



**UK GOVERNMENT RESPONSE TO
INTERNATIONAL DEVELOPMENT COMMITTEE'S
SIXTH REPORT OF SESSION 2004-05**

**'FAIR TRADE?
THE EUROPEAN UNION'S TRADE AGREEMENTS
WITH AFRICAN, CARIBBEAN AND
PACIFIC COUNTRIES'**

Presented to Parliament by
The Secretary of State for International Development
by Command of Her Majesty
June 2005

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Summary

The UK Government presented written¹ and oral evidence on Economic Partnership Agreements (EPAs) to the International Development Committee (IDC) in November 2004. Following consultation with stakeholders in the African, Caribbean and Pacific (ACP) and with NGOs, the UK Government refined its policy on EPAs. A statement on this was published on 22 March 2005.

This response to the IDC's conclusions and recommendations in its sixth report of Session 2004-05 draws on the evidence presented and the policy statement.

¹ Through a joint memorandum submitted by the Department for International Development and the Department for Trade and Industry.

Introduction

1. The success or failure of the negotiations should be assessed against the mission which Peter Mandelson set himself: to make trade fair for the many and to ensure that the poorest have their share of rising global prosperity. (Paragraph 9)

We agree and support the European Commission (hereafter referred to as “the Commission”) and the ACP countries in this mission.

EPAs: Can they be a tool for development?

2. It would reflect badly on the EU if promises were made to the ACP which then could not be achieved in the WTO. The UK Government should work to help the Commission achieve a more flexible interpretation of Article XXIV in the WTO. (Paragraph 13)

We support this recommendation. The UK Government will work closely with the Commission to ensure the most flexible interpretation of the WTO Article XXIV which governs rules on regional trade agreements. We believe that Article XXIV should not constrain the EPA negotiations from reaching an agreement that is most supportive of the ACP countries’ development. We therefore support the Commission for Africa recommendation that a review of Article XXIV *may* be useful in order to reduce requirements for reciprocity and increase focus on development priorities.

In the memorandum presented to the IDC in November 2004, it was highlighted that ‘further analysis will need to be done to look at which sectors, and on what timescale, reciprocal market opening by the ACP would best meet their development needs, whilst remaining compatible with WTO rules’. DFID has supported research on how ACP countries can structure asymmetric liberalisation in favour of their development. This research is now complete. It highlights the need to use different scenarios on product coverage and transition periods for each ACP country and regional group. This is possible under the current rules in Article XXIV as its wording is ambiguous regarding liberalisation of product coverage and transition periods required for market opening in regional trade agreements.

In order to reduce the requirements for reciprocity and increase the focus on development priorities, particularly in the light of any further evidence that may suggest that flexibility is in fact limited, the UK Government will work with the Commission to press for a review of Article XXIV, as recommended by the Commission for Africa.

3. We welcome the setting up of a review mechanism, but it needs to monitor the implications of the EPAs for poverty in the ACP states. It should also incorporate a mechanism to address any negative impacts on poverty reduction. (Paragraph 14)

We agree. The UK Government stands ready to support the Commission in developing a review mechanism for EPAs. We believe there should be full ACP regional group ownership and participation, to ensure they are delivering the intended development and poverty reduction benefits.

Opening agricultural markets

4. Given the slow pace of CAP reform, we do not believe that ACP states should be asked to open their markets to EU products [agricultural products] until all trade-distorting subsidies have been removed. The transition period for full reciprocity in the agricultural sector should be explicitly linked to CAP reform. (Paragraph 17)

The UK Government believes that the ACP regional groups should have maximum flexibility over their own market opening and that the EU should therefore unconditionally offer all groups a period of 20 years or more for market opening. This transition period also applies to agricultural products. However, it is not possible to exclude the agricultural sector entirely without contravening WTO rules on regional trade agreements.

The Government recognises that there are clear linkages between market access and trade distorting domestic support and export subsidies, and continues to be a leading advocate of further CAP reform. However, this will need collective EU agreement, particularly on domestic support².

In order to limit any negative impacts of reciprocity, particularly in the case of import surges from subsidised EU agricultural products, the UK continues to support the use of an effective safeguard mechanism by ACP countries. DFID is supporting research to develop the framework for a Special Safeguard Mechanism (SSM) for developing countries in the current round of WTO negotiations. It is intended that this will feed into the design of a similar safeguards framework in EPAs.

Services for development

5. We consider that Mode 4 should be an issue on which the UK government seeks progress in the EPA negotiations. (Paragraph 20)

Temporary movement of foreign nationals under Mode 4 is an important issue in the Doha round as well as for EPAs. In that context, the EU has made an ambitious offer with regard to Mode 4 for skilled persons. The UK Government will work to ensure that the EU's position on Mode 4 in the EPA negotiations is as open as possible.

Including the Singapore Issues

6. It is incumbent on the EU to demonstrate that the beneficial effects of the new issues exceed the costs of implementation before ACP states should have to consider them outside their own regional context. (Paragraph 26)

In the Government's position paper, we stated that it is for the ACP regional groups to judge the development benefits of any agreements on the new issues (investment, competition and government procurement) and that the EU should not push for them to be discussed. To enable the ACP countries to determine the potential development benefits, the UK Government is supporting research on how investment and competition could best be incorporated into EPAs to help ACP states benefit from both regional and multilateral trade and investment flows.

7. We are concerned that the EU is abusing its position in the partnership to persuade the ACP states that these issues are essential for development and that they will be doing themselves a disservice to reject them. We think that the Commission, as a show of good faith, should step back from its endorsement of the Singapore issues and only negotiate on them at the request of a specific ACP region. (Paragraph 26)

We agree that the EU should only negotiate on investment, competition and transparency in government procurement at the request of a specific ACP region.

² The EU has already committed to removing export subsidies on products of interest to developing countries as part of a commitment to agree an end date for export subsidies in the July 2004 WTO Agricultural Framework Agreement. The UK will work towards ensuring an early date for this.

8. There is no basis for including government procurement on the basis of non-discrimination in EPAs since it is not in the Cotonou Agreement. The UK Government should make this clear to the Commission. (Paragraph 27)

The UK Government has made clear in its EPA policy statement that any negotiations on government procurement, if requested by the ACP, should be limited to transparency.

Alternatives to the EPAs

9. The UK Government should continue to push the Commission to ensure that the alternatives for non-LDC ACP states guarantee the same level of market access as the Lomé arrangements. They should not face higher levels of tariffs in the EU market than they do at present. (Paragraph 31)

We agree. Any alternative offered should provide no worse market access to the EU than is currently enjoyed under Cotonou preferences. DFID has supported research on the reforms needed to make the Generalised System of Preferences a viable alternative to EPAs. This has been made publicly available to inform negotiators' positions in both the ACP and the Commission.

10. We are concerned that in presenting the alternatives as a second best option, with no developmental component, the Commission is going against the spirit of what was agreed in Cotonou. It places the ACP in the position of having no real choice, and reinforces their unequal position in the negotiating process. Development should be integral to any trade options presented to the ACP, even when they are not the first choice of the EU. The UK Government should continue to work to ensure this is the case. (Paragraph 32)

The commitment in the Cotonou agreement is that any ACP states unable to enter into an EPA should enjoy no worse market access to the EU than they currently enjoy under Cotonou preferences. As the UK Government presented in the memorandum to the IDC, other alternatives are trade or market access tools such as a reformed Generalised System of Preferences or bilateral trade agreements. The UK Government will continue to work to ensure that these trade tools are designed such that they are also development tools and complement the poverty reduction strategies of the different countries.

The Everything But Arms Agreement

11. We do not think that things should be made complicated for the LDCs. The EBA should be a real option for LDCs and they should not have to offer reciprocal market access to the EU until they have graduated from LDC status. The EBA should not conflict with regional integration initiatives in the ACP, especially given the emphasis that DG Trade is placing in the importance of regional integration. (Paragraph 38)

The UK Government believes that if EBA is restricted to LDCs, this could cause problems for regional integration if an LDC member of a regional trade agreement (especially a customs union) decided to benefit from EBA access to EU markets but opted out of a regionally negotiated EPA. There would then need to be customs barriers between LDC and non-LDC members of the regional group, thereby undermining regional integration initiatives.

We agree that these initiatives must not be undermined in EPAs. The UK Government therefore believes the EU should make an upfront offer of EBA access to all ACP countries in each regional group, with no strings attached.

On the issue of reciprocal market access to the EU, it is important that each ACP regional group should make its own decisions on market opening in line with individual countries' national development plans and poverty reduction strategies. The UK Government believes that the transitional period for reciprocal market opening might need to be as long as 20 years or more (see 4 above). ACP countries should also continue to be able to protect sensitive products. However, if LDCs are still not able to offer reciprocal market access, they can opt out of the EPA. We will not force trade liberalisation on developing countries either through trade negotiations or aid conditionality.

12. We understand that 'EBA plus' would mean that LDCs who choose to sign an EPA will not have to offer the EU reciprocal market access. (Paragraph 39)

The UK Government supports the Commission's commitment to ensure that LDCs should not be worse off from joining an EPA than they would be if they used the EBA agreement.

However, under current WTO rules, LDCs that choose to sign an EPA would have to offer some reciprocal market access. As stated above, the UK Government believes that the ACP regional groups should have maximum flexibility over how this is done.

We understand 'EBA plus' to mean that under an EPA, all ACP countries would have full duty and quota free market access to the EU as under EBA, plus improved rules of origin (RoO) and reduced technical barriers to trade. They should also gain the developmental benefits of greater regional integration, plus additional assistance to enable them to benefit from trade reforms and build their export competitiveness. This assistance should be available to LDCs whether or not they sign an EPA, as outlined in the Cotonou Partnership Agreement.

13. We would like to see the RoO reformed to allow greater regional and cross-regional cumulation to reflect changed patterns of production and the developmental aspirations of the ACP states. (Paragraph 41)

We agree. The UK Government believes that the EU should further simplify and liberalise rules of origin (RoO). However, we believe the rules should go beyond regional cumulation to allow full cumulation. Currently Lomé/Cotonou RoO only allow the ACP countries to source inputs from other ACP suppliers or the EU but they cannot use inputs from other non-ACP developing countries if they want to claim preferential access to the EU market. In order to promote their competitiveness and to facilitate their integration into the world economy, they should be able to source their inputs from any developing country, not just from neighbouring ACP countries.

The UK Government is continuing to push for liberalised and more flexible RoO in the G8 and has been providing input to the EU consultation process on reform of preferential origin.

Changes to the EU sugar regime

14. While we understand the need for reform of the sugar regime, and commend the Commission for taking the first step in this regard, due attention must be paid to the implications of reform on ACP and LDC producers who have come to rely on the EU market. We encourage the Commission to ensure that adjustment/transitional assistance to the ACP can be used to build capacity outside of the sugar sector and welcome the Commission decision to have the adjustment mechanism up and running at the beginning of 2006. (Paragraph 50)

The UK Government joins the Committee in welcoming the Commission's decision to ensure that the adjustment mechanism is up and running by the beginning of 2006. The proposed

Action Plan makes clear that assistance could be provided along three axes: (i) enhancing the competitiveness of the sugar sector, where this is a sustainable process, (ii) promoting the diversification of sugar-dependent areas, and (iii) addressing broader adaptation needs. What mix of these three options is applied to each individual country will be decided on a country-by-country basis, based on country-specific plans, which will be elaborated in the country concerned, in dialogue with the Commission. Whilst the provision of assistance directly or indirectly to sugar industries to improve efficiency would be one possible option within this framework, it is only one of many.

Policy coherence

15. We are concerned that the ACP are not being presented with a coherent set of policy choices from the EU, and we invite the UK Government to address this issue without delay. (Paragraph 51)

We will work with the Commission to ensure that EPA policy choices are clearly presented to the ACP countries. DFID is continuing to support research, technical assistance and capacity building for the ACP to help negotiators make informed policy decisions.

16. If the Commission is committed to assisting the poorest and/or to using the LDC category, this commitment should run through all trade agreements which are on offer to the LDCs. There should be no fundamental contradiction between policies to encourage regional integration and policies targeting the poor. (Paragraph 52)

We support the formulation of consistent policies to encourage regional integration initiatives as well as to target the poor in LDCs. The UK Government has called for additional resources to enable ACP countries to benefit from trade reforms. This assistance should be directed to the poorest and most vulnerable.

17. We urge the UK Government to seek clarification from the Commission on this [regional integration] issue. Regional integration initiatives should emerge from within the ACP regions. The scope and pace of integration should likewise be decided by the ACP region. Donor countries have a responsibility to ensure that their policies are coherent, or aligned, with developing country choices. (Paragraph 53)

The UK Government believes that the EPA negotiations need to help move forward the process of fostering regional economic integration within the ACP. However this should be at a pace acceptable to the different ACP members and regional groups. If EPAs are to help promote regional economic integration on a sustainable basis, the EU needs to recognise that a one size fits all approach or a European model will not work in very different regional and sub-regional contexts. In reflecting the commitment to prioritise regional integration, the timing of reciprocal market opening by the ACP should be *after* an appropriate level of regional integration has been reached (whether a free trade area or customs union), to be decided as part of the ACP region's economic and political objectives for trade integration.

18. We would like to see evidence of a greater level of cooperation between DG Development and DG Trade. (Paragraph 55)

The UK Government supports greater cooperation within the Commission in order for EPAs to deliver on both the trade and development components. We are working with the Commission and other EU Member States to ensure coherence between both these components.

19. The objective of poverty reduction should be central to the EPAs. We would like to see evidence that the EPAs will produce the desired poverty outcomes. (Paragraph 56)

We agree. The UK Government believes that EPA negotiations should be guided by an evidence base, including the poverty impacts. To this effect, we are working to ensure that analysis and the Sustainability Impact Assessments being carried out on the ACP countries and regions appropriately feed into policies in EPAs.



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