

EUROPEAN COMMISSION

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Directorate-General for Development  
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**COMMISSION STAFF PAPER**

**THE TRADE AND DEVELOPMENT ASPECTS OF EPA NEGOTIATIONS**

October 2005

## **INTRODUCTION**

1.1. This Commission Staff Paper is a factual account of the negotiations for Economic Partnership Agreements (EPAs) with the African, Caribbean and Pacific (ACP) countries. It explains how trade and development aspects are being dealt with in the context of these negotiations. It provides a background for further discussion on the links between the negotiations and development objectives and processes.

1.2. In particular, this document responds to a request from the EU Council of Ministers asking the Commission to submit a report on “the state of play of the EPA negotiations outlining both trade and development aspects and identifying areas where development cooperation can further support the EPA process.”

## **2. BACKGROUND**

2.1. In the framework of the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000 (the “Cotonou Agreement”), the ACP States and the European Community (EC) agreed to conclude new WTO-compatible trading arrangements, progressively removing barriers to trade between them and enhancing co-operation in all areas relevant to trade<sup>1</sup>. The driver for this decision was a mutual recognition that existing non reciprocal trade preferences have not promoted the sustainable development or integration into the world economy of ACP countries, as set out in the Cotonou Agreement objectives<sup>2</sup>.

2.2. EPAs are an integral part of the Cotonou approach. The Cotonou Agreement defines EPAs as the main instrument of economic and trade co-operation, closely linked to the political and development finance aspects of the agreement. The objectives and principles of EPAs are set out in detail, with a period up to the end of 2007 provided for negotiating their content and allowing the ACP countries to prepare for their entry into force. However, the new trading arrangements will be progressively implemented over a much longer time frame.

2.3. The existing trade arrangements (Annex V of the Cotonou Agreement “trade regime applicable during the preparatory period referred to in Article 37:1”) are covered by a WTO waiver that is due to expire at the end of 2007. The ACP and the EC agreed that EPAs must be compatible with WTO rules in order to ensure the necessary stability and predictability of the new trading arrangements<sup>3</sup>.

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<sup>1</sup> Article 36 (1) of the Cotonou Agreement

<sup>2</sup> This was extensively discussed in the preparation for the negotiations leading to the Cotonou Agreement, following the publication of the “Green Paper on the EU-ACP relations: a new partnership for the 21st century” adopted by the European Commission on 20th November 1996.

<sup>3</sup> The legal possibility exists of requesting a new waiver. However, waivers are temporary arrangements that require the agreement of other WTO members. Historically, waivers have normally required negotiations and possibly concessions to third parties.

2.4. The Council adopted the EC's negotiating directives for EPAs on the 17 June 2002<sup>4</sup>. The negotiations on Economic Partnership Agreements (EPAs) were then launched in Brussels on 27 September 2002. At the opening session an agreement was reached to sequence the negotiations in two phases. The first phase, at an all-ACP-EC level, addressed issues of interest to all regions. The second phase, at the level of ACP countries and regions, is addressing regionally specific issues and commitments.

2.5. The all ACP level negotiations were concluded at an ACP-EC ministerial meeting of 2nd October 2003 with a joint report<sup>5</sup> that provided a point of reference for negotiations with six regional groupings of ACP states and noted areas of convergence and divergence. There was broad convergence on the overall objectives and structures of the EPA and issues such as WTO compatibility, services and market access. The main divergence was over requests for additional financial resources over and above the European Development Fund (EDF) provisions<sup>6</sup> and the sequencing of support to build capacity for the regional trade arrangements envisaged by an EPA. In line with the provisions in Article 37:3 of the Cotonou Agreement, both sides agreed that EPAs need to be accompanied by appropriate development support measures in order to allow ACP countries and regions to maximise the benefits they should be deriving from EPAs. This is why joint ACP-EC Regional Preparatory Task Forces (RPTFs) have been set up in four of the six regions<sup>7</sup>. Their role is to promote links between development support, economic and trade policy so as to make them both complementary and mutually reinforcing.

2.6. Ministers also agreed to continue discussions at the all-ACP-EC level in three areas. These are "horizontal issues" (i.e. issues affecting the ACP collectively or of interest to all parties), other issues requiring further clarification, and ensuring the transparency and coherence of the overall negotiating process. Two steps were taken to support this decision. An all ACP-EC Technical Monitoring Committee was set up to maintain transparency between the regional negotiating processes and the Joint ACPEC Ministerial Trade Committee (set up by Article 38 of the Cotonou Agreement) was asked to ensure mutual understanding on horizontal issues.

2.7. The next phase of regional negotiations then began with each ACP region and the Commission agreeing a joint "roadmap" for negotiations<sup>8</sup>. The roadmaps set out the regionally specific structures, priorities and phasing of negotiations within a common framework. The roadmaps took forward the issues raised in the 2003 joint

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<sup>4</sup> "Council *doc.N°9930102* of 12 June 2002, ACP 89, WTO 62.

<sup>5</sup> Joint Report on the all-ACP — EC phase of EPA negotiations, Brussels, 2 October 2003 ACP/00/1 18/03 Rev. 1 ,ACP-EC/NG/NP/43

<sup>6</sup> Besides the EC budget lines for developing countries, a specific European Development Fund (BDF) has been set up to provide development financial assistance to the ACP States. The current one is the EDF, running from 2000 to 2007. It provides a total of €15.2 billion, plus the unspent balances from previous EDF (OJ L 317, 15.12.2000, p.355).

<sup>7</sup> In the Eastern and Southern Africa Region (ESA), a coordination instrument was already in place, namely the Interregional Co-ordination Committee (IRCC).

<sup>8</sup> In this document, the shorthand "roadmap" will be used although it is not used by all ACP regions. See regional chapters.

paper, reflecting ACP regional priorities. Formal regional negotiations were launched with West Africa (October 2003), Central Africa (October 2003), Eastern and Southern Africa (February 2004), the Caribbean (April 2004), Southern Africa / SADC<sup>9</sup> (July 2004) and the Pacific (September 2004).

2.8. The first meeting of the all-ACP-EC Technical Monitoring Committee took place on the 25<sup>th</sup> October 2004 in Brussels. The Joint ACP-EC Ministerial Trade Committee held on the 27<sup>th</sup> October then adopted its joint report. This report noted that the roadmaps adopted by each EPA negotiating group reconfirmed the EPA objectives but that the RPTF was essential to make links with the wider development agenda. The Joint ACP-EC Ministerial Trade Committee will meet again on 2 December 2005 and will be preceded by another Joint Technical Monitoring Committee meeting on 30 November 2005.

2.9. So far, regional negotiations have focused on integration objectives and related trade and development policies of each region. As expected, regionally specific discussions have revealed the difference between the issues and priorities for each region, reflecting their very different structures, interests and trade patterns. Progress has varied by region and problems remain with the overlapping regional structures in Eastern and Southern Africa. Nevertheless, while some countries have reviewed the regional grouping they wish to negotiate with, no ACP country has indicated any interest in exploring alternatives to EPAs as provided for in Article 37:6 of the Cotonou Agreement.

2.10. Preparatory studies and programmes to support both the negotiations and existing integration processes are being identified or have already been financed, mostly using EDF finance at the national, regional or all-ACP level. Details by region are provided in chapter 3 below.

2.11. At all-ACP level, direct support is provided by: a €2 million facility to help ACP countries integrate into the global trading system, a €4 million dedicated EPA negotiations support facility<sup>10</sup>, a €50 million programme “Trade.COM” presently setting up a network of regional and national trade advisers for the ACP and, three sectoral programmes (sanitary and phytosanitary standards, fisheries and pesticides).

2.12. In financial terms, the most significant support relevant to EPAs has been provided through the ongoing EDF Regional Indicative Programmes (RIPs). These programmes focus on regional integration and trade, providing more than €30 million<sup>11</sup> of support. As well as direct support for EPA negotiations (see Annex 1), they include major related programmes in infrastructure, private sector development and institutional capacity<sup>12</sup> As the current EDF finishes at the end of 2007, work is

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<sup>9</sup> Southern African Development Community

<sup>10</sup> The initial amounts of respectively 10 and 20 million euro have been subsequently increased to take account of expanding needs.

<sup>11</sup> A mid-term review (MTR) of the RIPs is at present on-going.

<sup>12</sup> More details can also be found on the website:

[http://europa.eu.inilcomm/trade/issues/bilateral/rcgions/acp/trta\\_en.htm](http://europa.eu.inilcomm/trade/issues/bilateral/rcgions/acp/trta_en.htm)

beginning on programming its successor. This programming will take into account the development needs emerging from the EPA negotiating process and the need to avoid disruptions in the flow of development finance.

2.13. Accompanying measures that are necessary for successful implementation of EPAs but not directly part of the negotiations are known as the “EPA process”. However, there is a still wider concept at the heart of both the negotiations and the EPA process. This is the EPA development dimension, which includes the concept of policy coherence. For EPAs to deliver their expected benefits, they should not be limited to basic questions of market access or project financing but also be part of a coherent development policy in each ACP state.

2.14. The creation of larger regional markets and deeper regional integration, as foreseen in the Cotonou Agreement, will attract investors and foster economic growth. In this sense EPAs are part of the overall effort to build up the economic governance framework, the stable, transparent and predictable rules necessary to lower the costs of doing business, attract fresh domestic or foreign investment and make ACP producers more diversified and competitive. Based on the July 2005 Commission communication on the EU’s development policy (the “Brussels consensus”), the second pillar of the EU Africa Strategy<sup>13</sup> (fostering economic growth) supports this with its focus on improved regional integration and allowing the private sector to capitalise on the opportunities created by better governance and interconnectivity.

2.15. In the short to medium term, the process of regional integration and implementation of EPAs will require policy change to maximise their benefits and protect the vulnerable. While implementing the necessary reforms and programmes is the responsibility of the ACP themselves, often linked to underlying economic trends independent of the EPA, they will nevertheless require financial and technical support from the donor community. This will include the EC and its Member States who will take planned ACP adjustments and reforms into account in their programming. However, public funds alone cannot pay all restructuring costs necessary to increase trade. Private investment is essential to enhance competitiveness. It will come if ACP countries also look at legal and procedural reforms to become more attractive for private investors.

2.16. The Commission maintains regular exchanges of views and information with civil society both in the EU and in ACP countries. In addition to ad hoc meetings and the civil society dialogue organised by the Commission’s Directorate-General for Trade (DG TRADE), two series of EPA seminars have been held in Brussels with ACP public and private-sector representatives as well as other non-state actors. The Commission also held several meetings with ACP civil society in the ACP regions. Although divergences of views clearly persist, such initiatives are expected to provide essential information and permit a more informed, non-ideological debate to

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<sup>13</sup> COM (2005) 489 of 12 October 2005. Strategies for the Caribbean and the Pacific are planned for the first semester 2006.

take place. Many non-state actors (NSAs), such as representatives from EU and ACP private sectors, have concretely contributed to the EPA process by highlighting how EPAs can help addressing the needs of investors and business. Others have generally highlighted the need for enhancing transparency of public activities for growth and investment as is foreseen in EPAs. In a number of cases, NSAs have taken a very critical stance towards EPA without however considering more nuanced arguments or offering alternatives how to improve the situation of the ACP.

2.17. The Commission-funded Sustainability Impact Assessment (SIA) of the EPAs, launched in September 2002, has also formed part of discussions with non-state actors both in the ACP and the EU. The SIA is continuing to provide analytical background and recommendations on opportunities and challenges of the EPAs. Overall the SIA confirms the expected opportunities and challenges of the EPAs in the economic, social and environmental areas and concludes that there are more positive impacts of concluding an EPA than of not doing so.

2.18. The Commission has also taken steps to ensure that account be taken of the particular interests of the EC's outermost regions<sup>14</sup> in the EPA negotiations. In its communication of May 2004<sup>15</sup> the Commission has invited the regions and their Member States to notify it of the specific interests of the outermost regions in trade in goods, trade in services and trade-related areas, having regard to economic complementarities between these regions and the ACP countries. The Commission will assess these notifications in the exercise of its powers, and has started a regular dialogue with the outermost regions and their Member States. Similarly, the Commission is providing regular updates on the EPA negotiations to representatives of Overseas Countries and Territories (OCTs) associated with the EC<sup>16</sup>.

### **3. OVERVIEW OF REGIONAL EPA NEGOTIATING GROUPS AND PROGRESS**

#### **3.1. Central Africa Region**

##### *3.1.1. Overview of the region*

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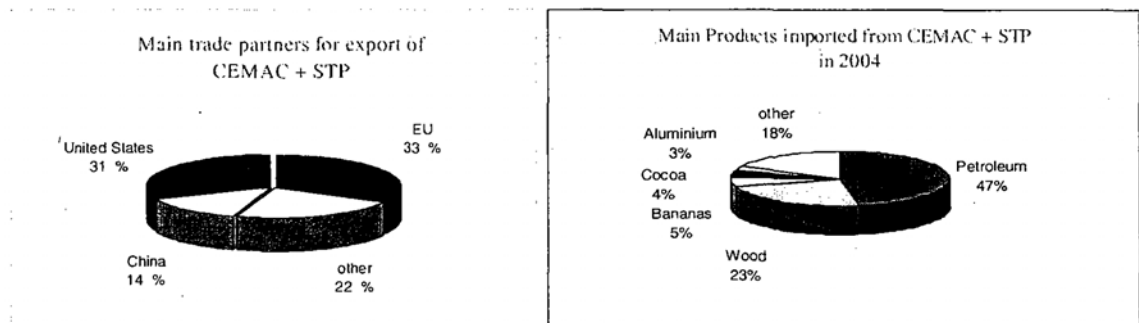
<sup>14</sup> The Canary Islands, French Guiana, Guadeloupe, Martinique, Réunion Island, Azores and Madeira.

<sup>15</sup> Communication of the Commission. A stronger partnership for the outermost regions. COM (2004) 343 final, 26.05.2004

<sup>16</sup> The OCTs are subject to the specific association with the EC provided by Part Four of the EC Treaty. Contrary to the EC's outermost regions, the OCTs are not part of the EC customs territory.

EPA negotiations with Central Africa were formally launched on October 4th, 2003 in Brazzaville. Central Africa consists of the Communauté Economique et Monétaire de l'Afrique Centrale CEMAC (Cameroon, Republic of Central Africa, Chad, Republic of Congo, Equatorial Guinea, Gabon) and Sao Tomé e Príncipe (STP).

Europe is a key trade and investment partner for the Central Africa region as a whole, and individually for most of the countries. In terms of export profile, the region requires considerable diversification if it is to build a sustainable and reliable economic base, capable of delivering greater pro-poor growth. Over dependence on oil and wood based products is particularly notable.



In terms of regional integration, Central Africa already has a long standing experience. With the exception of Sao Tomé e Príncipe, all the countries are members of CEMAC sharing a common currency and form a customs union. In strictly legal terms, community provisions are in place in a wide variety of areas — customs being the most important of these, but also including competition policy, intellectual property rights, and investment.

In practice, however, implementation has proven to be a challenge in all of these sectors. In the area of customs, for example, major issues have arisen with regard to rules of origin and transit arrangements; nor is the common external tariff implemented in a uniform fashion. Similar implementation issues emerge in other policy areas. These points, together with the wider infrastructural challenges faced by the region (lowest road density in Africa) go a long way to explaining the lack of intra-regional trade (estimated at only 5% of total CEMAC trade, as opposed to about 10% in neighbouring West Africa). The areas where technical assistance and other forms of support are required either to assist the negotiations, or to assist in achieving the policy measures identified by technical negotiators.

It is expected that the Joint Ministerial Committee will review negotiating arrangements, in order to agree an effective structure and calendar for the coming phase of bi-regional negotiations. These are expected to commence in January 2006 with a discussion on the structure of the future agreement and key concepts for each chapter. A second group also seems likely to be established to consider the impact of the EPA on productive sectors in Central Africa. The results of this working group could then be fed into both market access discussions, and the work of the Regional Preparatory Task Force.

### *3.1.3. Development Cooperation*

The preparation and implementation of the Central African EPA is currently being supported by the Regional Indicative Programme, and in particular by its two focal sectors “Regional economic integration and trade support” (€16.0 million) and “Transport and Telecommunications” (€12.5 million).

The first focal sector is covered by the ongoing “Support Programme for Regional Integration in Central Africa” (PAIRAC). This programme is implemented by the executive Secretariat of CEMAC and comprises five major activities: support to EPA negotiations, macroeconomic convergence / multilateral monitoring, customs union, common market and strengthening of the regional institutional capacities.

The “Transport Facilitation Programme” (€2.5 million), which is in its decision phase, includes activities in the areas of technical assistance, establishment of a study fund, interconnection of customs administrations through the ASYCUDA system, and finally the construction and equipment of juxtaposed border posts.

As regards telecommunications, a study has been launched within the framework of a regional programme for the development of new information and communication technologies in Central Africa.

Other actions, financed by the individual National Indicative Programmes, will contribute significantly to the facilitation of trade within the region and the effectiveness of the Central African EPA. In this context, road projects have been financed for an overall EC contribution of €300 million.

The Regional Preparation Task Force (RPTF) has already met on a number of occasions, and is now entering into a more operational phase as recommendations issued by the Committee of Negotiators are put before it. The principal conclusions concern the recommendation to finance about twenty preparatory studies in the region. These studies are currently in progress or in preparation and the RPTF is currently analysing additional recommendations made by the technical negotiating groups. Current programmes financed by the all-ACP funds, Regional and National Indicative Programmes already include some support to address the main recommendations. A major challenge for the RPTF will be the identification of financial sources for activities related to the negotiations, in particular the most urgent measures.

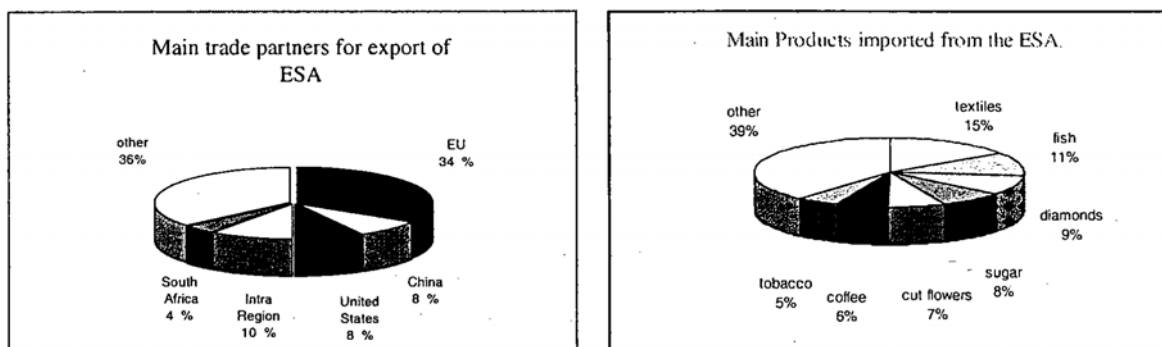
Until now, the Central African interlocutors have argued that EPA-related support is the only decisive factor for the success of the EPA. The Commission agrees that adjustment support measures are necessary. It considers, however, that the effective strengthening of regional integration, good governance, ownership of the EPA at national level and reforms ‘improving the investment climate are key elements of the development dimension of the EPA.

## 3.2. Eastern and Southern Africa (ESA) Region

### 3.2.1. Overview of the region

Negotiations on the ESA-EC EPA began formally on 7 February 2004 in Mauritius with the adoption of the official roadmap for the talks. The ESA side consists of Burundi, Comoros, Djibouti, DR Congo, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Uganda, Zambia and Zimbabwe.

Europe is the most important trade and investment partner for the ESA region as a whole as well as for nearly all the countries in the region. The EC is ESA's largest trading partner. The value of total trade flows between this group and the EC is about €10 billion per year. Exports to the EC are dominated by a few products such as fish (both marine and freshwater), textiles, diamonds, vegetables, sugar, cut-flowers and tobacco. In 2004 ESA exports represent €5,1 billion, while ESA imports are 4,8 billion. Agriculture still represents more than half of total ESA exports. Overall, ESA exports remain largely confined to agricultural and primary goods.



ESA is confronted with at least three overlapping economic integration schemes with different political and economic priorities. The main regional integration arrangements with a trade policy agenda are the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Southern African Development Community (SADC). COMESA has a Free Trade Area with 11 members and is working towards a customs union in 2008. EAC has launched its Customs Union in January 2005. SADC has planned a Free Trade Area in 2008 and a Customs Union in 2010. The Indian Ocean Commission (IOC) and the Intergovernmental Authority on Development (IGAD) are other important regional organisations, but are sub-groups of the larger COMESA integration scheme and follow COMESA's overall regional integration agenda.

All 16 ESA members which negotiate an EPA belong to COMESA. COMESA is the geographically widest regional organisation in Africa, with 20 members stretching from Egypt to Swaziland and including the 4 Indian Ocean ACP States. COMESA's

main areas of intervention include: standards, customs management and procedures, SPS, private sector development, investment policies, competition policy, public procurement, movement of persons, tax harmonisation, monetary harmonisation, trade (transport) facilitation, air traffic liberalisation and telecoms. COMESA's functional policies cover agriculture and food security, infrastructure, transport, energy, fisheries and conflict prevention.

COMESA has a Court of Justice which establishes COMESA as a rules-based organisation, with rules which can be enforced through a court of law. In' addition there are a number of specialised COMESA institutions such as the PTA<sup>17</sup> Bank and the PTA re-insurance company, the leather and leather products institute and a few others. Integration within COMESA is proceeding at different speeds but all COMESA members have agreed to the December 2008 date for the customs union. Intra-COMESA trade increased in 2004 by 10% to reach €4.8 billion, which shows the potential to expand trade links between the countries of the region. COMESA is also working on the introduction of harmonised rules in areas such as transport, investment and competition.

The main challenge for the EPA negotiations is the overlapping membership of various regional integration organisations with diverging integration agendas. But challenges are there, independent of EPAs. They are basically caused by the impossibility for any given country to be a member of two customs unions at the same time. Tanzania, Kenya and Uganda form the EAC Customs Union. Tanzania is a member of SADC, but not of COMESA, while Kenya and Uganda are members of COMESA, but not of SADC. Malawi, Mauritius, Zambia and Zimbabwe are in the SADC Free Trade Protocol with South Africa and also in the COMESA Free Trade Area. Both SADC and COMESA aspire to become a Customs Union. However, the EPA can only work if there is a strong regional integration impetus behind it. Otherwise the main objective of the EPA will not be met and the economic impact of EPA would be limited. There is therefore a need for countries in the ESA region to clarify the economic integration agenda and informal and formal talks in the EPA context are following this line.

### *3.2.2. State of Play of EPA negotiations*

Since the launch of talks in February 2004, the ESA region has advanced in organising its negotiating structures. The ESA internal negotiation structure consists of two levels, Ministerial and Ambassadorial. Negotiations are prepared by the Regional Negotiating Forum which assembles trade experts from ESA member states and regional organisations and meets every 3-4 months.

The first ambassadorial/senior-level and technical talks took place in July and October 2004. In May 2005 a joint senior-level brainstorming meeting in Nairobi provided a platform for open dialogue notably on regional issues, market access,

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<sup>17</sup> PTA stands for Preferential Trade Area — the predecessor organisation of COMESA.

trade-related areas and development co-operation aspects, such as the establishment of an adjustment facility. Since then the internal ESA preparations have accelerated. Joint ESA-EC technical and senior level talks on market access, agriculture, fisheries and development took place in September and October 2005. A ministerial level meeting to take stock and provide guidance for the negotiations will take place at the beginning of 2006. In terms of substance talks will focus on:

- Steps which need to be taken to integrate the region;
- Agriculture, marine fisheries;
- The improvement of existing market access to the EC, ESA demanding duty- and quota free access under an EPA. This also includes discussions on rules of origin; Sanitary and Phyto-Sanitary measures and technical regulations and standards;
- Gradual market opening towards the EC including the establishment of a sensitive list of imports and the introduction of a special safeguard clause; this is linked to the establishment of an ESA Common External Tariff as the baseline for discussions;
- Trade in services;
- Trade-related issues such as investment, competition, government procurement and trade facilitation.

### *3.2.3. Development Cooperation*

Regional integration in the ESA region is being supported through the regional support programme of the EDF (total of €302 million). The area of *Economic Integration and Trade* is at the heart of the Regional Strategy Paper and Indicative Programme, and various programmes are under implementation or are being planned.

A Trade Negotiation Facility has successfully supported the region in their preparation for the EPA negotiations with the establishment of the Roadmap, the set up of a negotiation structure and by organising preparatory meetings. Other key programmes in the area of economic integration and trade are the ongoing RISP (Regional Integration Support Programme - €30 million) and the planned RIBS (Regional Integration Budget Support programme - €80 million). These programmes are crucial for the economic integration process and for the preparation for the EPA negotiations.

The Regional Integration Support Programme, which started in July 2005, contributes directly to the regional integration process. It supports both the policy agenda of COMESA and EAC, thus stimulating the harmonisation of their integration agenda. The programme aims at developing the capacity of the integration organisations and their member States in policy formulation, implementation and monitoring of multilateral and regional trade and trade-related areas. It will also assist the countries in the region in their preparation for the EPA negotiations; Implementation of COMESA and EAC Customs Union Roadmaps; Consolidation and expansion of the COMESA Free Trade Area; Development of regional standards and capacities of standards bureaus in member States; Improved

and harmonised statistical data; Harmonisation of implementation of the Regional Payments and Settlement System.

The RIBS programme will support countries in their reform process to move towards regional integration. It will allow ESA countries to continue with the process of economic liberalisation and reform to do so, and not to be unduly constrained as a result of budgetary restrictions. The programme is therefore at the heart of the integration process and replies to the need for deeper engagement of the member countries in regional integration. It will facilitate the reforms that countries have to undergo in order to move towards the consolidation and establishment of a Free Trade Area and/or Customs Union. It will also contribute directly to the South-South integration, one of the priority areas of the ESA EPA negotiations. In order to improve the impact of this initiative, covering a region of 18 countries, it is proposed to increase the allocation for economic integration from €50 million to €80 million to reinforce its impact. A financing decision on the RIBS is expected during the first half of 2006.

Apart from the above economic integration support programmes, support is being provided to the transport and communication sector, in order to help eliminate supply-side constraints. These programmes contribute to stimulating trade by facilitating transport and communication in the region. Programmes include infrastructure projects: various roads and a railway, linking different countries as part of regionally significant corridors for a total of €8.3 million, an Information and Communications Technologies programme (€1 million) to contribute to an effective and efficient ICT environment within the regions, and development of a coherent strategy for transport and investment (the Regional Transport & Communications Strategy and Priority Investment Plan). All infrastructure programmes work in close cooperation with the NEPAD programme and, where relevant, with programmes of other regional organisations like SADC.

The provisional conclusions of the current Mid-Term Review have confirmed this regional strategy and EPA support will be further enhanced.

In the ESA region, the link between EPA negotiations and development cooperation is ensured by the Interregional Co-ordination Committee (WCC). However the IRCC focuses primarily on regional programmes financed by the EC. Future challenges within the EPA process include the need to strengthen capacities at national and regional level, allowing the region to better meet its integration and development objectives.

### **3.3. Southern Africa Development Community (SADC) Group**

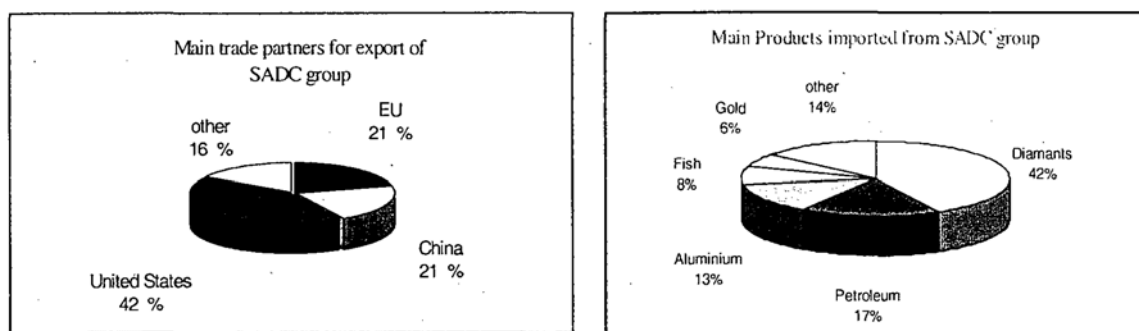
#### *3.3.1. Overview of the region*

Negotiations on the SADC-EC EPA began formally on 8 July 2004 in Windhoek, Namibia. The 7 countries (called SADC ‘Group’) which have decided to negotiate an EPA with the European Union under the SADC configuration are Angola, Botswana, Lesotho, Mozambique, Namibia, Swaziland and Tanzania. South Africa participates in an observatory and supportive capacity. The other 6 SADC Member States — DR Congo, Madagascar, Malawi, Mauritius, Zambia and Zimbabwe are negotiating as COMESA members in the Eastern and Southern African (ESA) configuration.

SADC is confronted with overlapping regional integration initiatives and its member states are also involved in a web of bilateral trade arrangements. Their members are party to four regional preferential trading arrangements namely the Southern African Customs Union (SACU), the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Indian Ocean Commission (IOC) which aligns itself to the COMESA agenda. Except for Mozambique (which is considering joining SACU), all of the SADC Member States belong to at least one other arrangement.

While SADC has planned to establish a Free Trade Area in 2008 and a Customs Union in 2010 (and subsequently a Common Market by 2015) only 7 of its members decided to negotiate an EPA as a SADC Group. COMESA has a Free Trade Area with 11 members (some of whom are also members of SADC) and is working towards a Customs Union in 2008. South Africa is a member of SACU along with 4 (Botswana, Lesotho, Namibia and Swaziland) of the 7 SADC EPA Member States.

The EC is the SADC Group’s largest trading partner. In 2004, the value of total EC imports was about €4.5 billion. EC imports are dominated by a few products, such as diamonds (mostly Botswana), petroleum (Angola), fish and beef (Namibia), sugar (Swaziland) and tobacco. In 2004, total EC exports represented €2.8 billion. Overall, SADC exports are diversified but remain confined to agricultural and primary goods.



SADC countries are currently in the process of reviewing the implementation of their Trade Protocol which came into force in 2000. Through this Protocol, it is envisaged that 85% of all goods will be traded at zero duty when the FTA comes into being in 2008. The remaining 15% consists of sensitive products, which will be liberalized by 2012. SADC is also working on the introduction of harmonised rules in areas such as customs, TBT, SPS, trade defence, and rules of origin.

As is the case for the ESA EPA, the main challenge for the SADC EPA negotiations is the overlapping membership of the various regional integration organisations with divergent integration agendas. Tanzania is a member of SADC, but not of COMESA. Tanzania is also a member of the EAC Customs Union with Kenya and Uganda who are members of COMESA, but not of SADC. Malawi, Mauritius, Zambia and Zimbabwe are in the SADC Free Trade Protocol with South Africa and also in the COMESA Free Trade Area. Both COMESA (by 2008) and SADC (by 2010) aspire to establish Customs Unions.

The EC supports SADC's integration policy as the EPA can only deliver if there is a strong regional integration impetus behind it. While the establishment of a full-fledged Customs Union is not a formal requirement for concluding an EPA, moving towards a common customs territory and progressively harmonising services and rules in the SADC region are key elements for making the EPA work. SADC Group should become the nucleus of that integration process. Like for the ESA region, there is therefore a need for countries in the SADC region to clarify the economic integration agenda.

Developments on the configuration issue cannot be expected until the next SADC Trade Council of Ministers meeting scheduled for February 2006.

Both a regional organisation such as SACU and the Trade, Development and Cooperation Agreement signed by the European Community and the Republic of South Africa (TDCA - currently under review) are rules-based agreements and potential building blocks for the new generation of arrangements to be developed by the EPA. In this context, greater economic integration and institutional coherence within SACU would reflect positively on the institutional stability of SADC Group and on the overall economic stability of SADC. Therefore clarifying the relationship between SACU and the long-term objectives of a more deeply integrated SADC Group would constitute an important element for determining both the regional integration agenda in southern African and our bi-regional negotiations.

### *3.3.2. State of play of EPA negotiations*

Since the launch of talks in July 2004, the SADC group has advanced in organising its negotiating structures. The SADC internal negotiation structure consists of two levels, Ministerial and Senior (Ambassadorial) officials level. Botswana acts as Chief Negotiator at both Ministerial and Senior Official level. Negotiations are prepared by the technical negotiating group which assembles trade experts from SADC member states and the EPA Unit of the SADC Secretariat and meets regularly (every 2-3 months).

At the Windhoek meeting on 8 July 2004, a joint roadmap was adopted which outlines the objectives and principles, the structure and the sequencing of the negotiations and provides for the establishment of a Regional Preparatory Task Force (RPTF) aiming at interlinking EPA trade negotiations and development strategies.

The first round of senior-level and technical talks took place in December 2004 and March 2005 respectively. In April 2005, a senior-level meeting in Gaborone provided a platform for open dialogue notably on the regional dimension, market access, trade related areas and the development aspects (including supply-side and social issues). Both sides also agreed to finalise a Joint Factual Report regarding the state of play of regional integration. Initial discussions have started on issues such as SPS and TBT and negotiations on market access, rules of origin, and customs facilitation talks will be launched before the end of 2005.

Since then the internal SADC preparations have accelerated. A seminar on trade rules was organised in May 2005 in Brussels and a seminar on inter-linkages with the TDCA Review was organised in June 2005 in Johannesburg. Joint SADC-EC technical and senior level talks on the above issues have taken place in September and October 2005. A ministerial level meeting to take stock and provide guidance for the negotiations will take place either by the end of 2005 or more probably in January 2006.

By the end of 2006, negotiations should have covered all issues relevant for the EPA and an outline EPA should be agreed on. This would leave 2007 for finalising the talks, revisiting areas of disagreement and reaching compromises.

In terms of substance talks focus on:

- Steps which need to be taken to integrate the region (notably through SACU consolidation and TDCA Review);
- The improvement of existing market access to the EC, SADC demanding duty- and quota free access under an EPA; this also includes discussions on rules of origin; Sanitary and Phyto-Sanitary measures and technical regulations and standards;
- Gradual market opening towards the EC including the establishment of a sensitive list of imports and the introduction of a special safeguard clause; main issue is the establishment of a SADC-Group Common External Tariff as the baseline for discussions;
- Trade in services;
- Trade-related issues such as investment, competition, government procurement and trade facilitation.

### *3.3.3. Development Cooperation*

The SADC Trade Protocol, signed in 1996 and amended in 2000, provides the foundation for trade liberalisation within the SADC region. Economic Integration and Trade was selected in the Regional Strategy Paper as the first focal sector under the 9(1) EDF Regional Indicative Programme, signed in Maputo in November, 2002. By the end of 2005, agreements will have been signed in respect of five programmes for an amount of €42.75 million while a further two programmes for a total of €23.5 million will be processed in the first half of 2006. These programmes cover activities in the areas of:

- Capacity building for multilateral negotiations -support to SADC Regional Integration and its Participation in the Multilateral Trading System, the Technical cooperation Facility and the Facility to support the SADC-EC EPA negotiations;
- Technical barriers to trade - support to SADC Member States in Standards, Quality Assurance, Accreditation and Metrology (SQAM) and Capacity Building on Maximum Residue Levels of Pesticides and Veterinary Drugs;
- Trade facilitation - Customs Modernisation Programme;
- Investment environment —Support for the SADC Finance and Investment Protocol.

A second area of concentration concerns the supply side response and programmes covering three priority regional road axes — Lubango (Angola) to Santa Clara (border with Namibia); Mocuba (Mozambique) to Milange (border with Malawi); and the Walvis Bay Corridor in Namibia — are scheduled for approval during 2006.

The first meeting of the Regional Preparatory Task Force (Gaborone, April 2005) identified a number of short term priority topics in the areas of SPS and TBT. A more in depth analysis of these needs is on the agenda of the second meeting scheduled for early December 2005.

The provisional conclusions of the ongoing Mid Term Review (MTR) of the 9 EDF Regional Indicative Programme, which is due for completion by the end of 2005, confirm the region's agenda on economic integration and the opportunity and priority of the Community's support.

### **3.4. West Africa Region**

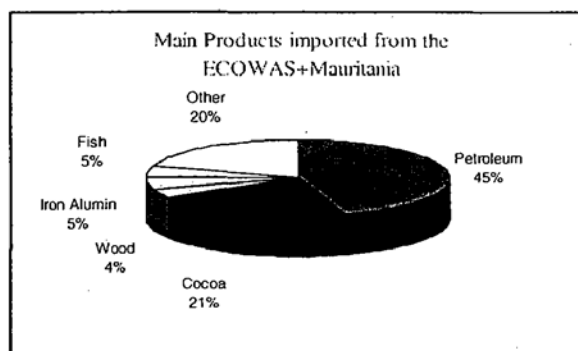
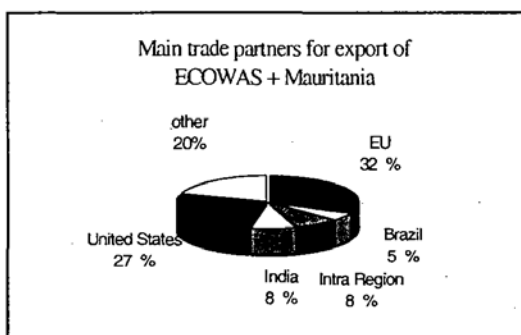
#### *3.4.1. Overview of the region*

EPA negotiations with West Africa were formally opened on 6 October 2003 in Cotonou. The West Africa regional configuration consists of ECOWAS (Economic Community Of West African States) and Mauritania. ECO WAS numbers 15 countries — Benin, Burkina Faso, Ivory Coast, Guinea Bissau, Mali, Niger, Senegal, Togo, Cape Verde, Gambia, Ghana, Guinea, Liberia, Nigeria, Sierra Leone — the first 8 being members of WAEMU (West Africa Economic Monetary Union).

With a population of 260 million inhabitants and a GNP of around 80 billion \$, the West Africa region is one of the poorest in the world. Only 3 countries are not classified as LDCs (Nigeria, Ghana, and Ivory Coast). It presents particularly alarming indicators of poverty: GNP per capita of around 300 \$/year, and basic social indicators below the Sub-Saharan African average. It groups together countries that are economically and politically very diverse. Their economies are centred on commodities, and are characterised by only a small degree of complementarity and diversification. Nigeria, which represents half of the population and over 60% of GDP - and to a lesser extent the Ivory Coast — are the region's

major economic forces. The political situations vary from instability verging on civil war to consolidated, functional democracies.

There is limited diversity in the West African economy, with the main economic activities being in the primary sectors: petroleum, minerals, agriculture, fisheries. Intraregional trade remains weak, around €3 billion, 14% of imports in the region, of which 60% consists of petrol. The EC continues to be the region's main trading partner, with nearly 40% of trade (total bilateral trade between the EC and the region is around €25 billion annually over recent years). Exports from the region to the EC were about €10.5 billion in 2004, with the main exported products being minerals (of which fuel 43%, iron 3% aluminium 2% and gold 1%), agricultural produce (of which cocoa 19%, fresh fruit 3%), fishery products (5%), and forest products (timber 2%, rubber 2%). In 2004 the EC exported €12.1 billion to the region, principally capital goods. Among the different ACP regions, it is with West Africa that trade is the most important, representing more than 40% of all ACP-EC trade.



ECOWAS and UEMOA have developed political and economic agendas promoting growth in the region by enhancing the integration of their economies in the world economy. Since 1999, ECOWAS has been pursuing an ambitious agenda based on the creation of a customs union, a common market and a monetary union. In this regard, an important administrative, legal and financial reform is ongoing, with a view to creating a fully-fledged Customs Union in 2007. The ECOWAS treaty also provides for liberalisation of trade in services, free movement of capital and people, and for rules in areas such as competition and investment. Considerable achievements have been made in the areas of politics and conflict resolution and in certain sectors such as the movement of people.

WAEMU has made significant progress since its creation in 1994, in particular in adopting a customs union (which will form the basis of the ECOWAS Common External Tariff to be implemented by 2007) and a common trade policy. Progress has been made in creating a common market which is worth strengthening, including common provisions on competition, investments, and anti-dumping. These common WAEMU policies are now being examined in the context of the EPA negotiations in order to build a common economic area covering the whole West African region. It has nevertheless to be noted that there is still work to be done in the transposition of decisions into local legislation by WAEMU Member States.

Both institutions point to the need for long-term convergence of the two integration processes and they are working together in order to coordinate and harmonise their strategies both. in terms of sector policies and actual economic integration dossiers.

#### *3.4.2. State of Play of EPA negotiations*

The decision to negotiate an EPA was taken in 2001 and West Africa was the first region, along with Central Africa, to start the negotiations in October 2003. The Executive Secretariat of ECOWAS, in collaboration with the WAEMU Commission, is conducting the negotiations within the framework of a regional committee which represents the Member States, the private sector and civil society organisations.

After a long consultative period a road map which sets Out the priorities, the structures and the negotiation calendar was adopted in August 2004, finally starting the negotiations.

The major objective of the first stage, which dealt with regional integration in WA, was mainly achieved for the areas directly regarding the exchange of goods: free trade area, customs union, trade facilitation, technical standards and quality control, Sanitary and Phytosanitary Standards. The other negotiation areas — intellectual property rights, competition policy, trade in services and investment framework, to which other trade related subjects may be added — were the subject of discussions that will have to be continued. As for work on the sectors of production, it was decided that they will continue during the entire process of EPA negotiations and implementation.

Both parties have thus had extensive discussions on their respective regional integration processes, particularly in the areas of interregional exchanges, common customs tariff, customs matters and technical standards and SPS. There have also been discussions on trade in services and, to a lesser extent, on intellectual property rights. Work on competition and investment policies, foreseen in the road map, will go ahead but West Africa region is still developing its position and regional policy on these issues and discussions have not started. The two parties have also agreed, in accordance with the road map, that the work on West African regional integration should lead to the establishment of an EPA reference framework covering the entirety of the negotiation issues.

The ministerial meeting in Brussels on 27 October 2005 ended with agreement to begin work on the next phase of negotiations in January 2006, adopting a timetable ending with a ministerial meeting at the end of 2006 to endorse the text. of the agreement and launch negotiations of liberalisation. Remaining technical work on services, intellectual property, competition and investment will continue in parallel. The main work of 2006 will be to negotiate the text of the agreement, to prepare the phasing of the liberalisation process in trade in goods, to define the rhythm and priority sectors for liberalisation in trade in services, examine the possible impact of the EPA on the productive sectors and to accelerate present work on the link between the negotiations and development support. There will be 5 negotiating groups, (i)

trade in goods and standards, (ii) trade in services, investment and trade related areas. (iii) legal and institutional issues, (iv) preparation for market access opening — which will also consider transitional issues, and (v) productive sectors. The RPTF will continue to take forward work on links to development assistance.

### *3.4.3. Development Cooperation*

The Regional Indicative Programme is the main instrument to support the negotiation of the EPA in the West Africa Region, covering the 15 member states of ECOWAS and Mauritania. Two regional organisations have been mandated by the member states in the region as regional authorising officers of the 9th EDF RIP: ECOWAS and WAEMU.

The envelope of the 9th EDF RIP is €249,7 million (€235 million from the original envelope plus 14,7 from transfers from previous EDFs) and is focused on the following sectors. The first two are focal sectors which converge with EPA and regional integration priorities, allowing financing needs linked with EPA negotiations and implementation:

Economic integration and trade support (€18 million): its objectives are the consolidation of the ECOWAS and WAEMU customs unions, the elimination of barriers to the free movement of goods, services and capital and the creation of a common market in the region; the reinforcement of economic stability and of the institutional framework of ECOWAS and WAEMU; reinforced participation of the citizens in the integration process; support to the private sector and the preparation of multilateral negotiations in the framework of EPAs and the WTO. In this framework two projects have already been decided in 2005: the “RIP follow-up mechanism” (€6 million) and “Support to regional integration and EPA negotiations” (€7 million). The main programme “Economic Integration and Trade” (€105 million) will be presented for approval to the EDF Committee of November 2005.

Transport Facilitation (€2 million): the objectives are: elimination of non tariff barriers, facilitation of customs transit procedures, improvement of the maintenance of priority regional infrastructures and harmonisation of technical and safety regulations, as well as actions regarding air safety and the realisation of infrastructure works. In this sector, four projects have already been approved: ASECNA (air safety) of €4.2 million, technical assistance to ECOWAS (€2 million), a contribution of technical assistance for the Senegal-Gambia road (€2 million) and the main project in this sector, which is the Transport Facilitation project (€3.8 million — EDF Committee October 2005).

Non-focal sectors (€35 million plus €14,7 million from transfers from previous EDFs): the projects already approved include: support to conflict prevention (€5.5 million), support to health (€15 million); support to Food Security (€2 million), Technical Cooperation Facility (€2 million); and contributions of €3 million for technical assistance to the Senegal-Gambia road, of €4 million to the Sao Vicente

bridge of, of €4 million to the ECOPAS project (environment) , and of €1,5 million to the PROCORDEL project (livestock research).

The Mid Term Review (MTR) of the 9th EDF Regional Indicative Programme confirmed the region's agenda on economic integration and the advisability and priorities of the EC's support. The MTR also confirmed the suitability of the strategy to EPA needs and priorities.

As far as preparation at country level is concerned, EPA negotiations are unequally taken in to consideration in the National Indicative Programmes. In some countries, EPAs, regional integration and trade are mainstreamed within other programmes. In other countries (like Nigeria and Senegal) there are specific trade and integration related projects.

The Road Map for the negotiations in West Africa foresees the creation of a Regional Preparatory Task Force (RPTF) in order to establish a link between the EPA negotiations and development finance cooperation, in particular of the Cotonou Agreement, and to facilitate the implementation of accompanying measures to the EPA process as identified by negotiators.

Since its creation on 16 June 2005 the West Africa RPTF has met twice at "plenary" and three times at "secretariat" level. The decision of the Ministerial Committee to create the RPTF Secretariat, a light and operational structure, has accelerated the implementation of the recommendations of the negotiators, thereby reducing some of the delays that affected the early stages of the RPTF's work.

The RPTF has examined the recommendations for support measures formulated by the negotiators and it is facilitating its implementation within the RIP and other financial instruments.

In this respect, the RPTF has supported the start of studies concerning the evaluation of customs procedures and regulations, the development of an ECOWAS Customs Code, the modernisation and simplification of customs procedures, the impact of the EPA, accreditation, standardisation, certification and SPS structures and systems, services and lastly improvement of competitiveness. The recommendations of the negotiators have been integrated as strategic axes in the EDF RIP, in particular regarding support for transit facilitation in the region, for trade monitoring and for the creation or reinforcement of a legal framework and services for inspection and standards and SPS accreditation in West Africa.

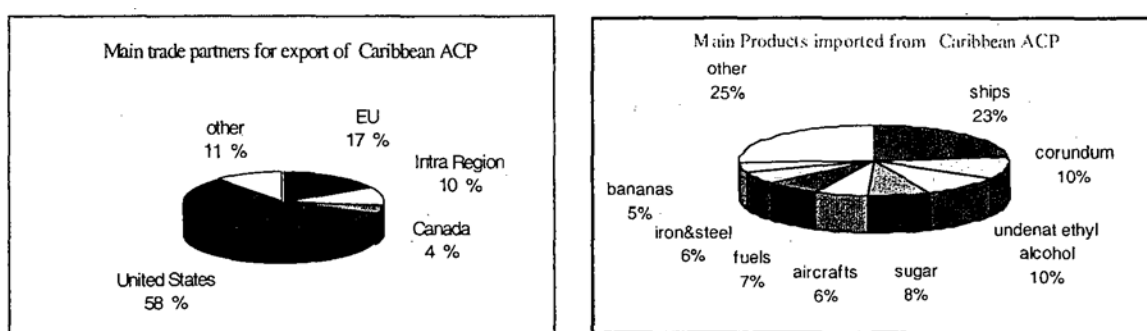
The Ministerial meeting in Brussels on the 27 October recommended that the RPTF begin discussions with other donors, including the World Bank, who would be able and willing to contribute to activities supporting the EPA process.

### **3.5. Caribbean Region**

### 3.5.1. Overview of the region

For the purposes of the EPA negotiations, the Caribbean Forum of ACP States (CARIFORUM)<sup>18</sup> represents the regional configuration of the following countries — Antigua and Barbuda, The Bahamas, Barbados, Belize, Commonwealth of Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago. Cuba has not signed the Cotonou Agreement and is not a part of the negotiations. The British overseas territory of Montserrat is a member of the Caribbean Community (CARICOM) but is not independent and is not part of the negotiations.

In 2004 the EC remained the region's second trading partner, accounting for some 18% of trade. ACP Caribbean exports to the EC stand at €3.1 billion, but the region's share of the EC market is generally stagnant. Encouraged by preferential free access to the EC market, aluminium oxide, rum, sugar and bananas (as well as oil) have traditionally been the mainstay of Caribbean exports to Europe. ACP Caribbean imports from the EC are €3.9 billion.



Regional integration is a central plank of the Caribbean development strategy with the aim of enhancing regional efficiency, competitiveness and solidarity. The CARIFORUM EPA configuration is made up of the Dominican Republic and the 14 independent countries of the Caribbean Community (CARICOM). The Dominican Republic and CARICOM have begun to put into practice a free trade agreement, signed in 1998, which partly liberalises trade in goods and envisages further liberalisation and cooperation in services, investment, government procurement, intellectual property rights, rules of origin, sanitary and phyto-sanitary measures, technical barriers to trade, unfair and uncompetitive business practices and customs cooperation. There is no strict timetable for this further liberalisation and cooperation, but joint meetings have been stepped up also as a way to prepare for EPA negotiations.

<sup>18</sup> In this document, the term CARIFORUM refers solely to the 15 Caribbean ACP countries that are all involved in EPA negotiations with the EC. It does *not* refer to the structure set up to manage and coordinate the policy dialogue with the EC, to manage EDF regional support in the context of its Regional Integration and Development Strategy (RIDS) and to promote the widening of regional integration and cooperation, in particular with the Caribbean OCTs and French outermost regions.

For its part, CARICOM is forging a regional integrated area, the CARICOM Single Market and Economy (CSME), and creating regional bodies such as the Caribbean Court of Justice,<sup>19</sup> the CARICOM Regional Organisation for Standards and Quality (CROSQ) and the Caribbean Agricultural Health and Food Safety Agency (CAFHSA). CARICOM has a common external tariff; however, free circulation between CARICOM countries exists as a treaty objective but not yet in practice and, for a significant minority of tariff lines, CARICOM allows different rates between countries. CARICOM maintains a December 2005 schedule for the full liberalization of the CSME services regime including the right of establishment for eligible CARICOM service suppliers, the free movement of capital and an increased number of categories of skilled labour that can move freely within CARICOM. CARICOM is also preparing harmonised customs legislation, common trade defence mechanisms, a regional SPS and TBT regime, a CARICOM Agreement on Investment, further rules on intellectual property, competition law and a Competition Commission, as well as a Protocol on Government Procurement. In several of these areas, CARICOM-Dominican Republic cooperation under their FTA should benefit from progress to be made within CARICOM.

A sub-group within CARICOM, the Organisation of Eastern Caribbean States, has set up a single currency and central bank. The six islands involved are part of the CSME but can benefit from differentiated arrangements both within CARICOM and under the CARICOM-Dominican Republic FTA.

The main challenge for the EPA negotiations is to achieve a simple, single trade regime conducive to enhanced trade, investment, growth and development while taking account of the differences between the CARIFORUM countries, with varying levels of development and different degrees of integration. This regime will have to build on and reinforce regional integration processes that are still ongoing, and an optimal sequencing of regional and EPA integration will have to be jointly defined.

### *3.5.2. State of Play of EPA negotiations*

Caribbean EPA negotiations were opened and a joint Plan and Schedule for the EPA negotiations adopted on 16 April 2004 in Kingston, Jamaica. Negotiations are conducted at ministerial, senior-official and technical level, with a genuinely regional structure coordinating and presenting many CARIFORUM negotiating positions at senior-official and technical level (the Caribbean Regional Negotiating Machinery).

Negotiations started with an initial period aimed at establishing the priorities of EPA negotiations for both sides, and at preparing a second phase aimed at convergence on the priorities for support of regional integration within CARIFORUM. To this end,

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<sup>19</sup> The Caribbean Court of Justice was inaugurated in April 2005 and is expected to play a central role in the CARICOM Single Market.

Caribbean and EC Principal Negotiators (high officials) met on 15 July and on 12 November 2004, when phase II was successfully launched. In addition to Principal Negotiators' meetings in May and September 2005, four technical sessions were convened in December 2004, March, April and May 2005 on Regional Market Access (twice), Services and Investment, and Trade-Related Issues. Through an exchange of information, Phase II enabled a better understanding of the CARIFORUM and EC regional economic areas. A second objective was also substantially achieved. Both sides discussed a number of trade and investment measures where deeper bi-regional arrangements can enhance regional integration processes within CARIFORUM. In addition, Phase II negotiations identified eleven priority needs of regional integration processes within CARIFORUM. These requests are under consideration by the RPTF.

During the regional-integration phase, talks covered tariffs and non tariff measures, customs and trade facilitation issues, SPS, TBT, services and investment regimes, intellectual property, competition policy and government procurement. In doing so, this phase has provided a solid platform for the advance of negotiations into Phase III, aimed at defining the content of an EPA. While the EPA remains to be negotiated in Phase III, the Caribbean side have made it clear that they expect to obtain increased, effective access to the EC market.

Thus the regional-integration phase was concluded at ministerial level in St Lucia on 30 September 2005 and Phase III launched. Both sides reaffirmed that development would be the centre of an EPA and agreed that the pursuit of development represents a multidimensional undertaking that seeks to harness the benefits accruing from trade and integration, but also requires accompanying adjustment measures and institutional capacity building.

Phase III will define the structure and scope of an EPA and determine the approach to trade liberalisation, with a view to promoting sustainable development within the CARIFORUM region. Negotiations in this phase will be conducted in four Negotiating Groups: (i) Market Access for Agricultural and Non-Agricultural Goods; (ii) Services and Investment, (iii) Trade Related Issues, and (iv) Legal and Institutional Issues. Subgroups can be established by the Negotiating Groups, for instance on SPS and TBT measures. There will be no a priori exclusion of issues from the EPA negotiation process. The specific scope and treatment of issues on which commitments will be negotiated will be established during Phase III.

### *3.5.3. Development Cooperation*

The focal sector of the 9th EDF RIP (€57 million) is the intensification of regional integration, with commitments made in the areas of Regional Economic Integration, Integration into the World Economy and Economic Repositioning of the region. Practically all focal area activities are directly or indirectly trade and EPAs-related. They include, among other things, support to the private sector and trade development, the Regional Negotiating Machinery (RNM), the

CARICOM/CARIFORUM Secretariats, statistics development and the information society, and the Caribbean Court of Justice.

The provisional conclusions of the current Mid Term Review (MTR) process confirm the region's agenda on economic integration and the advisability and priorities of the EC's support. The MTR also confirms the suitability of the strategy to EPA needs and priorities. A number of operational problems of 9th EDF projects are currently being addressed in the context of the MTR in order to accelerate implementation and to improve the ownership of the programme. Most remaining regional activities are to be combined into a single programme, to be implemented by CARICOM, which reflects the mandate and the medium term strategy of the organisation. Modalities to allow financing of actions in the Dominican Republic will have to be designed.

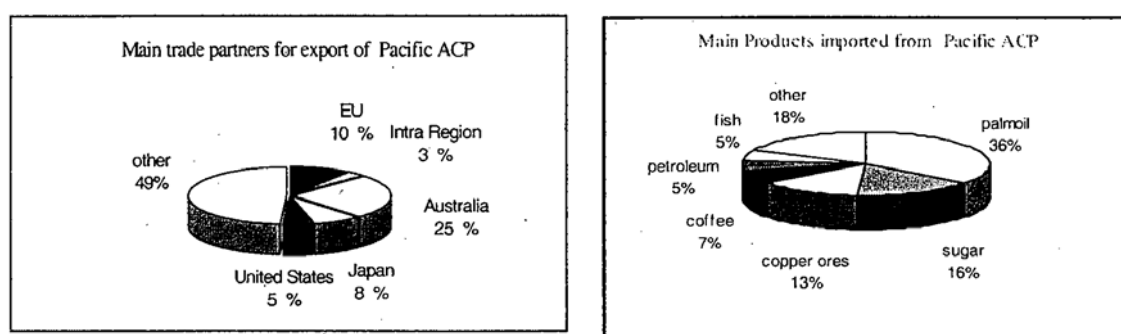
To cement the strategic link between EPA negotiations and ongoing and planned development co-operation a Regional Preparatory Task Force (RPTF) has been created. The RPTF has met three times since its launching in November 2004. It has already produced two inventories: (a) Studies related to trade and integration, and (b) Trade/integration-related assistance. At the request of Principal Negotiators, it is currently assessing eleven areas identified as important to the negotiations and implementation of the EPA. These areas include (1) Technical Barriers to Trade (2) Sanitary and Phyto-Sanitary Standards (3) Trade facilitation/Risk analysis, (4) Caribbean Association of Investment Promotion Agencies (CAIPA), (5) Investment statistics, (6) Harmonization and rationalization of incentives focused on services and including tourism and agriculture, (7) Structural reform and financial services, (8) Corporate and indirect taxation, (9) Competition policy, (10) Intellectual property rights, (11) Government (public) procurement. Those areas are of importance not only for the conduct of the negotiations but also from a developmental standpoint, as operations in these areas would contribute to an environment conducive to business and enhance the capacity of the region to export goods and services.

The willingness of the countries and the region to foster the establishment of clear, predictable and sustainable rules, to undertake the structural adjustment reforms that are needed to adapt their economies to the global economy and the commitment to take the necessary actions to reduce transaction costs will also be crucial to create an investment friendly environment. The implementation of the CARICOM Single Market and Economy and the capacity to integrate the Dominican Republic will determine to a large extent the benefit the region can derive from an EPA.

### **3.6. Pacific Region**

#### *3.6.1. Overview of the region*

The Pacific ACP<sup>20</sup> comprises of a group of 14 small and extremely small economies with generally tiny landmasses (with the exception of Papua New Guinea) but vast exclusive economic zones (EEZ). There are five LDC<sup>21</sup>, three WTO members<sup>22</sup>, and three WTO observers<sup>23</sup>. Two Member States of the EC have special relations with four Overseas Countries and Territories in the region: New Caledonia, French Polynesia and Wallis and Futuna (France) and Pitcairn (UK). The newly independent East Timor is about to become a member to the Cotonou Agreement and hence may soon join the Pacific ACP group. Tokelau, currently a self-administering territory of New Zealand and preparing steps to obtain independence, may also join the ACP group at some stage in the future. Considerable distances among the islands render trade and regional integration more difficult than in other ACP regions. Nevertheless there is a well developed structure of regional organisations coordinated by the Pacific Forum Secretariat based in Fiji.



Trade between the Pacific and the EC is relatively small and erratic. Unprocessed agricultural products in particular palm oil and sugar dominate Pacific exports to the EC. Machinery, ships and boats are important items in the EC export structure. There has always been a trade surplus for the Pacific in its exchanges with the EC. Australia and New Zealand are major trading partners for the region particularly as regards Pacific ACP imports. The EC is a relatively small trading partner for the Pacific ACP absorbing around 10 % of their exports and providing an estimated 5% of their imports.

All 14 Pacific members which negotiate an EPA belong to a free trade zone being progressively created under the “Pacific Island Countries Trade Agreement” (PICTA). Together with Australia and New Zealand, the 14 Pacific ACP have also signed up to an Umbrella Agreement, the “Pacific Agreement on Closer Economic Relations” (PACER) for future trade and economic cooperation. Finally a subgroup of four larger Melanesian Pacific counties<sup>24</sup> have formed a separate free trade agreement among themselves, i.e. the “Melanesian Spearhead Group” (MSG).

<sup>20</sup> 14 countries: Cook Islands, Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu.

<sup>21</sup> Vanuatu, Tuvalu, Samoa, Solomon Islands and Kiribati.

<sup>22</sup> Papua New Guinea, Solomon Islands and Fiji.

<sup>23</sup> Samoa, Tonga and Vanuatu.

<sup>24</sup> Papua New Guinea, Solomon Islands, Vanuatu and Fiji.

The overarching issue facing the Pacific ACP is globalisation. In this regard, the PICTA Agreement, aimed at fostering regional free trade and integration, is of particular importance for the Pacific ACP. PICTA is considered a stepping stone to wider liberalisation in adjusting to globalisation and facilitating integration into the global economy. It could also provide a framework for negotiating further trading arrangements with developed countries or regions such as the EC.

### *3.6.2. State of play of EPA negotiations*

Negotiations on the Pacific-EC EPA began formally on 10 September 2004 in Fiji. A roadmap for the negotiations was adopted on that occasion and a Pacific Regional Negotiation Team (RNT) appointed which is led by the Fiji Minister of Foreign Affairs and External Trade as the overall lead spokesperson for the region.

Negotiations or discussions are held at three levels, ministerial, senior and technical, and are supported on the Pacific side by the Forum Secretariat and a group of experts. In order to prepare its positions and create the needed ownership the Pacific has conducted several studies on issues of interest to the region and held three series of consultations with relevant stakeholders throughout the region.

The first technical talks took place in March 2005 in Papua New Guinea. In July 2005, senior-level negotiations were held in Fiji. In terms of substance, discussions have focused on:

- Status of integration in the region;
- Investment;
- Fisheries;
- Trade in services; and
- The possible architecture of an EPA with the Pacific.

The Pacific have also shown interest in obtaining full free access to the EC market for all its members, but this request has not yet been discussed.

One further technical meeting is planned to be held in 2005. A ministerial level meeting to take stock and provide guidance for the negotiations will take place at the end of 2005 or in early 2006.

An important priority will be to accelerate negotiations so as to beat the deadline of end of 2006 while at the same time ensuring ownership throughout the region.

There is also a need for the region to consider in parallel necessary adjustment and integration measures as well as policy reforms as part of the process to ensure an adequate environment for the EPA to work for the benefit of private sector growth and development in the Pacific region.

It also remains to be seen to which extent all 14 Pacific ACP states will be equally interested in comprehensive negotiations covering all issues. Several of the smallest states have little or no trade in goods with the EC but, may be interested more

specifically in provisions covering trade in services and investment. On the other hand, a core group of larger Pacific countries including the members of the Melanesian Spearhead Group (MSG) remains interested in a large cross section of issues including trade in goods and may wish to push ahead with a comprehensive negotiation agenda.

Discussing with Australia and New Zealand within the context of the EPA process is also important as the commencement of EPA negotiations on bilateral Pacific-EC market access may trigger the start of discussions with Australia and New Zealand on a free trade agreement in accordance with article five of the Pacific Agreement on Closer Economic Relations. Moreover, the countries covered by the Compact Agreement with the USA<sup>25</sup> will need to pursue their discussions with this partner in order to gain formal permission to enter into an EPA.

### *3.6.3. Development Cooperation*

EDF trade-related assistance to the Pacific region started with the 8th EDF RIP *Economic Partnership Programme* (€0.75 million) and has been built up with substantial support from the all-ACP facilities (Facility to support EPA negotiations; Facility to support ACP countries in WTO negotiations; Trade.com) as well as the €0.2 million 9<sup>th</sup> EDF RIP Pacific Regional Economic Integration Programme (PACREIP). The PACREIP aims at facilitating implementation of PICTA, improving the negotiation capacity of the Pacific ACP region in the context of new trade arrangements, their capacity to manage the process of regional economic integration in the areas of private sector development; trade facilitation; financial sector and fiscal reform. Environmental Impact Assessment is also developed and the capacity of the region to meet WTO standards, and to promote and facilitate environmentally and socially sustainable tourism development plans (including small and medium enterprise-based tourism).

Apart from the above economic integration support programme, support is being provided to the fisheries sector, in order to help deal with supply-side constraints. The fisheries programme consists of two separate projects: DEVFISH (€3 million) aimed at promoting the development of domestic tuna fishery and PROCFISH (€12,5 million) programme which contributes to long term sustainable management of fisheries resources of the Western & Central Pacific Ocean and coastal fisheries development.

Trade is also enhanced through another programme, Plant Protection (€4.7 million), aiming at reducing the threat posed by plant pests that reduce yields and quality of agricultural products remains. Current objectives are based on the needs of the region in recent years, which have changed in particular with respect to global demands on quarantine and plant protection.

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<sup>25</sup> Palau, Federated States of Micronesia and Republic of Marshall Islands

The Mid-term Review of the **9th** EDF Regional Indicative Programme is ongoing and the process should be completed before the end of 2005.

Unlike most other regions, the Pacific has yet to start meetings of a Regional Preparatory Task Force. However, terms of reference have been drawn up, discussed and provisionally agreed. No time has been lost due to this as there are as yet no recommendations from the negotiators for an RPTF to discuss.

It is clear from recent correspondence from the Pacific that the region itself anticipates additional funding linked to the signing of an EPA.

## **4. OVERALL ASSESSMENT**

### **4.1. Current Debate**

The processes of integration within the region and into the world trading system are essential to stop the ongoing marginalisation of the ACP and lay the foundations for economic growth and poverty reduction. These processes necessarily require a range of policy reforms and investments as well as “safety net” programmes to protect the vulnerable. Implementing these is the responsibility of the ACP, who, like other countries - but with more limited means - have to adapt their economies and policy responses to a changing world.

The EPA is one part of this overall ongoing process of integration designed to help them do this, with the active support of the EU. It also provides an opportunity to properly assess and deal with the transitional costs of adaptation and policy reform, whether directly related to the EPA or not, in order to derive the maximum benefit from trade reform.

While the benefits of reforms are expected to outweigh short term costs, transitional costs must be taken into account. These include e.g. losses in tariff revenue as well as the infrastructure and private investments needed to help promote competitiveness. They will not be easy to quantify as they depend on a range of assumptions, a changing baseline and wider economic policy choices. Nevertheless, as the EPA negotiations proceed it will become possible to estimate with increasing accuracy costs and benefits and the implications for development assistance flows.

The EC negotiators maintain that there are a range of transitional issues, including both costs and benefits as well as the influence of multilateral processes and wider development trends and that all these need to be considered together. It is difficult, if not impossible, to isolate additional costs from variables that affect *tariff* revenue and its measurement. The Cotonou Agreement itself is also clear that financial cooperation is regulated by other aspects of the agreement than EPA provisions. These aspects cover all areas of cooperation, including social sectors. Under these, many transitional issues are already being addressed as part of regional and national

level programmes, such as infrastructure, private sector development and assistance in meeting health and quality standards. There are also significant budget support programmes providing resource transfers several orders of magnitude larger than tariff revenues in a number of ACP countries.

The programming process of the financial mechanism that will be in place after the 9<sup>th</sup> EDF will offer further opportunities to address regional integration and EPA related issues. This process will be underway by early 2006. In this context, support to regional integration and its development dimension would naturally be considered carefully. For example, ensuring synergies between national and regional programming is particularly relevant. The Commission and ACP have already started to move towards building EPA related issues into programming during the 2005/6 mid term reviews of national and regional programmes. The Regional Preparatory Task Forces have the specific mandate to link EPA related issues to development needs and will provide key inputs to the next programming exercise. In this context, it should be recalled that EDF programming is jointly decided between the EC and the ACP side in accordance with ACP development needs and priorities. The ACP also bear responsibility for their internal co-ordination as regional integration, trade and EPAs are not always reflected in national development strategies or prioritised by ACP national authorising officers for support.

Another aspect that requires further consideration concerns co-ordination of donors and pooling resources. This is a key aspect of the new EU development policy statement “the European consensus” and the EU Strategy for Africa and EPAs offer a concrete case for enhancing complementarity.

#### **4.2. Joint EPA Monitoring**

**A co-ordinated** system monitors the coherence of the regional negotiations, ensuring harmonisation where necessary, and the link between the trade and development aid aspects of the EPA process. Certain elements of the system are laid down in the Cotonou Agreement while others are of an administrative nature. These various elements of the system are described below.

A Joint ACP-EC Ministerial Trade Committee (JMTC) has been set up by Article 38 of the Cotonou Agreement. It follows the EPA process in all 6 regions and ensures the exchange of information at central all ACP—EC level. It is assisted by a Joint Technical Monitoring Committee (JTMC).

EPA related matters may also be dealt with as necessary within the other institutions of the Cotonou Agreement. notably the Joint Council of Ministers, Parliamentary Assembly, Committee of Ambassadors and its sub-committees (e.g. on customs cooperation, trade or finance).

A Joint Monitoring Mechanism with the African Union was set up in 2004 in order to improve the flow of information, discuss key questions and ensure coherence of EPA process in Africa with the establishment of a pan-African market. Its objective

is to ensure that regional integration promoted by the EPA process is coherent with Africa's continental integration goals. The Mechanism foresees two levels of consultations, at ministerial and senior officials level. Senior officials' meetings have taken place in September 2004 and July 2005

Another network ensures that the financial resources available for EPA support are used as efficiently as possible preventing or rapidly clearing any bottlenecks in support both for negotiations and preparations for implementation. This network takes a number of forms but has three main elements. These are:

- The mid-term and annual reviews of regional and national indicative programmes (as provided for in Annex IV to the Cotonou Agreement).
- An ad hoc dedicated monitoring group comprising the Commission's Directorates General for Development and Trade as well as Europe Aid, which monitor ongoing implementation.
- The Regional Preparatory Task Forces (RPTFs) that ensure the link at regional level between the EPA negotiations and development support.

Since March 2005, the annual and mid term reviews have included specific coverage of progress towards preparations for EPAs and support for regional economic integration. Still ongoing, this review process is being carried out jointly with the ACP regional organisations and the ACP States, in cooperation with ACP non state actors and the Member States (represented locally and in the European Development Fund Committee). In this context, additional monitoring meetings will be organised as necessary. The aim is to ensure adequate resources throughout the current EDF period as well as prepare the next programming cycle.

To ensure consistency between the EDF financing discussions and specific, urgent technical problems raised by the negotiations, the RPTFs ensure the link at regional level between the EPA negotiations and development support. The representation of ACP countries and regional organisations in the RPTFs helps ensure ownership by the beneficiaries. RPTFs have been set up for five of the six negotiating groups; Eastern and Southern Africa felt their needs to be adequately covered by other existing arrangements at this stage.

## **5. CONCLUDING REMARKS**

Two years into the regional EPA phase, substantial negotiations are underway with six ACP regions and all ACP countries. In line with their respective "road maps", these talks are laying the basis for concluding the agreements by 2007, on time for entering into force on 1 January 2008.

This is feasible, but a lot of work remains to be done and 2006 will be a crucial year. By the end of 2006, the outline of the EPAs should have been agreed. In the second half of 2006, the Commission will contribute to the comprehensive review of the arrangements planned, in accordance with Article 37:4 of the Cotonou Agreement.

Concrete elements of the development dimension of the EPA process will be progressively taking shape, aimed at improving economic governance, the business environment and ACP competitiveness. This includes both trade and aid measures. It entails EPA provisions contributing to strengthened regional integration and effective market access, and the accompanying and supporting development process aimed at improving institutional and supply capacities.

Negotiations so far have predominantly focused on ACP regional integration that is a core objective of EPA. This is to ensure that EPAs will build on and strengthen ACP integration efforts. Helping ACP regions to create a single economic area for attracting trade and investment is a major challenge. The negotiations have already inspired ACP regions to rethink their internal arrangements and configuration, and the Commission stands ready to continue assisting the regions in this.

EPAs are part of the overall effort to build up the economic governance framework, the stable, transparent and predictable rules necessary to lower the costs of doing business, attract fresh domestic or foreign investment and make ACP producers more diversified and competitive. This is why the EPAs must be comprehensive, dealing with all the rules and issues that concern private investors and traders. ACP regional integration initiatives already recognise this point. As a result, issues such as competition policy and investment rules are no luxury but fundamental factors that affect the decisions of traders and investors.

In the next phase of negotiations, market access will also be a major issue and ACP regions have already indicated that they have high expectations in terms of future access to the EC market. As for the opening of ACP markets, the EC has consistently argued that market building, rather than market opening, is its priority and that it is ready to provide all necessary flexibility, in line with the Cotonou Agreement.

Capacity constraints remain a challenge. Negotiating a development-oriented EPA is a new experience and ACP regions have to adapt to this scenario. EPA negotiations go well beyond the traditional focus on ACP market access to include the elements of a regulatory framework conducive to private sector development. The technical and institutional capacity of regional and national institutions and non-state actors, along with political commitment at all levels, are essential ingredients for successful EPAs and the Commission is giving all possible attention to reinforcing them.

Article 18 of the Cotonou Agreement is clear that development cooperation strategies and trade cooperation are interlinked and complementary. There are at least three levels to development cooperation relating to EPAs: technical assistance for the EPA negotiations, current capacity-building and support to regional integration, and future development support.

Financial and technical assistance to the negotiations has been provided for key studies, including impact assessments, and crucial regional meetings. The focus of needs and therefore support is expected now to shift from short-term technical assistance linked to negotiations to medium-term capacity-building and development support.

In terms of current support, regional integration and EPAs are already at the centre of the current regional programmes under the 9th European Development Fund, and the Commission is working hard to ensure the appropriate articulation between development programmes and negotiations. For the future development support, it is foreseen that the basis for the programming of the financial instrument following the 9th EDF and the coordination with non-EC donors will have substantially advanced by end 2006. As the 9th EDF expires end 2007, work is in progress on the programming of the successor financial instrument with a view to taking into account as much as possible the development needs emerging from the negotiating process and, in due course, the final agreements, so as to avoid the risk of disruption in aid support. Clearly the final outcome of programming will be determined by the joint work to be carried out with the ACP authorities, as stated in the Cotonou Agreement.

The EPA process offer a major opportunity for coordinating technical and financial resources first of all between EU Member States and the Commission, as outlined the new EU development policy statement (“The European Consensus”) and the EU Strategy for Africa, both currently under discussion in Council and European Parliament. Certain Member States and other donors have already expressed their interest in such collaboration. The possibility of organising contact meetings between the RPTF and donors is being examined. In West Africa this approach has been accepted and the Commission is currently discussing with ACP partners the practical implementing details. It can be expanded to other regions if partners so agree.

The question of trade related assistance to ACP countries is also a major topic in the preparation for the WTO Hong Kong Summit in December. In this context, in order to give maximum visibility to the global EC and Member States aid for trade initiatives, Member States are invited to complement the present report with descriptions of their own on-going or future support activities relevant to the EPA process in order to facilitate coordination and coherence.

Non State Actors (NSA) have also taken an active interest in EPAs. The EC maintains an intense dialogue with all NSA groupings at all levels, political and technical. Member States have also been closely involved in this process. Their continued contribution in explaining and advocating the EPA concept is essential. Continuing and enhancing the cooperation between Member States and the Commission in this area is important to ensure that all stakeholders understand the concerns and objectives.

Development is squarely at the centre of the EPA process. EPA negotiations are on course to realise their development potential, but they can only do so with the full

commitment of the Commission, ACP partners, EU Member States and civil society alike.

## 6. LIST OF ABBREVIATIONS

ACP	African, Caribbean and Pacific
Council	EU Council of Ministers
EC	European Community
EDF	European Development Fund
EPA	Economic Partnership Agreement
EU	European Union
MTR	Mid Term Review
OCTs	Overseas Countries and Territories (associated with the EC)
RIP	Regional Indicative Programme (under the EDF)
RPTF	Regional Preparatory Task Force
SPS	Sanitary and Phytosanitary Standards
TBT	Technical Barriers to Trade
WTO	World Trade Organisation

## **ANNEX I ALL-ACP SUPPORT PROGRAMMES RELEVANT FOR EPAs**

The €24 million EPA Support Facility has mainly financed impact assessment studies for most of the ACP countries. While negotiations are dealt with at regional level, national governments considered it necessary to obtain an overview of the impact of negotiations in their economies. Another major area of financing has focused on capacity building, in order to enhance the negotiating skills of ACP negotiators and improve their capacity to formulate and defend sound evidence-based proposals.

In the area of SPS, two major programmes are underway. On the one hand, the €42,68 million Fisheries Programme is helping ACP countries to improve their production and to step up their exports to European markets. The programme has adopted a regional approach to improve the sanitary conditions of fishery and aquaculture products in the ACP States and Overseas Countries and Territories. On the other hand, the €9 million Pesticides Initiative Programme supports private sector companies, providing concrete responses to the difficulties encountered in the export trade for fresh ACP fruit and vegetables.

Finally, the €50 million Trade.Com programme is a major programme, not only for the amount of funds involved but also for its ambition as a development tool. The first component aims at enhancing capacity for trade policy formulation through support for local research institutions and networks and for the establishment of appropriate mechanisms for consultation with the private sector and civil society. The second component, the “Hubs & Spokes” programme, will put in place a network of trade advisers seconded to the ACP Governments and regional integration institutions. Finally, the third component will assist the ACP partners in implementing WTO agreements and preparing pilot projects for institutional capacity building to address specific obstacles to trade, notably the compliance with TBT and SPS requirements to export to the EC.

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