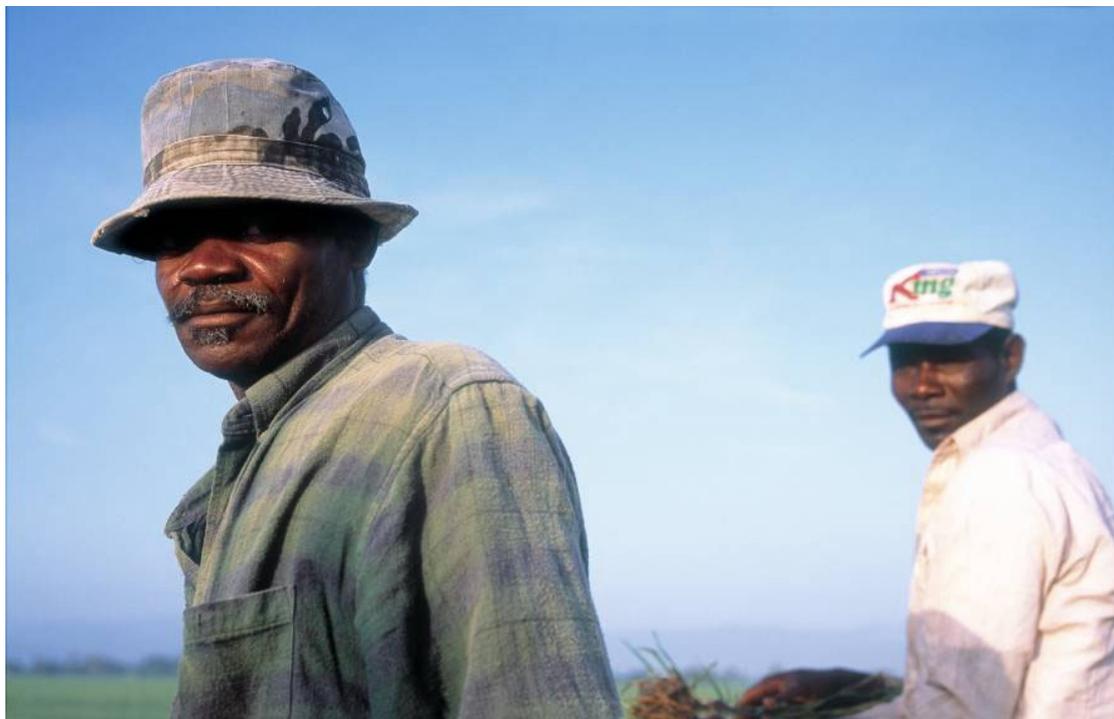


# **New ACP-EU Trade Arrangements: New *Barriers* to Eradicating Poverty?**

## **EXECUTIVE SUMMARY**



*By*

GAWU, DHS, CIECA, ADEID, GRAPAD and *EUROSTEP*

Brussels, March 2004

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The conclusions of the study are agreed by all of the authors.

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## Background

In June 2000 the European Union (EU) signed a co-operation agreement with the African, Caribbean and Pacific (ACP) group of countries known as the Cotonou Agreement. The Agreement provides the framework for the EU's co-operation with 78 ACP countries until 2020. As a successor to the Lomé Conventions, the new Agreement covers most aspects of the EU's co-operation with the ACP, including trade, aid and political dialogue.

Title II of the Cotonou Agreement defines the objectives and principles of the new trade arrangements between the EU and the ACP countries. According to the Agreement, the Parties agreed to conclude new World Trade Organization (WTO) compatible trade agreements, which aim to progressively remove barriers to trade and enhance cooperation in all areas relevant to trade. These trade arrangements are supposed to replace the preferential non-reciprocal trade system foreseen by the Lomé Conventions. The objective is to enable ACP States to play a full part in international trade and advance poverty eradication and sustainable development in the ACP. To this end the ACP and the EU began negotiations on Economic Partnership Agreements (EPAs) in September 2002, and are supposed to end these negotiations by December 2007 at the latest. EPAs, which are an integral part of the Cotonou Agreement and are supposed to embody the new ACP-EU trade arrangements, are based on four main principles: partnership, regional integration, development, and compatibility with the WTO. However, a serious point of concern is on their ability to contribute to the general objective of the ACP-EU partnership - poverty eradication.

This is an executive summary of a study that has been carried out by *Eurostep* together with partner organizations. The report focuses mainly on the issue of removal of barriers to trade in the ACP-EU trade arrangements and its consequences for ACP countries. Its aim as an independent civil society work is to examine how the proposed free trade based regional agreements affect the fight against poverty in five ACP countries: *Jamaica, the Dominican Republic, Ghana, Benin and Cameroon*.

The complete version of the study can be obtained through *Eurostep*'s website:  
[http://www.eurostep.org/pubs/trade\\_study.pdf](http://www.eurostep.org/pubs/trade_study.pdf) (filesize: 1.4 MB)

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## EXECUTIVE SUMMARY

This study describes how proposed ACP-EU trade arrangements – Economic Partnership Agreements - could impact on the fight against poverty in five ACP countries: Jamaica, the Dominican Republic, Ghana, Benin and Cameroon. The main focus of the study is on examining what the different consequences are for people in the ACP with the removal of tariff barriers to EU products on the one hand, and the easing of non-tariff barriers to ACP products on the other. It sets benchmarks for a credible process and outcome of the design of ACP-EU trade arrangements that advance poverty eradication in the ACP. Its analysis is based on experiences and forecasts of people from the five countries working in close proximity with people living in poverty, and with sectors that are key to its eradication.

The conclusions of this analysis are that if EPAs are based on liberalised trade between the EU and the ACP countries, rather than advance poverty reduction, they will set back poverty reduction programmes and strategies in the ACP and undermine the Cotonou Agreement, with regard in particular to the promotion of social sector funding.

The Cotonou Agreement states that the overall goal of the ACP-EU Partnership is poverty eradication. It follows that EPAs as an integral part of this partnership should contribute towards this objective.

The Agreement sets two conditions to be met by EPAs:

- They should progressively remove barriers to trade; and
- They should be WTO compatible.

The EU's starting point in the negotiations has been to interpret WTO compatibility as reciprocal free trade and the reference to removal of trade barriers as a license to focus primarily on the ACP dismantling tariff barriers. However, WTO compatibility cannot be considered as synonymous with reciprocal free trade, chiefly because WTO rules are currently under negotiation and WTO compatibility could be redefined. This state of affairs has now been recognised by both the EU and ACP. There is therefore no reason why the trade arrangements should be shackled to rules that are evolving, especially if the implications of the rules have been found to run counter to recognised poverty reduction strategies in the ACP.

Regarding the removal of barriers, to date the negotiations have mainly focused on tariff barriers. But it is evident that all ACP countries stand to lose huge amounts of revenue, which could be pumped into social sector programmes, by removing customs duties on EU imports. This will constrain the implementation of article 25 of the Cotonou Agreement that aims to promote adequate levels of public spending in social sectors. The loss of funds is also even more critical considering that the EU puts the onus on the ACP for any financial adjustments to be made for new trade arrangements. In addition, the influx of EU products fuelled by massive Common Agricultural Policy (CAP) subsidies, which will result from the removal of tariff barriers, will overwhelm ACP economies by putting a lot of poor men and women out

of jobs, and by damaging key export earning sectors in cash strapped and debt burdened ACP countries.

At the same time, ACP countries are presently unable to overcome a range of non-tariff barriers such as health standards, and rules and regulations, which hinder their exports to the EU in areas that are vital to the poor in terms of employment and income generated for the government. In certain cases some of these standards are questionable in terms of their relation to internationally agreed health standards.

The CAP has also acted as a barrier to exports by restricting certain products from the market and lowering world prices of ACP countries produce, as have a range of domestic constraints to export production.

Women, who make up the majority of the poor in ACP countries, are employed at the lowest end of the trade process and have not benefited from current ACP-EU trade arrangements. They are likely to suffer further from the disproportionate detrimental impact that the CAP has in their main area of employment – agriculture.

## **COUNTRY CASE STUDIES**

Extracts from country case studies on Jamaica, Dominican Republic, Cameroon, Ghana and Benin below, give some examples of how the problem of poverty in the ACP is aggravated with the maintenance of EU non-tariff barriers that restrict ACP exports and which will be compounded by the removal of ACP tariff barriers towards EU exports.

### **1. JAMAICA**

*“[Opening up of our markets to the EU] would be the last straw to break the camels back. It would totally wipe out the local dairy farmers.”* Aubrey Taylor, Chairman of Jamaica Dairy Farmers Federation (JDFF).

In Jamaica dairy producers, many of which are small poor farmers, have no means of achieving the health standards set by the EU on dairy products and thus have no prospect of exporting to the EU. Sugar producers are restricted by the EU sugar regime in exporting high value processed sugar even though this is crucial to the survival of an ailing industry, which is still the second largest single employer in Jamaica and the third largest foreign exchange earner.

To add to these problems EU dairy exports are set to increase their inundation of Jamaican markets to the detriment of the local dairy industry, if EPAs do not allow Jamaica to protect its industry. The dairy industry has been identified as strategic to the development of the entire agriculture sector, which employs the majority of the poor in Jamaica.

## **2. DOMINICAN REPUBLIC**

*“In the absence of a protection and support programme for the sector, I don't think I can survive. Production costs rise everyday and I am at the mercy of middlemen who pay me whatever they wish for my milk”.* Dairy farmer from the Dominican Republic. In the Dominican Republic promising exports in organic products are let down by difficult and costly processes for certification and import authorisation in the EU. Organic products have the potential to provide valuable income for small farmers due to their resistance to commodity price falls. But many individual small poor farmers find it impossible to meet the costs of certification of organic products.

Like in Jamaica, if EPAs introduce liberalised trade EU dairy products will overrun a market it already dominates, forcing thousands of dairy farmers out of jobs. Furthermore, the contribution of revenues from duties on EU imports to total customs revenue will drop from 13% to just 1.5%. The fall in public revenue that will result, could limit social sector spending in a country where slow progress on poverty reduction, even after years of economic growth, has already been attributed to low public social spending by the United Nations Development Programme (UNDP).

## **3. CAMEROON**

*“The elimination of the non-reciprocal preference system may threaten the Government Financial Operations Table and the achievement of the Millennium Development Goals (...) This situation would have a particularly negative effect on the national poverty reduction strategy, on basic infrastructure, health and education.”* Professor Fouda – Cameroonian academic - on the impact of liberalised trade with the EU on Cameroon and the Millennium Development Goals.

Cameroonian exporters have been thwarted by a range of EU regulations ranging from CAP seasonal quotas of French beans, to the chocolate directive that restricts cocoa fat in chocolate. Through the chocolate directive in particular, which allows EU chocolate producers to substitute cocoa fat with other fats, Cameroon as a major cocoa exporter could lose huge amounts of revenue from its cocoa exports.

To add to the country's problems, the dismantling of tariff barriers through an EPA is likely to put thousands of poultry farmers, amongst others, out of the market and intensify food insecurity by increasing dependence on foreign imports in a country where 36% of all children are malnourished. According to analysts, trade liberalization could worsen the problem of malnutrition.

## **4. GHANA**

*“It is extremely difficult to figure out how the dumping of cheap poultry parts-like legs, wings, necks - that have no markets in the EU anyway, could be permitted in the name of free trade that is supposed to promote competitiveness”.* Mr Adjei Henaku, the Executive Secretary of the Ghana Poultry Farmers on opening up of the Ghanaian market in an EPA.

In Ghana, cocoa, which is the biggest export product to the EU is also restricted by the chocolate directive. In addition a range of other barriers hold back promising

horticultural exports such as tough rules on banana exports, which aim to determine the form and size of the fruit. Banana farms have a much higher workforce per hectare than any other plantations in Ghana and therefore are a critical source of livelihoods for the poor.

Just as in Cameroon, a huge influx of poultry exports from Europe is expected with the dismantling of tariff barriers which will augment poverty not only for the poultry farmers it puts out of work but also the poorest section of Ghanaian society – the millions of crop farmers (many of which are women) - who are dependent on the poultry industry. Furthermore, it is estimated that Ghana could lose between 4-7% of government revenue, if a free trade arrangement is established between West Africa and the EU. This will reduce possibilities for public investment in social services. Yet Ghana's poverty reduction strategy calls for greater social spending and a tariff structure that maximizes revenues and minimizes unfair competition.

## **5. BENIN**

*“According to a recent study of four West African countries (Benin, Burkina Faso, Mali and Togo), if no corrective measures are taken the cotton sector could disappear in the next three years”.* President Kerekou of Benin in a speech to the European Parliament in Brussels, September 2003.

In Benin cotton production is key to poverty reduction. American and European cotton subsidies have contributed to the plummet in world cotton prices over the last three years. Analysts have established a direct link between prices on cotton and poverty, whereby a drop in global cotton prices by almost 40% (as was experienced in 2002) increases poverty by 7-8%. This highlights the urgent need for the EU to work together with the US in eliminating subsidies on cotton. In the long term, an EPA could help promote the development of a viable textile industry in Benin only if it, among other things, involves a restriction in EU exports of used textiles. Such an action coupled with more favourable rules of origin and financial support to the sector, could contribute to the viability of the cotton industry.

Failing to protect Benin's economy from EU imports will also result in a drop in custom's revenue for Benin of close to 20%. This is likely to limit public social spending in a country in which the UNDP has emphasised the urgent need for a broadening of its tax base and an increase in public social investment if it is to achieve sustainable human and social development.

## Key Numbers

15	The number of years some estimate it would take to restructure the <b>Jamaican</b> sugar industry if it is to face liberalised trade with the EU
10 000	The number of jobs that would be created in the Jamaican dairy industry if it was able to implement a strategy for milk production, which includes taxing all milk imports at 50% (most Jamaicans associate poverty with unemployment).
6-7	Percentage of social expenditure in the Dominican Republic – This figure, which is half of the Latin American average could fall further with the predicted loss of government revenue in loss of import duty receipts through liberalised trade with the EU
20 000	The number of dairy workers in the Dominican Republic who have lost their jobs in the last thirty years due to lack of protection of the sector and the high volume of milk powder imports, of which a significant part comes from the EU
50.5	Percentage of Cameroonian population living in poverty
20-30	Percentage range of fall in Cameroonian government revenue following reciprocal free trade with the EU taking into account accumulated job losses, tax shortfalls and lower growth rates
20	Percentage of revenue from cocoa exports that Ghana could lose because of the EU chocolate directive. Cocoa is the largest export to the EU making up 37% of all exports
25	Percentage of Ghanaian industries predicted to survive without import tariff support following implementation of free trade with the EU
334 000	The number of extra individuals that fall below the poverty line following a 40% reduction in world cotton prices in Benin
160	EU subsidies in € per kilo of cotton produced as % of world market price – the highest rate of subsidies per kilo given to cotton farmers in the world. These subsidies have contributed to increasing poverty in Benin
700 million	The estimated cost in dollars (€ 563 million) for African countries a year due to EU health standards that are higher than internationally agreed health standards
35 million	The estimated costs in pounds (€ 51 million) to African countries per day of the EU Common Agriculture Policy

## **Benchmarks for Poverty Focused Trade Arrangements**

Representatives of civil society who were involved in the authoring of this report strongly believe that the ten-benchmark actions listed below need to be taken up by the negotiating parties to ensure future ACP-EU trade arrangements are focused on poverty reduction. Where possible these actions should be authorised by the revised Cotonou Agreement due in May 2005.

- It is imperative that the ACP and the EU work together in the WTO to obtain flexibility for trade arrangements that best address poverty.
- New ACP-EU trade arrangements' focus should include removal of EU non-tariff barriers (as opposed to tariff barriers) that have been shown to be detrimental to poverty reduction.
- The ACP and EU should ensure the protection of all ACP markets that are vulnerable to EU imports and are crucial to poverty reduction and the livelihoods of the poor.
- The ACP and the EU should promote further research on the impact of trade arrangements on women in the different ACP countries upon whose results the design of EPAs should be based.
- ACP governments should be allowed to develop and pursue their own regional processes of integration along with the best processes of sequencing for different sets of negotiations in line with the goals they have set to generate sustainable development. This should involve a rescheduling of the dates and deadlines set for the different stages of EPA negotiations in the revised Cotonou Agreement to allow more time for the ACP to deal with these processes.
- The EU should fund programmes of assistance, designed to address the domestic constraints to exports faced in ACP countries. In tandem with the provision of funds the EU should support and contribute to debt relief in the ACP.
- EPAs should promote the development of agro-industry in the ACP. This should involve technology promotion and skill building in the agricultural manufacturing and services sectors.
- The EU, in the light of its commitment for external policy coherence, should allow external effects of CAP reform to be fully taken up and addressed in the negotiations.
- EPAs should support the development of safety nets for producers affected by the falling advantages of preferences.
- The ACP and the EU should support greater involvement of civil society groups including producer organisations in EPA discussions and negotiations in line with the provisions of the Cotonou Agreement.

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## **PARTICIPATING ORGANISATIONS**

### ***ADEID - Action pour un Développement Equitable Intégré et Durable***

ADEID is a Cameroonian NGO established in 1990, which pushes for sustainable solutions to problems faced by peoples fighting poverty. Its activities include programmes on environmental conservation, promotion of micro-enterprises and revenue generating activities for women, and development of sustainable agriculture and participatory rural development.

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### ***CIECA - Centro de Investigación Económica para el Caribe***

CIECA is a non-profit institution set up in 1987 to carry out research on economic, political and social issues in the Dominican Republic, the Caribbean and Central America. CIECA's main activities include research on domestic and international social economy, dissemination of scientific publications and sensitisation of the public.

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### ***DHS - Dairy Herd Service***

Dairy Herd Services was set up in 1995 to offer computerized herd recording to Jamaican dairy farmers. The range of services grew and shrank with demand from a dairy farmers' newsletter, farmer representation, supply of bovine semen and dairy equipment to consulting and research. It was involved in the formation of the Jamaica Dairy Farmers Federation in 1998.

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### ***GAWU - General Agriculture Workers Union of Trade Union Congress***

GAWU is a trade union and therefore a membership-based organisation. The membership includes not only employees in the formal agricultural and forestry sector but also a whole range of non-wage agricultural and other rural workers. GAWU works through four main programme areas, namely, the Rights in Work Programme; Sustainable Agriculture and Rural Development Programme; Institutional Development and Empowerment Programme; and Policy Advocacy and Campaign Programme. GAWU's major advocacy and campaign issues presently include workers rights, multilateral trade and ACP-EU trade issues, child labour and gender violence.

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***GRAPAD - Groupe de Recherche et d'Action pour la Promotion de l'Agriculture et de Développement***

GRAPAD, a Beninese NGO, was created in 1989 on the initiative of some young Beninese agricultural engineers. Its principal objective is researching of ways and means of improving the living condition of the most underprivileged sectors of the Beninese company, in particular women and peasants.

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