

The New ACP-EU Cotonou Agreement: Its Main Features

by
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Global Insight covers areas of topical interest and is meant to provide the reader with an initiation to the subject and its policy implications. The analysis is meant to be simple yet elegant, and without sacrificing depth, useful to a broad policy community. We welcome and encourage comments and suggestions.

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ISSN: 1607 - 2375

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Issue No 9, May 2001

Background

The Cotonou Agreement (CA) between the 15 members of the European Union (EU) and 71 states of the African, Caribbean and Pacific grouping (ACP) was concluded in June, 2000 and derives its name from the capital of Benin, where it was signed. The Agreement marks a significant departure from and supersedes the Lomé Convention. In its four different phases, starting in 1975, the Lomé Convention was found to have serious and deeply entrenched deficiencies as a basis for promoting comprehensive development co-operation. Many of its provisions had become anachronistic and were poorly suited to a fast changing global context. The end of Lomé IV bis (1995-2000) thus presented an auspicious moment for a fresh reappraisal of the relationship between the parties and an opportunity for them to overhaul the manifold shortcomings emerging from twenty-five years of cooperation under the four incarnations of Lomé.

The Main Objectives and Principles of the CA

The new partnership agreement provides a framework for ACP-EU relations for the next twenty years. In letter and spirit, it seeks to promote as a key objective the reduction and eventual eradication of poverty while contributing to sustainable development and the gradual integration of the ACP into the global economy.

The CA differs dramatically from its Lomé predecessor in the following significant ways:

- § It expands political dialogue, making it deeper and wider. The CA covers a broad range of issues that fall outside the purview of conventional development cooperation, including areas such as peace keeping, the arms trade and military expenditures, conflict prevention and resolution, drugs and organised crime as well as delicate issues such as the repatriation and re-admission of illegal immigrants. These new areas are linked to three foundational elements of dialogue, namely, the consolidation of democratic processes, respect for human rights and recognition of the rule of law.
- § Addressing a perennial cause for concern under Lomé, an innovative feature of the agreement includes participation by

non-state actors and local authorities. The involvement of all social sectors (civil society, social partners, the private sector, and local authorities) in the development process is encouraged and their participation is actively solicited. These >decentralised actors= are now expected to collaborate closely with central governments and institutions in confronting the challenges of globalisation, poverty alleviation and social service delivery.

§ The CA recognises an important catalytic role for the private sector in development. It outlines a far-reaching and integrated programme of action to support the business sector at both the macro and micro levels. Significantly, for the first time the private sector will have access to funds from the European Investment Bank (EIB) without needing state guarantees. A new Investment Facility aims to stimulate regional and international investment in the ACP and strengthen the capacity of local financial sectors. Provision is also made for project financing and support for commercially viable enterprises.

Trade Relations: A New Approach

The ACP-EU trade regime is another area that has undergone profound and far-reaching changes. Under Lomé, the EU granted non-reciprocal trade preferences to ACP states. The rules of the World Trade Organisation (WTO) on regional trade agreements threatened the continuation of Lomé preferences, on the grounds that it discriminated between developing countries by according preferential treatment to ACP countries, thus excluding other, and sometimes even poorer, developing countries in Asia and South America. The EU had already obtained a waiver from the terms of GATT=s Article 1 to continue the preferential regime for Lomé IV *bis*. This arrangement

was carried through to the negotiations for a successor agreement but the WTO waiver extension has yet to be granted. (Even if granted, it can be challenged by any WTO member, thus putting the agreement itself at risk.)

Theoretically then, under the CA, the current non-reciprocal tariff preferences (including the Commodity Protocols) will be maintained to the end of December, 2007. Starting in 2008, Economic Partnership Agreements (EPAs) will come into force. These free trade agreements will be reciprocal and WTO-compatible, that is, they will cover >substantially all trade= and will be implemented within 10-12 years. According to the Cotonou timetable, formal negotiations on the new EPA trading arrangements are scheduled to commence in September 2002 and ought to be concluded by 31 December, 2007 when the non-reciprocal regime expires. EPAs will allow ACP countries to participate as groups, building on their own regional integration frameworks and schemes. The logic is that liberalising trade between ACP regional groupings and the EU, combined with wider economic cooperation and support for ACP social development policies, will lead to economic growth and poverty reduction. The ACP group is expected to decide on the geographical configurations of the EPAs during the course of 2001.

The EPAs will have to be flexible enough to take into account the specific circumstances and exigencies of the 40 least developed members of the ACP, 34 of which are in Africa. Thus not all ACP countries will have to open their markets to EU products after 2008. The least developed countries (LDCs) are entitled to keep their Lomé preferences (or even a slightly improved quota-free version, the so-called >Everything but Arms= offer) without having to reciprocate. Those 38 ACP countries who are not in the LDC category and who decide they are not in a position to enter into an EPA, could be transferred into the EU=s Generalised

System of Preferences whose terms are less generous than Lomé and inferior to current EPAs nevertheless remain a contentious part of Cotonou and have both supporters and detractors. Those who see salutary effects for EPAs, stress their positive impact on:

- \$ attracting EU foreign investment into the ACP;
- \$ >locking-in= the process of trade liberalisation; and
- \$ helping to restructure ACP economies by a combination of trade-induced incentives and financial and technical support.

Those who question the efficacy and rationale of EPAs, converge around issues of whether they will:

- \$ generate extra profit margins for European exporters instead of lower prices for ACP importers;
- \$ cause sharp drops in tariff revenues which would be difficult to offset by diversification of fiscal revenues in the short to medium term;
- \$ push ACP countries to liberalise their trade at a pace and extent less optimal than could be achieved unilaterally;
- \$ cause regional integration among the ACP to become more complicated because of the EU=s differentiation between LDCs and non-LDCs; and
- \$ keep ACP attention focussed on bilateral, power-driven trade relations rather than the rule-based multilateral system of the WTO.

The challenges that go with implementing EPAs appear formidable. While the arcane and labyrinthine nature of EU institutions is legion, the ACP states will need a vast improvement in their institutional, analytical and technical capacity if they are to successfully negotiate and implement complex EPAs while simultaneously managing negotiations in regional and multilateral forums. Furthermore, entry into EPAs will *ipso facto* result in the gradual disintegration of the ACP family whose bond of solidarity was their strength under Lomé.

levels of market access.

This could result in strains and tensions among ACP states where none existed. The next 8 years of continued trade preferences do provide the ACP with a blanket of security but thereafter, difficult decisions will have to be made.

Development aid: Performance-based

The various aid instruments under Lomé have been folded into a single long-term development envelope which now includes resources available to non-state actors. Future aid will be allocated according to an assessment of each country=s needs and performance, combined with regular adjustments through a system of >rolling programming=. Assessments which determine allocations will not necessarily take into account conventional criteria such as per capita GNP, population size, or landlocked status but introduce more subjective >performance= measures subject to interpretation. These include progress in implementing institutional reforms, optimal use of resources, and macroeconomic and sectoral policy reforms. Spending programmes will contain jointly agreed parameters and stipulate criteria for performance reviews in terms of a Country Support Strategy.

Conclusion

The CA provides a new architecture underpinned by a novel ethos of participation for ordering relations between EU and ACP countries over the next two decades. Chastened perhaps by the abortive Seattle WTO round, the EU has certainly compromised in several intractable areas. For its part, the ACP group conducted the negotiations in a much more informed context. It was the beneficiary of an impressive mobilisation of ideas, expertise and commentary. The CA, as a consequence, is certainly an improved framework and does, in many ways, address some fundamental structural weaknesses and

strategic shortcomings of Lomé. The litmus test, however, will be in its practical implementation.

§ Trade preferences are not an unmitigated blessing. Under Lomé, ACP countries have shown themselves chronically unable to produce more, better and a greater variety of products which privileged access would allow. Other elements such as production costs, product quality, exporters= capacity to adapt to changes in global demand might be more important than preferential access. Because of their low saving rates and poor infrastructures, inappropriate economic policies and weak technological absorption capacity, *ACP countries will need targeted assistance under the CA to become more competitive in regional and global terms.*

§ An important issue which has yet to be fully addressed with regard to the CA approach to economic and trade co-operation is the need *to transform the basis of ACP countries= integration into the world economy in ways which facilitate the eradication of poverty and the promotion of sustainable development.* Many ACP countries are already closely integrated into the world economy yet this has hardly ameliorated the twin problems of poverty and underdevelopment.

§ The difficulties of bringing non-state actors into the CA process should not be underestimated. *Non-state actors, individually and collectively, will need to undertake a thorough assessment of the costs and benefits associated with their participation in the cooperation process.* EU assistance programmes to the ACP have a history of being highly bureaucratic and subject to lengthy implementation delays. Greater clarity

Policy Considerations

will be needed on the vague capacity building provisions of the CA, especially with regard to National and Regional Indicative Programmes.

§ The significance of >rolling programming= is that it introduces a regular annual performance review mechanism which allows aid allocations to individual countries to be modified. This new paradigm introduces a >use it or lose it= imperative to the deployment of aid. >Rolling programming= will impose a considerable administrative burden on ACP countries. *If too rigorous performance criteria are applied to ACP countries, especially those who are least developed using this >use it or lose it= yardstick, they could receive proportionally less aid under this new arrangement than they received under Lomé IV bis.* The ACP will have to monitor this carefully after it becomes operational.

§ Before the benefits of new investment are realised, ACP members are bound to experience adverse adjustment costs as relatively inefficient sectors contract. In addition, there could be dramatic reductions in tariff revenue and ACP members will be forced to diversify their revenue base away from tariffs. *It will be important for the ACP governments to identify the likely adjustment costs and to design programmes to minimise their impact.* The EU has committed itself to assisting with adjustment programmes. These may include revenue diversification as the dependence on tariffs is reduced; support to the private sector to encourage investment in sectors where ACP members have a comparative advantage; and balance

of payments support. *The EU must be kept to these commitments.*

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Further Reading

Cotonou Infokit: The New ACP-EU Partnership Agreement, *European Centre for Development Policy Management (Maastricht)*, January, 2001.

See also <http://www.oneworld.org/ecdpm>

The New ACP-EU Cotonou Agreement: A Users Guide (3 parts), *Trade & Development Studies Centre (Harare)*, October, 2000.

ACP/EU-SADC Conference on the Cotonou Agreement, *Friedrich Ebert Stiftung*, November, 2000.