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Coordinating EU trade and development policy-making in a new context

Davina Makhan

The recently enforced Lisbon Treaty bears the promise of improving the consistency of the EU's external policies, including trade and development. It is a most challenging task – as illustrated by the EPA and Aid for Trade processes – which call for the streamlining of both Community and member states' policies. Achieving a whole-of-the-Union approach will require difficult choices and clear-cut decisions over a division of labour. Much will depend on the extent to which EU member states allow for a stronger and more coherent EU to emerge.

While it is widely assumed that trade can be a key aspect of the EU's international development policies, the EU's multilevel system of governance has posed a challenge for linking trade and development. Indeed, whereas the Community holds an exclusive competence over trade issues, the competency over development policy is shared with the EU member states. Harmonising communitarised and semi-communitarised policy areas is thus a political as well as an administrative challenge.

The Economic Partnership Agreements (EPAs) with the group of African, Caribbean and Pacific (ACP) States are the EU's flagship endeavour to make better use of trade for development. They also intend to bring the trade and development policy areas closer together, by better linking the negotiation and implementation of the EPAs to EU development support strategies, including Aid for Trade (AfT).

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Editorial

Change is a theme running through the pages of *Trade Negotiations Insights* this month. Particularly change in Brussels, where a new Commission is setting up office under the banner of the freshly ratified Lisbon Treaty. High expectations have been placed upon these personalities in the Commission and the innovations introduced in the Treaty.

What are the hopes that have been invested in the Lisbon Treaty? One is that it will result in better coordination within the EU, not least in the field of trade and development. Although Europe has been at the forefront of the effort to link development and trade, our first guest contributor, Davina Makhan, remarks that it has often struggled to adopt an approach in which the European Community and member states work in sync.

But while the Lisbon Treaty can potentially improve the coordination of the EU's development policies -Ms Makhan points to the ACP-EU EPAs and the Aid for Trade as initiatives that need better coherence-she also warns that the Lisbon Treaty "is no panacea". The Lisbon Treaty provides some new tools, yet to be effective it requires high levels of cooperation and a clear division of labour between the Community and member states.

Building on this theme, in our next essay a group of European think tanks ask: On what foundation can the EU build a distinct approach to trade and development? Some answers, they conclude, can be found by maximising the potential of existing trade preferences, adopting new approaches to private sector standards, and developing a more coherent EU approach to the AfT initiative.

The AfT initiative is analysed in more detail in our essay by Michael Brüntrup and Petra Voionmaa, the authors of a new report on the German AfT experience. They weigh the strengths and challenges of the AfT initiative as a whole, the specific positives and negatives of the German approach to trade-related assistance, and provide some suggestions on the best way forward.

Our next essay examines an EU financing mechanism intended to help vulnerable ACP states to protect social spending in the wake of the global financial crisis. The Vulnerability-FLEX mechanism (V-FLEX) has the makings of a success story, writes Melissa Dalleau, a research assistant at ECDPM and a core member of our editorial team at TNI. Yet Ms Dalleau cautions that the relatively small budget afforded to the mechanism, and its two-year life span, are serious constraints on its longer-term effectiveness.

Rounding out our issue, we feature an article on the EU's approach to supporting regional integration in Africa, by Lodewijk Briet, Head of European Union Delegation to South Africa. It's an approach informed by the EU's own experience of integration, explains Mr. Briet, but also fully aware that there is no "one-size-fits-all" solution.

As always, we welcome comments and unsolicited offers to contribute articles. These can be sent to *dvisdunbar@ictsd.ch*.

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News and publications
In brief

Farm subsidies grow in the EU as debate over the future of CAP heats up

New subsidy figures reported to the WTO show a sharp increase in the EU's agricultural subsidies, to over €90 billion in the 2006-07 marketing year-levels not seen since the previous decade. However, the most trade-distorting payments, classed as 'amber box' at the WTO, are at a historical low, with the EU reporting only €26.6 billion under this category. Amber box payments have been falling steadily as a result of the most recent reforms to the EU's Common Agricultural Policy (CAP). The sharpest decline in the latest figures is in the less trade distorting 'blue box' category of production-limiting payments, which have dropped to €5.7 billion from €13.4 billion in the 2005-06 marketing year, and from €27.2 billion the year before that. However, the drop in blue box support has been more than compensated for by an increase in 'green box' payments, which are meant to have no, or at most minimal, effects on trade or production. The new numbers arrive at a time when debate over the future of agricultural subsidies is set to intensify, as work gets underway on the EU's 2014-20 budget. The highly-politicised debate over CAP reform is expected to become more complicated now that the Lisbon Treaty provides the European Parliament with equal say in the EU's agricultural policies, together with the European Commission and the Council of Ministers.

Sources: "Total EU Farm Subsidies Grow Despite Drop in Production-Linked Payments", Bridges Weekly Trade Digest, Volume 14, No. 5, 10 February 2010; "A Field to Level", Joshua Chaffin, the Financial Times, 10 February 2010.

EU to withdraw Sri Lanka's GSP+ trade benefits over human rights concerns

The EU announced on 15 February that it would withdraw Sri Lanka's trade preferences unless human rights concerns are addressed within six months. Sri Lanka benefits from the so-called GSP+, an incentive arrangement that grants preferential trade benefits to economically vulnerable developing countries that have ratified and implemented 27 international conventions in areas such as human rights, labour and good governance. Following a year-long investigation, the EU says it discovered "shortcomings" in Sri Lanka's implementation of three human rights conventions: the International Covenant on Civil and Political Rights, the Convention against Torture and the Convention on Rights of the Child. In 2008, EU imports from Sri Lanka under GSP+ totalled €1.24 billion; textiles and fisheries products are key exports benefitting from the trade preferences. EU Trade Commissioner Karel De Gucht said in a prepared statment: "I would like to emphasise that I hope Sri Lanka will sit with us over the next six months in order to agree upon a set of measures that will result in rapid, demonstrable and sustainable progress in relation to the human rights shortcomings we have identified."[1]

Seventh African Investment Forum meets in Ghana

On 8-10 February business and government leaders from Africa, Europe, North America and Asia convened for the African Investment Forum to discuss how to improve capital flows in and to Africa. In the opening speech at the Accra International Conference Centre, Ghanaian President John Evans Atta Mills called for African leaders to remove bottlenecks and barriers to trade between African countries as a means to foster job creation and eradicate poverty. The Forum, themed "Accelerating Intra Africa Trade and Investment", provided an opportunity for countries to discuss investment opportunities in various sectors, including energy, agriculture, infrastructure, oil and gas and manufacturing. Strong emphasis was placed on public-private sector collaboration in fighting corruption to improve the investment climate in African countries and also on the importance of economic growth. The Namibian President, Hifikepunye Pohamba, said that African political independence was meaningless if not accompanied by economic freedom, and called for business leaders to actively engage in debates to help overcome the economic challenges of Africa.

World Bank Institute launches World Trade Indicators 2009-10

The World Bank Institute, a part of the World Bank focusing on learning activities, has updated its trade policy database for the second time since it was launched in June 2008. The database features 500 variables of trade policy and outcomes, which are structured in five pillars-Trade Policy, External Environment, Institutional Environment, Trade Facilitation and Trade Outcomes. The WTI also provides a web-based interactive benchmarking and ranking tool designed to navigate the database and facilitate comparison across countries, default country groupings and user-defined groupings; country briefs that cover trade impacts of and policy responses to the food crisis and the global recession; and an overview publication on recent trade trends. These can be found on the WTI website at: *http://www.worldbank.org/wti*

Note

1 EU temporarily withdraws GSP+ trade benefits from Sri Lanka, European Commission, 15 February 2009, *http://trade.ec.europa.eu/doclib/press/index.cfm?id=515*

Continued from front page

Effective and timely coordination of policies and of the different actors involved – including the ACP – is therefore crucial for trade and development to be mutually supportive, as illustrated through the EPAs and AfT processes[1].

EPAs - The "trade leap forward" that got stuck

Despite trade being a communitarised area, EU member states have played a determining role in shaping the Commission's response on key issues in the EPA negotiations with the ACP, notably through the Article 133 Committee[2]. Partly due to the complex dynamics of EU decision-making, the system could not provide timely responses on crucial details for the development relevance of the EPAs. Indeed, substantial answers on market access, rules of origin and development support for the EPAs – including through the Aid for Trade initiative – came late in the run up to the December 2007 deadline for the formal negotiation process. Until then, the development benefits to be derived from the EPAs remained largely hypothetical for the ACP.

The EU has nonetheless been the main driver of the EPA process in the ACP-EU partnership, from the conceptual design of the EPAs to the content of the current agreements. Within the trade agenda, the EU was relatively coherent and acted as one body. It is questionable, however, whether it did so for development, not least of the ACP; while the trade objectives were met (WTO compatibility) the development dimension (for example, issues such as the sequencing of liberalisation and support measures, and support for regional integration) remains an unresolved challenge.

Admittedly, this outcome was not exclusively due to the EU pushing its own agenda and being inflexible to ACP concerns: there was little capacity on the ACP side to formulate well-informed strategies and policies that could shape the EU's response. Yet, there had been too little and too inconsistent support from the donor community – including the EU system – for trade policies and trading environment in ACP countries over the years (i.e. under the Lomé Conventions). This shortcoming played a significant role in the capacity and political will of the ACP side and was not adequately addressed until almost the start of the EPA negotiations, at a time when the information was already needed. Trade and development were thus not sufficiently coordinated.

Great potential but no quick fix: AfT

The picture has significantly changed with the emergence of the AfT agenda. It indeed offers a multifaceted opportunity for increasing policy coherence through greater coordination of trade and development policies within the Union (Community and member states), and with ACP countries, at both the national and regional levels of implementation.

However, coordinating AfT is a complex endeavour as it calls on the different qualities, rationales and modes of operation of the various actors involved. Within the EU, operationalising AfT has unsurprisingly been characterised by a significant level of confusion and mixed signals. Understandably, because the initiative is quite recent, time was (and is still) needed to allow for clarification. But the lack of clarity has also raised expectations amongst the ACP as to whether AfT would result in fresh and predictable funds linked to the EPAs. Unfortunately, much of the focus so far has been on identifying the EU's collective policy response, which-while necessary-has come at the expense of being more responsive to ACP concerns and coordinating policies with them.

> "Within the EU, operationalising AfT has unsurprisingly been characterised by a significant level of confusion and mixed signals."

The Lisbon Treaty: towards a stronger EU for development?

Although reaching compromises that are acceptable to all and meaningful for development requires time, there are promising signs that the Lisbon Treaty's institutional innovations and the choice of personnel for the new European Commission (EC) will deepen policy coherence for development and reinforce coordination among EU actors[3].

But Lisbon is no panacea and the Treaty has not changed the fact that the EU can only act forcefully and coherently on development issues when member states' political will and development imperatives concur[4]. If greater centralisation is an undesirable option for member states, complementarity must be achieved through a workable division of labour. Notably, this would require member states to mainstream AfT more deeply in their aid strategies and support a stronger coordination role for the EC[5]. Clear, creative decisions (and concessions) are therefore needed to make EU trade and development policy-making mutually supportive. Only on the basis of such a concerted approach, inclusive of partner countries' perspectives, can the old foundations of the EU's trade policy for development be improved and fresh ones provided[6].

Author

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Notes

1 This article draws mostly on the study by Makhan, D. (2009): Linking EU Trade and Development policies: lessons from the ACP-EU trade negotiations on Economic Partnership Agreements, Bonn: Deutsches Institute für Entwicklunspolitik (Studies 50), Available online: http://www.die-gdi.de/CMS-Homepage/openwebcms3.nsf/(ynDK_contentByKey)/ANES-7YUFTE/$FILE/Studies%2050.pdf

2 Under the Lisbon Treaty, the Article 133 Committee will become the Trade Policy Committee. See Woolcock, S. (2010): The Treaty of Lisbon and the European Union as an actor in international trade, Brussels: ECIPE Working Paper No. 1/2010. See also Woolcock (2009). The Treaty of Lisbon: Implications for EU Trade Policy. Trade Negotiations Insights. Vol (8), N.10

3 Furness, M. / D. Makhan (2010): The Barroso II Commission: one small step for European development policy, Bonn: Deutsches Institute für Entwicklunspolitik, The Current Column, 1 March 2010 (Available online at www.die-gdi.de) See also "Creating a pro-development trade policy in a post-preference world" in European Think-Tank Group (2010): New Challenges, new beginnings: Next steps in European Development Cooperation, February 2010. Available online: http://www.die-gdi.de/CMS-Homepage/openwebcms3_e.nsf/(ynDK_FileContainerByKey)/MRUR-82CFDB/$FILE/EU-Memorandum-2010_New%20Challenges-New%20Beginnings_2.8%20MB.pdf?Open

4 Furness, M. / D. Makhan (2010)

5 See for instance, Voionmaa, P. / Bruentrup, M. (2010): German Aid for Trade: Past experience, lessons learnt and the way forward, Bonn: Deutsches Institute für Entwicklunspolitik (Studies 50) and related article pp 6-7 (this issue)

6 See "Creating a pro-development trade policy in a post-preference world" in European Think-Tank Group (2010): New Challenges, new beginnings: Next steps in European Development Cooperation, February 2010 and related article pp 4-5 (this issue)

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Creating a pro-development EU trade policy in a post-preference world[1]

European Think-Tanks Group

The European Union (EU) is losing the faculties with which it has created an integrated trade and development policy. But these can be regenerated: aspects of current policy can be reinforced whilst they still have some vigour and new tools, rooted in EU-level policies, can be provided. Yet time is of the essence. Unless the European Commission (EC) takes action now, the foundations on which a specifically 'European' position has been built could disappear altogether.

The EU's integration of trade and development has been rooted in its responsibility for policy on most aspects of trade in goods and substantial, though shared, responsibility for other aspects of trade policy. Over the years, the EU has used this responsibility to provide commercial advantages to exporters in many poor and vulnerable states, most notably to the African, Caribbean and Pacific (ACP) States. These advantages have been made possible by the residual import controls maintained on some very competitive suppliers[2]. As the EU continues to liberalise, whether multilaterally through the Doha Development Round or via Regional Trade Agreements (RTAs), this preferential treatment will disappear and so will the commercial advantages of its web of trade preferences.

Without new tools, rooted in EU-level policies, EU development policy will lose a fundamental link with trade. It can (and should) offer Aid for Trade (AfT) – but so can all the 27 member states' development policies. What could form the new link to allow the EU institutions to continue projecting a distinctive 'European' position on trade and development? The answer is to be found in the powers that member states' find it increasingly necessary to develop at a European level to ensure a barrier-free internal market. On this basis, the EC can revitalise existing preferences and create new ones in areas in which Europe does not yet extend free trade to all its partners. The EU can also develop more radical approaches in its delivery of AfT. While such an endeavour requires greater policy coherence and coordination within the EU, the institutional innovations of the Lisbon Treaty can play a major role in facilitating this process.

The erosion of preferences

Commercially useful EU trade preferences now apply to only a very small number of products – such as sugar, rice, horticulture and some clothing – exported by few countries. This is a positive consequence of European liberalisation. But it also means an end to policies that have allowed poorer countries to maintain or establish themselves in the European market without being threatened by more competitive producers. This is illustrated by the uneven take-up of EPAs: the countries that have signed include almost all the states that have a significant export dependence on preferences under the Cotonou Partnership Agreement and very few that do not.

Clothing – the only significant manufacture for which preferences are still commercially valuable – will be the first to go. By the time the WTO-approved transitional safeguards on China's exports expire in 2013, the remaining tariff preferences may well have been eroded further by a conclusion to Doha or RTAs with India and Mercosur. Moreover, the next phase of reform to the Common Agricultural Policy (CAP) in 2013 could substantially alter the value of the remaining agricultural preferences if they have not already been eroded by RTAs that increase competition on the European market.

This loss of preferences has come at a bad time for many preference-dependent Least Developed Countries (LDCs) and Small, Vulnerable Economies (SVEs). These nations have been hit more severely than the average developing country by the global financial crisis, which illustrates the importance of trade and how much remains to be done to ensure that it serves development.

Breathing new life into preferences

Several EU trade-policy changes would allow a larger number of countries to benefit more substantially from those preferences that remain potentially useful. The most important of these are to the Rules of Origin (ROO) which determine whether or not a country can take advantage in practice of a preference that exists on paper. The fundamental problem with the EU's ROO is that they do not take account of the radical globalisation of production in recent decades. They still require potential recipients to undertake levels of processing that are no longer commercially viable especially in states with small markets. The EPAs have introduced a very important improvement in this respect to the rules on clothing but more remains to be done to update the EU's ROO – such as by allowing the use of more imported food inputs, which would help boost exports of processed foods[3].

There is also scope to offer trade preferences on services and trade-related policy in all cases in which the EU is not yet ready to open up to imports from all sources, but is willing to liberalise towards certain developing countries. It has been possible to meet the second condition for goods because the recipients were either traditional suppliers of otherwise sensitive items or were too small to supply politically unacceptable volumes. Over time, these preferences have been extended to ever more competitive suppliers, allowing the EU to control the speed at which European producers had to adjust to import competition. Does the same apply to services and other aspects of trade policy? The EPAs certainly provide a framework within which to find out. For example, favourable quotas within EPAs for services exports under Mode

4 of the GATS (movement of persons), modelled on the idea of multilateral quotas for LDCs currently circulating, would be helpful.

A more radical way forward: beyond Aid for Trade

Although the EU institutions are simply a large actor in the efforts of 28 European donors, the existence of the trade framework created by EPAs, Euro-Med and future RTAs will facilitate the creation of an innovative programme. For instance, the EPAs provide an excellent opportunity to re-oriente aid. They provide a framework to focus AfT on the 'three Cs' that underpin successful integration into the world market: **c**ompetitive production of goods and services reflecting **c**onsumer tastes, exported to **c**ountries with buoyant demand. However, diversifying both products and markets requires heavy investment not only in infrastructure (vital though it is) but also directly to firms and in knowledge management (for example, related to market access requirements, and product or process standards).

The EU should build this in to its own decisions. One way to prepare countries for the erosion of trade preferences is to take this into account when the EU makes its own tariff-cutting commitments. There have been proposals, for example, to backload cuts on developmentally sensitive sectors and use the revenues generated during the phase-in to provide predictable compensation for preference erosion. The harmonisation of EU standards needed to remove internal trade barriers also creates an opportunity to do so in a way that provides help to poor country exporters. The new rules, for example, should be framed so as to recognise supply realities in these countries.

Help the private sector move up the value-chain

It is private rather than public rules that are now the dominant influence on what Europe imports from developing countries and how much producers gain from the trade. Private voluntary standards, such as the Global Partnership for Good Agricultural Practice (GlobalGAP), include standards that go beyond the EU's harmonised mandatory market access requirements. Most large fresh fruit and vegetable retailers do not even consider buying from producers who do not adhere to the private code on 'good agricultural practices'.

What is wrong with that? Setting appropriate safety, labour or environmental standards must be good for consumers and for workers. The problem is that compliance costs usually falls on the producers. This reduces trade gains for developing countries and excludes small operators unable to meet the high fixed costs[4]. What is needed is a framework of public regulation that encourages pro-development private rules (for example, by making clear when labels that appear to support development actually risk the opposite).

The new EC has an opportunity to use its powers over internal market regulation to benefit development. Particularly when combined with AfT (perhaps within an EPA framework), it offers a distinctive EU approach to trade and development that also offers a unique solution to the issue of preference erosion. It may also have positive spillover effects as ACP suppliers are better able to export to other high-standard markets.

> “The new EC has an opportunity to use its powers over internal market regulation to benefit development.”

Using the Lisbon Treaty to improve policy coherence and coordination

Widening the scope of pro-development trade policies in this way reinforces the need to improve coherence and coordination – a process that can be supported under the new institutions created by the Lisbon Treaty, most notably the High Representative for Foreign Affairs and Security Policy. With the Lisbon Treaty, the EC can engage more actively and systematically with member states on external relations towards greater complementarity.

Nonetheless, it is a challenging task. Each body has its own well-embedded mode of operation. Ensuring consistency at the EU level – as the Lisbon Treaty demands – will require that all EC directorates and relevant stakeholders concerned be consulted at an early stage and involved in the discussions.

The EU's approach towards the promotion of regional integration in Africa may also need to be rethought in order to become more supportive of endogenous integration efforts, including those between regions.

One step is to build on existing forums that bring together trade and development specialists from the Member States and the EC, such as the informal trade and development experts group of the ex-Article 133 (now Trade Policy) Committee. But these discussions must also feed into the formal arena. The imminent European External Action Service (EEAS) can facilitate a fully joined-up approach. By working more concretely at the level of implementation, it can help feed the perspectives of partners into European policy processes. This may contribute to the task of ensuring that trade and regional integration are given adequate importance in both the Union's policies and in its delegations' operations, and that both are supportive of local initiatives.

Notes

1 This article draws from Chapter 7 of the joint publication "New challenges, new beginnings: Next steps in European Development Cooperation" produced in February 2010 by DIE, ECDPM, FRIDE and ODI and is accessible on the institutions' respective websites.

2 This is a major reason why the policy has been controversial.

3 Stevens, C. Meyn, M. and Kennan, J. (2008), 'EU duty- and quota-free market access – what is it worth for ACP countries in 2008 and beyond?', report prepared for DFID. London: Overseas Development Institute. Available at: *http://www.odi.org.uk/resources/download/3157.pdf*

4 For a review of the impact of de facto mandatory standards for agricultural producers in poor countries see: Ellis, K., Keane, J. (2008), 'A Review of Ethical Standards and Labels: Is there a gap in the market for a new Good for Development label?', ODI Working Paper 297, London: Overseas Development Institute. Available at: *http://www.odi.org.uk/resources/ download/2457.pdf*

Aid for Trade - an opportunity for re-thinking aid for economic growth[1]

Michael Brüntrup and Petra Voionmaa

Aid for Trade (AfT) is a relatively new concept encompassing a number of activities supporting the ability of developing countries to engage in trade. While these activities have been carried out individually by donors for decades, the new elements brought in by the AfT initiative are bundling them under a common roof and embedding them within the institutional and political spheres of both development and trade policy.

However, the underlying paradigms of AfT, the complexity of the concept, the political and institutional issues involved and the specificity compared to traditional development assistance create challenges for implementation. This article sketches out opportunities and major difficulties for putting AfT into development practice and elaborates on possible implications for more traditional aid for growth.

The added value of AfT for development

AfT adds a valuable perspective to the debates on (assistance to) policies for economic growth. The emphasis on exports brings an indispensable quest for competitiveness and efficiency which conventional industrial, agricultural and other economic policy concepts often do not follow with the same rigour. And by combining trade and economic sector policies, export-oriented assistance and development-friendly trade agreements, AfT creates synergies for exports from developing countries. Moreover, the AfT agenda places a spotlight on the potentials of regional integration to act as a stepping stone for full international integration, while also creating opportunities to access untapped regional markets, especially during international turbulences (i.e. food crisis, financial and economic crisis). The European AfT agenda has adopted a particularly strong regional dimension against the background of the regionally-negotiated Economic Partnership Agreements (EPAs).

In times of global economic crisis, when protectionism is lurking around every corner, threatening especially weaker trade partners, a comprehensive AfT agenda is particularly valuable. It can raise attention to the dangers of protectionism for developing countries, and provide ready-made entry points for assisting them in maintaining their export capacities, such as through defending market access and overcoming shortages of trade finance.

Challenges of implementing the AfT agenda

Probably the biggest deception for developing countries has been the decision to account additional AfT as Official Development Assistance (ODA). Many developing countries had seen AfT as a compensation for losses occurring when opening up trade (which they regard as particularly favourable to developed countries). Hence, they had interpreted the "additionality" of AfT as additional to existing donor commitments (in particular to the politically declared - but legally non-binding - target to devote 0.7% of their GDP to ODA).

Similarly, initial uncertainties and manifold changes in the accounting rules of donor countries led to doubts about the additionality of AfT. In fact, overall AfT flows have increased by more than 10% per year since 2005, amounting to more than US$25 billion in 2007. In several cases, however, donors have achieved their pledges simply by applying the modified WTO-OECD monitoring rules, without initiating any new projects. This creates the impression that the AfT agenda has resulted in a re-labelling exercise by donors, rather than in genuine fresh aid.

For trade and AfT to be effective, they must be comprehensively and firmly incorporated into the growth and poverty alleviation strategies of developing countries, as well as into relevant sector-specific programmes. In addition, recipient countries must have the capacity to organise the contributions of donors around their national policies. Yet these conditions are often not fulfilled, particularly in poorer countries. Three interlinked factors challenge the formulation and implementation of the aid effectiveness agenda in AfT and in aid to economic sectors more generally: i) the cross-sector complexity of the measures to be taken, ii) the leading role of the private sector with often conflicting interests, and iii) the often limited degree of government dominance in the planning and implementation of productive sectors policies.

Even if comprehensive national programmes exist, no single donor can cater to all of the AfT needs of partner countries (not to mention regions) alone. This must be achieved by a number of donors acting in a coherent way with a high degree of coordination. Traditionally, economic sectors are coordinated (at best) in separate sector-specific donor coordination groups, such as transport, private sector development, and agriculture. Better harmonisation and coordination among these is required to fulfil the AfT agenda.

These problems have led to a certain deception and reduced credibility of the AfT agenda as well as to obstacles and delays in implementation. To renew the impetus, developing countries and donors alike need to re-think and foster their aid for growth by systematically incorporating aspects related to trade and, hence, the ever-increasing interconnectivity of the world economy.

The Case of German Aid for Trade

Germany is a major provider of AfT compared with other donors, ranking third behind Japan and the US and first among EU member states between 2001 and 2006. In 2007, German AfT amounted to approximately €1.2 billion.

Trade-related Assistance (TRA) makes up about 20% of total German AfT (1% trade policy and regulation, 19% trade development). Building productive capacities constitutes 45%, trade-related infrastructure another 35%. With an average TRA of €210 million between 2005 and 2007, Germany has more or less reached its basic self-defined goal of €220 million TRA as a contribution to the EU pledge.[2] However, the level of engagement in TRA fluctuated considerably during that period.[3] This lack of stability can partly be explained by a change in reporting practices applied by one German organisation (DEG). Partly it is also due to the fact that TRA has rather occurred as a by-product of general development programming without being systematically taken into consideration.

The regional focus of German AfT and TRA lies in Asia. German AfT for sub-Saharan Africa appears low (AfT: 16%; TRA: 19%), particularly when compared with the share of this region in overall German ODA (30%).

When looking behind these numbers and into a sample of policy documents, it appears that German development cooperation has regularly taken up trade issues in its private sector and agricultural development programmes. However, this is generally done without a consistent strategic approach in regards to transforming access to regional and international markets into real business opportunities.

Positive features of German AfT in case studies were said to be proximity to local institutions, long-term engagement, technical expertise, a wide array of instruments, and trust. On the negative side, the different aspects of trade-related needs are too rarely tackled through comprehensive German programmes in which the different instruments and implementation agencies are combined. Policy advice is not generally considered the strength of the German development partners. Regional linkages are judged to be weak. Finally, poverty issues are not sufficiently conceptualised and tracked in impact monitoring.

There are valid arguments that donors in general and the EU in particular should strengthen their support for AfT. Especially in the context of EPAs, more European AfT will become necessary. Compared to other EU donors, Germany has good reasons to take over a disproportionally large engagement: German aid has a wealth of AfT-relevant priority areas, instruments, agencies, experiences and a reputation for implementing AfT. As an important sign of its political will to stabilise and mainstream AfT, the German Federal Ministry for Economic Cooperation and Development (BMZ) has introduced an internal target line ("Zielgröße") of €140 million per year for TRA. However, what is not yet visible is a close coordination of German AfT within the EU framework.

Conclusions

The comprehensiveness of the AfT agenda, the institutional link to the WTO and the self-interest of donor countries to fulfil the AfT promises in this context could lead to a boost of support to economic topics in development assistance. Indeed, the increased attention to trade and economic sectors in partner countries' national strategies and in development assistance can be partially attributed to the AfT agenda.

AfT fosters and cements an outward economic orientation of developing countries for both exports and - in the longer run - imports. By increasing the utility of trade opportunities, it enhances their integration into the world market. This is widely accepted as the main path towards development, based on economic theory and practical lessons from successful emerging economies. At the same time, integrating developing countries into global markets is in the more "selfish" interest of the Western world as (future) trading partners and as drivers of the global trade policy agenda. Drawing a clear line between the two motivations is impossible and makes AfT prone to misuse.

Another risk of AfT is that it tends to underestimate the potential of domestic markets. For instance, the rapidly growing population and urbanisation in many African countries creates great opportunities for domestic farmers and food industries.

The AfT agenda also adds to the increasing number of "vertical" initiatives, such as the fund for HIV/AIDS or infrastructure. This leads to a segmentation of development cooperation, while efforts instead should seek to make aid more flexible by aligning it to developing countries' priorities without earmarking it in advance for certain thematic issues.

For all these reasons, a very careful, transparent and participatory use of the AfT initiative is indispensable. However, trade and AfT are not ends in themselves, but means to achieve the ultimate goal of reducing poverty. Hence, AfT must be embedded in overarching national growth and poverty strategies which balance inward and outward orientation of national economies and ultimately aim to generate resources for social

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Notes

1 This article is based on findings from a research project commissioned by the German Federal Ministry for Economic Cooperation and Development. The whole report ("German Aid for Trade, past experience, lessons learnt, and the way forward, Bonn: DIE studies 52") can be downloaded under *http://www.die-gdi.de/CMS-Homepage/openwebcms3.nsf/(ynDK_contentByKey)/ANES-7ZLE3W?Open&nav=expand:Publikationen;active:Publikationen\ANES-7ZLE3W.*

2 Germany assumes that its basic contribution to the EU's commitment to increase its TRA to €2 billion per year by 2010 should equal its share in the EU budget and in the 9th European Development Fund (both approx. 22%), resulting in a provisional target of €220 million per year from 2010 onwards.

3 TRA increased from €163 million in 2005 to €243 million in 2006 before again falling to €224 million in 2007.

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The Vulnerability-Flex Mechanism: A success story?

Melissa Dalleau

Last December, the European Commission (EC) approved the first financing decisions in favour of thirteen African, Caribbean and Pacific (ACP) countries, which are to benefit from a total of €215 million under the €500 million ad hoc Vulnerability-FLEX mechanism (V-FLEX). Initially proposed by the EC in April 2009, approved by EU Member States in July, and now operational, V-FLEX has the makings of a 'success story'. At a time when ACP countries are applying for the second tranche of disbursement, it is appropriate to examine this mechanism in an effort to stimulate discussion.

Although it is too early to draw conclusions regarding the performance of V-FLEX, this article considers some of its potential based on its nature and design. It is argued that if this well-conceived and, in many ways, innovative mechanism appears promising regarding its capacity to close fiscal financing gaps in beneficiary countries, it is somewhat disappointing to see it undermined by the narrowness of its envelope and its short-term setting.

The emergence of a 'donor of last resort'

As one of the 28 measures recommended by the EC in its communication "Supporting developing countries in coping with the crisis", V-FLEX has been conceived as a "global safety net" aimed at helping the most vulnerable ACP countries safeguard social spending in a context of deteriorated fiscal balances[1].

There was indeed a sense of urgency to respond to the needs of ACP countries in this respect[2]. In sub-Saharan Africa, which in 2009 recorded its first negative real growth rate in GDP per capita, the overall fiscal balance has deteriorated from a surplus of 0.3% of GDP in 2008 to a deficit of 6.4% in 2009.[3] In response, the EU effectively designed and implemented, in a very short time, a well packaged proposal that secured EU member states' support by addressing their concerns.

Used to top up the B-envelope of the National Indicative Programmes[4] (in conformity with Article 3(5) of Annex IV of the Revised Cotonou Agreement[5]), allocations under V-FLEX are to be drawn from the reserves of the 10th European Development Fund (EDF), for which EU member states already agreed to over €22.7 billion (2008-2013). The financial repercussions on EU member states' contributions have thereby been minimised.

Given the limited amount of funds available (€500 million for two years), the EC decided to confine its action to one of a "donor of last resort" and help only the most vulnerable countries meeting the following criteria[6]:

1. High degree of "vulnerability" assessed by quantified benchmarks concerning government revenue, foreign reserves and the fiscal deficit[7];
2. A "residual fiscal financing gap, not covered by other donors or by foreign and/or domestic borrowing";
3. Capacity of the EC to close or "significantly" reduce this gap[8].

Support under V-FLEX is to be provided as an additional single payment to the already existing budget support programmes, or, if necessary, through existing projects or programmes, including social safety nets (a second-best proposition). To be eligible, applicant countries also need to "demonstrate a sufficient absorptive capacity through an ongoing budget support programme or an existing established social safety net or equivalent mechanism"[9].

Well-designed but insufficient

While the EC has a strategic inclination for such a performance-based instrument (ownership, aid effectiveness, etc), topping up budget support programmes to address the consequences of an external shock is not without controversy.[10] Nonetheless, V-FLEX certainly has the merit of ensuring a quick disbursement and smooth coordination between donors on the ground. With the identification of a residual financing gap as an eligibility criterion, donor coordination was a given on paper, and seems to hold in practice, the IMF being involved in all the stages of the implementation process.[11]

Moreover, because it is based on present and/or forecasted benchmark criteria regarding fiscal deficits, V-FLEX decisively palliates the shortcomings of the not-fully countercyclical FLEX mechanism. Indeed, not only does FLEX (**F**acility for **FL**uctuations in **Ex**port Earnings) ignore many transmission channels through which the current crisis is negatively affecting ACP countries (reduction of private capital inflows, decline of remittances and tourism, etc); it also uses past exports data to assess 'vulnerability', which is clearly a partial indicator.[12]

Grants under V-FLEX come from non-earmarked reserves somewhat kept for

such circumstances. Therefore, the common argument according to which frontloading aid might create funding gaps in the long run[13] holds little weight against V-FLEX. It is more difficult, however, to counter the charge that, strictly speaking, V-FLEX does not provide "new money"[14].

In a context of modest possible disbursements, the EC, by favouring a discriminatory approach over an equal distribution of aid to all ACP countries, certainly ensured efficiency. The question however is: Why take the limitation of resources for granted in the first place?

Indeed, without denying the importance of this mechanism for the beneficiary countries, V-FLEX remains, in terms of budget, a small facility that leaves out many ACP countries. For the 2009 allocation, only 17 countries were considered eligible and disbursements were only processed for 13 of them (see table below). This limited geographical scope is all the more problematic since, in theory, among those countries which cannot be considered eligible are those whose "residual fiscal financing gap" is too large to be "substantially" reduced.

Moreover, V-FLEX was created for a two-year period only. Similar to some of the EU's other proposed responses to the crisis in developing countries, like frontloaded assistance or the acceleration of the Mid-Term Review of Country Strategy Papers, it indirectly assumes a rapid economic recovery[15]. Yet it will probably take a few more years before many developing countries regain their pre-crisis growth level. Extending both the duration and budget for V-FLEX might therefore be desirable[16].

Beyond the crisis, no room for complacency

The economic and financial crisis, EPAs and the MDGs

Given V-FLEX's limited potential both beyond 2010 and for about sixty ACP countries which do not currently benefit from the additional assistance, the European Parliament recommended "that economic partnership agreements (EPAs) be used as a means of meeting development needs [...][17]". The potential benefits of EPAs, however, will mostly be felt in the long term and these agreements can hardly represent a quick solution to the crisis[18]. Of course, in the short term, it will be necessary to ensure that EPAs do not add further strain on ACP government finances. This calls for a comprehensive approach to the current crisis whose real effects on ACP countries can only be appreciated (and stymied) in light of all the challenges these countries face. In the medium term, therefore, the importance of monitoring the impact of the EU response to the crisis should not be neglected.

Thinking ahead: What EU Compensatory Mechanisms for Shocks?

In this respect, the efforts initiated by the EC to help ACP countries monitor the performance of the international response to the crisis[19] (V-FLEX included) should be further encouraged. Regarding V-FLEX, there are reasons to think there are (or will be) some positive lessons to be drawn from it. Indeed, if V-FLEX per se is not a panacea, it can still be held up as a positive example compared to FLEX, which has been conceptually criticized and is sometimes at odds with IMF requirements[20]. Although there are some signs of recovery in the global economy, it is nonetheless urgent to improve existing compensatory mechanisms for shocks or complement them with new ones. At a time when ACP and EU parties are negotiating the second revision of the ACP-EU Partnership (Cotonou) Agreement, it is now up to them to demonstrate their will to keep working towards the realization of a smooth and flexible partnership that can address these challenges in the future.

	1st financing decisions under V-FLEX, in € million	Topped up Programmes under V-Flex
Benin	25.00	«Programme d'Appui budgétaire général à la Stratégie de Croissance pour la réduction de la Pauvreté» (ABG-SCRP)
Burundi	13.60	«Appui Budgétaire à la Relance Economique» (PABRE)
Central African Republic	7.60	«Programme d'appui à la stabilisation Economique de la RCA» (ASERCA II)
Comoros	4.70	«Appui budgétaire à la stabilisation socio-économique des Comores»
Ghana	35.00	MDG CONTRACT
Grenada	5.00	Programme for Poverty Reduction
Guinea Bissau	8.00	«Appui budgétaire à la stabilisation 2009/1» (ABS IV)
Haiti	30.00	«Programme d'Appui budgétaire général à la Stratégie de Croissance pour la réduction de la Pauvreté» (ABG-SCRP)
Malawi	25.00	POVERTY REDUCTION BUDGET SUPPORT (PRBS III)
Mauritius	10.90	Improved Competitiveness for Equitable Development general budget support programme (ICED GBS):
Seychelles	9.00	Seychelles Economic Reform Programme (+ technical assistance)
Sierra Leone	12.00	SL Multi-Donor Budget Support for Macroeconomic Stabilisation
Zambia	30.00	MDG CONTRACT
Total	215.80	

Source: Europa Press Release (IP/09/1920), and Commission Decisions on the adoption and financing of Special Measures in favour of these countries.

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Notes

1 European Commission Communication (2009a), "Supporting developing countries in coping with the crisis", COM(2009) 160/4, 8 April ; Europa PressRelease, IP/09/1920, 15 December 2009 *http://europa.eu/rapid/pressReleasesActiondo?reference=IP/09/1920&format=HTML&aged=0&language=EN&guiLanguage=en* ; J.M.D Barroso at the Opening Session of the European Development Days, (22/10/09- SPEECH/09/493)
2 For more information on the impact of the global financial and economic crisis on ACP economies, see Trade Negotiation Insights, Vol(8), N4 (Special issue); *http://ictsd.org/downloads/tni/tni_en_8-4.pdf*
3 International Monetary Fund (2009), "Regional Economic Outlook: Sub-Saharan Africa. Weathering the Storm", October; *http://imf.org/external/pubs/ft/reo/2009/AFR/eng/sreo1009.pdf*
4 The EDF B-envelope covers unforeseen needs and emergency assistance
5 Europa Press Release IP/09/1920
6 EC (2009b) in its Replies to Oral Questions, in front of EU-ACP JPA, 01 December 2009, *http://www.europarl.europa.eu/meetdocs/2009_2014/documents/acp/dv/772/772000177200reven.pdf*
7 Among the 13 AC countries which benefited from V-FLEX in 2009, three benefited from a waiver on these conditions given their "state of fragility" (Central African Republic, Sierra Leone and Comoros).
8 "Significantly reduce" has been defined by the Commission as meaning a reduction of at least 50% of the residual financing gap.
9 EC(2009b)
10 See for instance *http://capacity4dev.ec.europa.eu/containing-fall-out-global-financial-crisis-developing-countries*
11 For more information: EC(2009b)
12 See for instance Griffith-Jones. S and Ocampo. J.A. (2008), "Compensatory Financing for Shocks: What Changes are Needed?", Initiative for Policy Dialogue
13 EP resolution of 8 October 2009
14 Although V-FLEX funds are additional to those already granted under the B-envelope or under general budgetary support programmes, these do not constitute additional commitments from EU member states.
15 This argument is developed by Woods, N (2009), "The International Response to the Global Crisis and the Reform of the International Financial and Aid Architecture", European Parliament Briefing Paper, *http://www.europarl.europa.eu/document/activities/cont/200909/20090922ATT60987/20090922ATT60987EN.pdf*
16 See Bilal and Dalleau (forthcoming). "Africa-EU Economic Relations in Light of the Global Financial and Economic Crisis". Paper prepared for the Bremen Africa Conference 2010.
17 EP - Resolution of 8 October 2009
18 See Bilal, Draper, and te Velde. (2009)"Global Financial and Economic Crisis". ECDPM Discussion Paper 92. *http://www.ecdpm.org/dp92*
19 EC(2009b)
20 Griffith-Jones. S and Ocampo. J.A. (2008)

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EU support to regional integration in africa: A Shared Vision

Lodewijk Briet

Motivated by its own experience over the past fifty years, the European Union (EU) has been a long-standing supporter of regional integration throughout the world, including in the African, Caribbean and Pacific (ACP) countries where there has been a steady expansion, in both depth and breadth, of regional integration initiatives. While the EU experience is a point of reference for integration initiatives within the ACP and other regions, the EU does not promote a "one size fits all approach" in this regard. Thus, within the ACP, the EU tailors its support to the priorities, pace and methods identified by the countries of the region in line with their own integration agendas.

The EU and its ACP partners have jointly acknowledged the political and economic benefits of regional integration, which is set as one of the general objectives of the 2000 Cotonou Partnership Agreement[1] (Article 1). Within the African context, the launch of the New Partnership for Africa's Development (NEPAD) in 2001 and the birth of the African Union (AU) in 2002 clearly confirm that regional integration is seen as an essential vehicle to achieve sustainable development and poverty eradication. The EU has supported NEPAD since its conception and values many of its principles and objectives. Our shared vision on regional integration is additionally enshrined in the 2007 EU-Africa Strategy, which recognises and promotes the essential role of Regional Economic Communities as building blocks of wider continental integration in the long-run. Furthermore, "Regional Integration, Trade and Infrastructure Development" figure as one of the eight EU-Africa Strategic Partnerships within the 2008-2010 Action Plan[2].

EU Support to Regional Integration in Africa – Policy Framework

In light of the above, the European Commission put forward a Communication on "Regional Integration for Development in ACP Countries"[3], which was endorsed by the Council in November 2008. The Communication adopts a comprehensive notion of regional integration that is reflected in the five priority areas identified for EU support, namely:

- Building regional integrated markets through the effective implementation of existing regional trade-in-goods commitments and the integration of the services sector, investment and regulatory standards;
- Facilitating business development by improving the regulatory environment, strengthening productive capacities, and mobilising capital;
- Connecting regional infrastructure networks with an emphasis on completing the "missing links" between national road, energy and telecommunications networks;
- Strengthening regional institutions, particularly with a view to promoting regional governance and cooperation for peace and security and to improving national institutional capacities to implement regional policies;
- Developing regional policies for sustainable development, especially with regards to food security, the common management of natural resources and social cohesion.

The Communication further stresses that EU support to regional integration shall follow the principle of ownership laid down in the Cotonou Agreement. The EU thus respects the choices and decisions made by its African partners on the objectives, pace and methods of their integration processes. Ownership, therefore, is about African countries defining and implementing their own regional integration agendas.

EU Support to Regional Integration in Africa Instruments

The Commission Communication identifies three main instruments of EU support to regional integration in Africa: political dialogue, trade policy and financial assistance.

As agreed in Cotonou (Article 37), one of the main trade tools to support regional integration is the Economic Partnership Agreement (EPA). These agreements are intended to consolidate existing regional integration initiatives within Africa and to help facilitate the gradual integration of African countries into the global economy. In particular, EPAs are aimed at fostering the effective implementation of existing regional commitments on trade in goods, at expanding regional trade in services and at promoting investment within African regions and with the EU. EPAs also seek to encourage African regions to forge common positions and to develop regional rules on trade-related matters[4].

Regarding financial assistance, the 10th European Development Fund (EDF) constitutes the primary instrument of EU support to regional integration in Africa, complemented by the Development Cooperation Instrument for South Africa and the European Neighbourhood and Partnership Instrument for a number of North African countries. Funding (initially) allocated to trade and regional integration has been considerably increased under the 10th EDF, to be channelled through both regional (approx. €457m) and national indicative programmes (approx. €400m) on the basis of the objectives jointly agreed in the Regional and Country Strategy Papers[5]. In addition, as part of its "Aid for Trade Strategy", the EU has provided over €1bn for trade facilitation projects in developing countries between 2006 and 2008, and pledged to increase such a support by 2010[6].

Infrastructure is an area where the "costs of non-integration" are particularly felt in Africa, where the lack of efficient infrastructure networks at regional and continental levels generates excessively long transport time and high transport costs causing major hurdles for trade, investment and economic development. In response, and in line with the EU-Africa Infrastructure Partnership launched in 2007, the EU is devoting a substantial amount of resources to infrastructure development within Africa and between Africa and Europe. A major part of the financing for the partnership comes from the 10th EDF and is complemented by the EU-Africa Infrastructure Trust Fund, an innovative tool combining grant resources from the EU with the lending capacity of the European financing institutions (including the European Investment Bank) in partnership with the African Development Bank. Approximately €4.5 billion in grants is expected to be allocated for infrastructure development in Africa over the period 2008-2013[7].

Conclusion

Regional integration is an essential driver for political stability, sustainable development and poverty eradication, and is thus an overarching goal guiding the European Union's action in trade policy, financial assistance and political dialogue. The EU is, and will continue to be, a strong supporter of regional integration in Africa, on the basis of the partnership approach enshrined in the Cotonou Agreement and the Joint EU-Africa Strategy.

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Notes

1. Partnership Agreement between the members of the African, Caribbean and Pacific Group of States of the one part, and the European Community and its Member States, of the other part, signed in Cotonou on 23 June 2009, OJ [2000] L317/3.
2. All the documents pertaining to the EU-Africa Strategy are available at: *http://ec.europa.eu/development/* geographical/regionscountries/euafrica_en.cfm.
3. Communication from the Commission to the Council (et al.), "Regional Integration for Development in ACP Countries" COM(2008) 604 final/2, Brussels 6 October 2008, available at: *http://ec.europa.eu/development/policies/9interventionareas/trade/regional_integration_en.cfm.*
4. More information on the EPA negotiations is available at: *http://ec.europa.eu/trade/wider-agenda/development/economic-partnerships/.*
5. More information on the 10th EDF is available at: *http://ec.europa.eu/development/how/source-funding edf_en.cfm.*
6. More information on the EU "Aid for Trade Strategy" is available at: *http://ec.europa.eu/trade/wider-agenda/development/aid-for-trade/.*
7. More information on the EU-Africa Infrastructure Partnership is available at: *http://ec.europa.eu/development/policies/9interventionareas/infrastructure_en.cfm#partnership.*

WTO Roundup

WTO Director-General Pascal Lamy announced on 22 February that trade ministers will not be gathering in Geneva at the end of March for a stock-taking meeting. Rather, the meeting, called for by the G-20 in September, will involve senior officials.

The announcement comes amidst frustration among delegates at the slow pace of the talks. The negotiating committees on the critical areas of industrial goods, services and agriculture have all held meetings since the beginning of February, but to little avail.

The negotiating committee on industrial goods talks, which met during the first week of February, narrowed some gaps in members' views on non-tariff barriers to trade, but negotiators completely sidestepped the main area of contention in the talks: whether participation in sector-wide tariff-cutting deals should be voluntary or mandatory. Meanwhile, the negotiations on services liberalisation apparently saw "no movement" at all, according to a source close to the talks.

Even the talks on trade facilitation - usually the golden boy of the Doha Round talks - moved at a glacial pace during a first official meeting of 2010.

Meanwhile, the agriculture talks have also been largely treading water. Delegates have only discussed issues of controversy in informal consultations with the chair of the talks, Ambassador David Walker of New Zealand, at the New Zealand Mission; the touchy subjects have not been broached in any formal meetings.

Official talks have largely centred on the technicalities of the Special Safeguard Mechanism, a tool that would allow developing countries to raise tariffs to protect domestic producers from import surges and price depressions.

Many delegates say that the US, which still lacks an official ambassador to the WTO, is the primary drag on the pace of the negotiations. More than a year after US President Barack Obama took office, several critical trade posts remain unfilled thanks to partisan political point-scoring on Capitol Hill.

One source argued, however, that delegates might be putting too much focus on the US stance, pointing out that the EU also lacks ambassadorial representation at the WTO at the moment.

"More than a year after US President Barack Obama took office, several critical trade posts remain unfilled thanks to partisan political point-scoring on Capitol Hill."

G33 challenge exporter's claims on the special safeguard mechanism

The G33 group of import-sensitive developing countries have responded to exporters' criticisms of the proposed 'special safeguard mechanism' - a new tool that would allow developing countries to impose additional safeguard duties on imports in the event of a surge in import volumes, or a sharp drop in prices - in a series of papers released in January and February.

Disagreements over the SSM were largely blamed for the collapse of high-level trade talks in July 2008; since then, exporters have outlined many of their concerns with the mechanism. Among them, the protection of 'normal trade,' or trade outside of import surges, has been key. Exporters want to ensure that the SSM can only be used in the case of import surges and not in response to growth in 'normal trade'.

Although the notion of normal growth in trade is not clearly defined, the G33 responded to exporter concerns in a paper published in late January by showing that, between 1987 and 2007, growth in trade for the ten most traded agricultural commodities has remained in the single digits, with the exception of soy.[1]

The SSM has a proposed trigger of a ten-percent surge in import volume compared to a three-year moving average. The G33 document suggests that, under such a scenario, normal trade is likely to flow unimpeded.

In two subsequent papers, released in February, the G33 examine whether the SSM should take into account seasonal variations in production and trade, and also whether a volume surge and price depression should occur simultaneously as a condition for imposing safeguard duties - both of which are key demands from exporters.

In their paper on 'seasonality', the G-33 warn that a distinction must be made between 'seasonality in trade' and 'seasonality in production'. While growing seasons may mean that production of certain products is skewed towards particular months of the year, these trends do not necessarily translate into increased international trade during those periods - for example, in the case of raw materials that are subsequently processed into non-perishable secondary products, and then traded throughout the year.

The G33 also challenge the argument promoted by exporters that a "cross-check" or link should be made between the presence of a volume surge and a price depression, on the basis that if import volumes are increasing but prices are not falling, there is continued demand from domestic consumers.

The G33 counters that "a considerable time lag" can occur between an import surge and its impact on domestic prices and industry - with such time lags being particularly acute in developing countries, due to "complex and thick layers of distribution chains and inadequate infrastructure." The group warned that the proposed 'cross-check' would "unresponsive to practical needs."

In addition, because many developing countries will in reality be unable to monitor real time price and volume data for all tariff lines all the time, the cross-check requirement would in effect make the SSM unworkable, the group observed. The poorest and smallest countries would also be the most affected by any such requirement.

> "If Brazil follows through with the duties on IP rights and services, many believe that the measures would target the economically and politically strong US pharmaceutical industry."

Brazil Set to Announce List of US Goods for Sanctions, Takes First Step to Cross-Retaliate

Brazil has announced that on 1 March it will release a substantive list of retaliatory duties to be imposed on US goods. The retaliation results from a dispute between the United States and Brazil over the subsidies that the US provides its cotton farmers.

A WTO panel ruled in August that Brazil should be allowed to impose retaliatory duties on US$830 million worth of trade with the United States. That ruling came on the heels of a 2008 Appellate Body decision that concluded that US cotton subsidies contravene WTO rules. But the subsidies remain in place, thanks in large part to the US agriculture lobby, which wields significant influence on Capitol Hill.

Of the US$830 million worth of trade that Brazil can sanction, US$560 million will be detailed in the list of goods to be released in March. The other US$270 million will be applied in the form of 'cross-retaliation measures', which would target services as well as intellectual property rights (IPRs).

Cross-retaliation, which is allowed under WTO rules, can be a powerful retaliatory tool. By restricting or suspending IPRs, a relatively small country can inflict economic damage upon a larger country without making its consumers suffer from higher prices.
On 11 February Brazil's president, Luiz Inácio Lula da Silva, approved legislation that allows the suspension and limitation of the IP rights of citizens or companies domiciled in countries that violate WTO rules. However, additional administrative action is still needed before Brazil can be in a position to effectively implement the cross-retaliation.

If Brazil follows through with the duties on IP rights and services, many believe that the measures would target the economically and politically strong US pharmaceutical industry. By suspending or breaching the IP rights of pharmaceutical companies, Brazil would be able to seize royalty payments or even produce cheaper generic versions of the targeted drugs.

Industrial Goods Talks Tackle Non-Tariff Barriers

With no movement on the principal sticking point in the Doha Round industrial goods talks, negotiators continue to inch forward on establishing new rules for addressing non-tariff barriers.

In recent months, officials have been focusing their energy on non-tariff barriers, or NTBs. In February, they continued to discuss proposals for the automotive, electronics, and textile sectors. They also looked at 'remanufactured goods' - used products that are refurbished and provided with a warranty - and a proposed 'horizontal mechanism' for quickly adjudicating trade problems arising from NTBs.

The automotive sector is marked by a wide array of differing standards that compel auto makers to re-tool cars and trucks to meet the specifications of each target market. The EU has proposed moving towards harmonising technological regulations and standards in the sector, although other major auto producers remain hesitant. The US called it "unrealistic" and said it would deprive countries of the ability to follow their own standards. Japan argued that countries with different geographies, climates, and population densities need different standards.

Talks on NTBs in the electronics sector have been marked by similar disagreement. Several developing countries, including India and Brazil, are wary of trade in 'remanufactured goods'. Many of them do not differentiate between 'remanufactured' and 'used', fearing that such products - warranty notwithstanding - might last less long than new ones, and could become a pretext for dumping waste from rich nations.

A substantial majority of WTO members, from the EU and Canada to the African and LDC groups, favours the creation of a 'horizontal mechanism' for promptly addressing trade irritants arising from non-tariff barriers. The US is unconvinced, however; it would prefer that countries take particular problems to relevant WTO committees. Another wrinkle comes from the fact that Japan, Korea, and Taiwan don't want such a mechanism to address trade barriers linked to sanitary and phytosanitary (SPS) measures - even though fish products are covered by the NAMA negotiations.

This information has been summarised from ICTSD's Bridges Weekly Trade News Digest.

Notes

1 "Refocusing Discussion on the Special Safeguard Mechanism: Outstanding Issues and Concerns on its Design and Structure Submission by the G33", TN/AG/GEN/30, 28 January 2010: *http://ictsd.org/downloads/2010/02/g-33-ssm-paper-28jan2010.pdf*

EPA Update

Melissa Julian

New EU Trade Commissioner to detail EPA approach in coming weeks

Karel De Gucht assumed office as the new EU Trade Commissioner on 9 February following a confirmation vote by the European Parliament[1]. ACP governments are pleased to have a political counterpart to help move the Economic Partnership Agreement (EPA) negotiations forward. For the past two months, an interim commissioner has held the post following the early resignation of the former trade commissioner, Catherine Ashton. De Gucht has pledged to take an "open and flexible approach" to the EPA negotiations and said concluding the EPAs with the ACP countries should be a top priority for the EU.

Central Africa agrees to continue EPA negotiations with the EU

Central African Heads of State agreed on 17 January to work towards concluding a regional EPA that addresses development needs and facilitates the integration of the region into the world economy.[2]

A regional ministerial-level meeting to discuss EPAs is scheduled to be held in the second half of February in Douala. National Authorising Officers will also attend. The meeting will discuss outstanding EPA issues (market access, services, fiscal impacts of the EPA, the non-execution clause, import taxes, the MFN clause and development finance) and determine the strategy for negotiations with the EC. The EPA Regional Fund should also be discussed at this meeting. Another issue on the agenda is Equatorial Guinea's decision to not join the EPA before 2020. Ministerial and technical-level negotiations with the EC may then be held in the second half of March in Central Africa. A new calendar of meetings will be agreed at that joint meeting.

The implementation of the Cameroon-EU interim EPA continues to be delayed more than two years after it was signed, according to reports from the 25 January meeting of the EPA support steering committee - comprised of government and EU representatives.[3] In particular, Central African officials blame complex EU administrative procedures for preventing the use of €5.5 million in EDF technical-assistance support for improving production capacity and economic competitiveness.

Central African government officials welcomed indications from the French government that it is insisting that EU negotiators focus on the development dimensions of the EPA. Sources say they hope EU technical-level EPA negotiators will be instructed to be flexible in addressing the region's concerns. French trade and cooperation ministers wrote to the EU Presidency, the EC and EU Member States proposing that they take the initiative to find flexible trade arrangements for regional agreements.[4]

Nigeria retains Presidency of ECOWAS Authority of Heads of State

ECOWAS Heads of State and Government met in Abuja on 16 February, after the meeting was postponed a couple of times. The meeting was chaired by the Vice-President of Nigeria, Goodluck Jonathan, as the Nigerian president, Umaru Musa Yar'Adua, is currently hospitalized in Saudi Arabia. It was decided that Nigeria would retain the Presidency of the ECOWAS Authority of Heads of State and Government for an additional year. However, the heads of state were unable to agree on a new president of the ECOWAS Commission. In the interim, Ghanaian Ambassador Victor Gbeho will hold the post until December 2010. In terms of the EPA negotiations, the heads of state affirmed that West Africa and the EU need to reach a consensus, particularly on the development dimension of the agreement.

Technical negotiators informed their EU counterparts at a meeting on 4-5 February that further consultations are necessary in order to revise the region's market access in goods offer before negotiations can begin with the EU. In November, West Africa had offered tariff liberalisation for 67% of the region's goods and called for up to a 25-year transition period for some products. The EC, however, called on the West Africans to further refine the offer towards a liberalisation threshold of 70% coverage of tariff lines and volume and for some products to be liberalised faster.

West Africa-EU negotiations will continue in March. These include a meeting of the Regional Preparatory Task Force on 18-19 March; a technical experts meeting from 22-25 March; and a senior officials meeting on 25-26 March. Issues to be discussed include market access, rules of origin, modalities for financing the EPA Development Programme, regional levies, the MFN clause, the non-execution clause and agricultural subsidies.

At the EU-Cape Verde ministerial-level political dialogue held on 26 January, the parties welcomed the continuation of West African EPA negotiations as well as the progress made on the EPA Programme for Development.[5] They stressed the need to overcome the last few steps in the negotiations as soon as possible. They also welcomed the road map for the implementation of the 10th European Development Fund (EDF) Regional Indicative Programme for West Africa.

ESA region seeks political guidance before continuing negotiations

Eastern and Southern Africa regional leaders are seeking a meeting with the new European trade and development commissioners to establish a high-level political understanding regarding contentious EPA issues before continuing with technical-level negotiations. Meetings may be held in the second half of February.

EU threatens to withdraw EAC trade preferences if interim EPA not signed

The head of the EU delegation to Tanzania, Ambassador Timothy Clark, says a realistic timetable for signing the East African Community's interim EPA must be established.[6] The EU Delegate also issued a statement ahead of an East African Community Ministers' meeting on 4 February in Arusha encouraging ministers "to give a clear signal that they are willing to sign the EPA as initialled in 2007" [in order to] "obtain legal security for the agreed market access to the EU."[7] Clark said: "The situation, as it stands now, is untenable. EAC countries, despite not signing the EPA, have been enjoying free access to EU markets in the same way with other ACP countries that took legally binding commitments by signing EPA. This is inconsistent and in fact the current situation is contrary to both EU law and World Trade Organization rules." The EC also posted the consolidated EAC EPA text and final act on its website.[8]

Tanzanian Trade Minister Mary Nagu said the EAC wanted firm commitments from the EU on development assistance before it would sign a full agreement. "We need infrastructure such as properly working railways and ports to enable us to trade. We would like to sign as soon as possible after resolving these issues" ...There won't be a level playing field if the agreement is signed in its very general form. We need to benefit from trade, we can't continue begging in the form of aid," she said.[9]

Withdrawing trade preferences provided to the EAC under the EU's EPA market access regulation would require a unanimous vote by EU Member States which may prove politically difficult at this time. There is also no indication that a WTO challenge is being considered at this time.

EAC Member States met in Bujumbura from 18-22 January to analyse why the EAC-EC negotiations failed in December 2009 and to consider the options available to move forward with the development component of the EPA. According to a Kenyan Trade Ministry statement, the outstanding issues are economic development, export taxes, and the Most Favoured Nation (MFN) clauses. The ministry explained that economic development issues are pertinent in addressing supply side constraints, while export taxes and MFN clauses limit policy space.[10] Negotiations on these outstanding issues are ongoing at both the regional and EAC-EC level, as the parties work towards an interim framework EPA.

Another round of EPA regional negotiations is scheduled to be held from 15-20 February in Kampala. Subsequently, joint EAC-EU technical-level negotiations will take place in Brussels on 23-24 February to discuss outstanding issues.

SACU agrees to negotiate as a bloc in SADC EPA negotiations

Senior SADC EPA officials met on 11 February, following a January SACU (Southern African Customs Union) Council of Ministers meeting and agreed that Botswana, Lesotho, Namibia, South Africa and Swaziland will move forward as one SACU entity in the SADC EPA negotiations. They also agreed not to notify the interim EPAs signed by Botswana, Lesotho and Swaziland to the WTO. Ratification and implementation of these interim EPAs has also been put on hold until outstanding issues on development concerns, rules of origin and alignment have been resolved with South Africa, Namibia and the EU.

An EU-SADC EPA senior officials meeting is scheduled to be held from 17-19 March. A full SADC-EU EPA may be concluded by the end of 2010.

Tripartite Task Force signs MoU with UK DFID

The Tripartite Task Force (TTF) – a coordination mechanism for the East Africa Community (EAC), Common Market for Eastern and Southern Africa (COMESA) and the Southern Africa Development Community (SADC) – signed a Memorandum of Understanding (MoU) with the United Kingdom's Department of International Development (DFID) aimed at deepening regional integration and strengthening cooperation between donors supporting the region's integration.[11] It will serve as the basis for a long-term, strategic and operational partnership. The MoU commits the TTF to promoting and accelerating regional integration in Africa; implementing recent decisions on trade integration and infrastructure cooperation; forming a free trade area across the three regions; and assisting the Regional Economic Communities to mobilise their resources.

Caribbean focused on EPA implementation

The CARICOM (Caribbean Community and Common Market) Council of Ministers – the region's second highest decision-making organ – met on 10 February.[12] The meeting was preceded by a meeting of the Council for Trade and Economic Development which considered a report on the status of implementation of the CARICOM Single Market and Economy (CSME). The report found that the CARICOM single market was functioning but there were gaps in the legislative, institutional and infrastructural framework that needed to be addressed. Among the other matters the ministers dealt with were agriculture trade, development of the services sector, information and communication technology for development and EPA implementation.[13] No further details on the outcome of these meetings have been made available.

The Bahamas and the EU initialled trade in services and investment commitments to be annexed to the Caribbean-EU EPA on 25 January.[14] While the Bahamas signed the EPA in October 2008, it had postponed completing and submitting its services and investment offers to the EC.

The Commonwealth Secretariat's Hub and Spokes programme, together with the Trinidad and Tobago Trade Ministry, held a workshop on 2 February on how to take advantage of the EPA's market access provisions.[15] Similar initiatives are taking place throughout the region. Several helpful presentations can be found on the event's website.

Both the EU and the Caribbean are redefining their external relations priorities in the context of a rapidly evolving geopolitical scene, which is expected to begin with a joint process of reflecting on a future partnership. In the run up to the EU-Latin America-Caribbean heads of states summit in mid-May in Madrid, the current Spanish EU Presidency will stimulate reflection on the future of the Caribbean-EU partnership.[16]

The development of several programmes under the Caribbean Integration and Cooperation Roadmap should be completed by the end of March. Programmes include economic integration in the OECS, EPA capacity building and support to the Caribbean Export Development Agency. A regional meeting to discuss support for customs and trade facilitation is tentatively scheduled for the end of February 2010. Arrangements are also being finalised for an assessment of the role that the Caribbean Development Bank will play with respect to the management of EPA implementation funds under the 10th EDF Regional Indicative Programme.

Pacific

Fiji and Papua New Guinea are the first two Pacific countries to benefit from a new preferential rule of origin for the export of processed fish and marine products to the European market provided under the EPA.[17]

Fish, regardless of their origin, are deemed to originate from these Pacific ACP countries as long as they are transformed from being fresh or frozen into a pre-cooked, packaged and canned product in Fiji or Papua New Guinea and can then be exported to the EU free of duties and quotas. Allowing this global sourcing was a key demand of the Pacific ACP (PACP) in its EPA negotiations with the EU. First Counsellor of the EU's Delegation in Fiji, Robert De Raeve, explained that global sourcing was a 'flexible mechanism' to suit the special needs of PACPs who have limited products to trade under the EPA. He was, however, quick to point out that the new arrangement was a one-off and exclusive only to the Pacific.

The PACP held technical EPA meetings in Port Vila from 25-29 January to discuss legal and institutional capacity building. At the same time, joint customs, legal and trade officials met to discuss EPA customs-related provisions. Joint fisheries and trade officials also met. The meetings were held to consider provisions in the draft PACP-EU EPA with a view to advancing and finalising PACP positions on these issues in the EPA negotiations. It was agreed that the PACPs would undertake further consultations with relevant stakeholders at the national level on issues discussed at these meetings in order to formulate text-based proposals to submit to the EC. The EU Council forwarded the Pacific-EU EPA to the European Parliament for its consent.[18]

Effort is also being made to hold a Forum Fisheries Committee meeting prior to the PACP Trade Ministers meeting and the PACP-EC Joint Technical Working Group meeting tentatively scheduled to be held in June. A PACP meeting of trade officials tentatively scheduled for March 2010 will discuss these issues further. A technical round of negotiations with the EU will also be held in June.

Author
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Trade Negotiations Insights

Calendar and resources

ACP-EU Events

March

1 New ACP Secretary General to take up office

1-2 SADC–EU EPA information seminar, Maputo, Mozambique

4 AUC, AfDB, WB, UNECA, EC, DFID and the Infrastructure Consortium for Africa meeting on Regional Economic Integration in Africa: "Joining up Africa", London, UK

8-11 Special meeting of the ACP-EC Council of Ministers on the 2nd revision of the Cotonou Agreement, Brussels, Belgium

9-11 Forum EURAFRIC 2010 on water and energy in Africa, Brazzaville, Congo

11-12 Twenty-First Inter-sessional meeting of the CARICOM Conference of Heads of Government, Dominica

16 EC DG Trade Conference on EU Trade Policy towards Developing Countries, Brussels, Belgium

17-18 Workshop in West Africa on trade in services and investment, Praia, Cape Verde

17-19 EU-SADC senior officials meeting on EPA, Brussels, Belgium

18-19 West Africa Regional Preparatory Task Force on EPA (place TBC)

18-19 Joint EU-AU Task Force on coordination of the present action plan and preparation of the new plan (place TBC)

22-26 EU–West Africa Technical and Senior Officials' meeting, Brussels, Belgium

24 EC DG Trade civil society seminar on EU Trade Policy Making (Perspectives and Priorities), Prague, Czech Republic

24-25 FARA regional policy dialogue workshop on promoting access to regional and international markets for agricultural commodities in Eastern and Southern Africa, Nairobi, Kenya

29-1 19th session of the ACP-EU Joint Parliamentary Assembly, Tenerife, Spain

TBC Central Africa–EC ministerial and technical level negotiations on EPA (place TBC)

TBC PACP trade ministers and officials meetings (place TBC)

TBC EPA information seminar for the ESA region, Malawi

TBC EPA information seminar for the EAC region, Uganda or Rwanda (place TBC)

TBC AU Trade Ministers Meeting, Addis Ababa, Ethiopia

April

22-23 Conference on the CARIFORUM-EU EPA One Year On: Regional Integration and Sustainable Development, Bridgetown, Barbados

1-29 East African Community Investment Conference, Kampala, Uganda

29 EU-ACP Civil Society Organizations International Seminar on EPAs, Brussels, Belgium

TBC ESA EPA technical meeting, followed by ESA-EC technical level meeting on EPA, Brussels, Belgium

TBC EAC TRINNEX event and follow-up of Nairobi seminar, Rwanda

TBC EPA information seminar for the Caribbean region, Bridgetown, Barbados

TBC ACP Technical Follow-up Group meeting (place TBC)

May

3-7 Oceania Customs Annual Conference to PACP Heads of Customs meeting (place TBC)

1-12 EPA information seminar for South Africa, Capetown, SA

1-13 Technical level workshop in the Pacific on EPA, Nadi, Fiji Islands

TBC COMESA-EAC-SADC Tripartite Summit on regional integration (place TBC)

WTO Events

February

10-12 Trade Policy Review Body — El Salvador

22-23 WTO General Council

March

24-26 Trade Policy Review Body — Croatia

April

6-8 Trade Policy Review Body — Armenia

28-30 Trade Policy Review Body — Albania

Resources All references are available at: *www.acp-eu-trade.org/library*

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