regional EPA agreements. Both parts in the negotiations recognise the importance of increased measures and support to the liberalization of tariffs. As stated by then Trade Commissioner Peter Mandelson: "Growth will only result if the opportunity to trade is combined with the necessary capacities to participate in trade" (Mandelson, February 4, 2005). The European Commission will not provide additional funding under EDF, however member states have committed to increased support through the *Aid for Trade* mechanism. Successful use of Aid for Trade financial facilities depends however on successful strategies for spending: First, effective monitoring mechanisms must be implemented. Monitoring should be initiated for capacity and compliance on ACP national and regional basis. In addition, research-based understanding of outcomes and impacts of Aid for Trade support is necessary, especially as a basis for future decision-making. On the donor side it is important that aid for trade commitments are successfully translated into concrete programming based on assessment of needs in individual countries and regions. On the ACP side it is important to enhance internal understanding of the aim and scope of financial support and create internal demands for future evidence-based decision-making and negotiation strategies. Effective use of Aid for Trade finances constitutes the key to restore balanced understanding of the role of donors and domestic constituencies.

In addition, the EPA agreements are in need of further specialized prioritization for each region and country. The overlapping nature of regional integration, especially in the African ACP countries, is causing an important challenge to the negotiation process. Harmonization of EPA negotiations with the already existing regional initiatives would facilitate negotiations. Fostering regional integration was indeed one of the initial aims of the EPA agreements and it is crucial to the development of the negotiations that EPA regional configurations foster integration instead of complicating such initiatives. Furthermore, it is important to focus on the needs of the small satellite states in regions which are dependent on one big economic driver. This is especially important in the West African region and in the southern African region.

In sum, the challenges of the EPA negotiations are numerous. Each region possesses certain particularities that influences with the negotiation process. The main challenge for the EU is to adapt its negotiation strategy to these particularities.

The negotiations of the EPA agreements currently continue with the same objectives but new deadlines. Trade negotiators have positive expectations for the future negotiations and continue the rounds with seven regional EPA agreements in sight. Some are certainly more plausible than others.

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