

# Regional Integration Observer

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## Editorial

As an increasing number of regions embark on integration projects in the political, economic and legal spheres, the process of region building has gained momentum in International Relations. The European Union as the most prominent example of regionalization is trying to build up external relations not only to nation states but also to regional groupings. Particularly in the realm of trade, bi-regional relations are the new paradigm. While the EU is forging bi-regional relations with many parts of the world, the Economic Partnership Agreements (EPA) with the African, Caribbean and Pacific states are the most widely discussed.

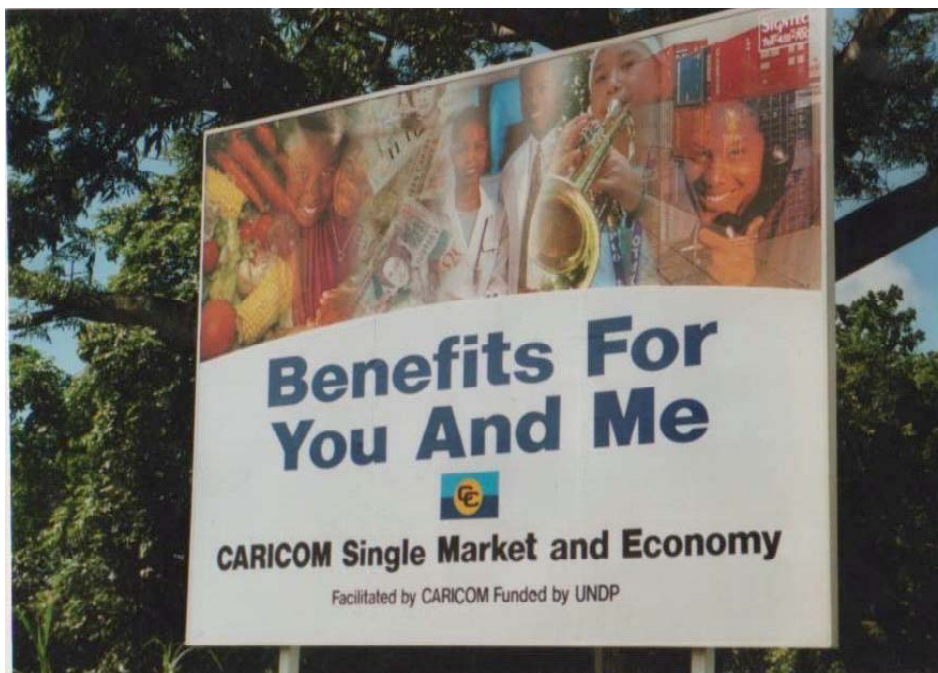
Economic Partnership Agreements are contracts between the European Union and six regions of the ACP: Eastern and Southern Africa, Southern Africa, West Africa, Central Africa, the Caribbean and the Pacific. They provide for reduced tariffs on exports from these areas. EPAs shall replace EU-ACP preferential trade agreements which had been criticised for violating World Trade Organization (WTO) regulations. Although it was the initial aim to conclude all EPA negotiations by the end of 2007, only the EPA with the Caribbean regional grouping, CARIFORUM could be concluded and be brought into effect.

Against this background, the second ZEI Regional Integration Observer of 2008 focusses on both the advances and shortcomings of the EU's bi-regional negotiation processes. Beyond ACP, articles also introduce the reader to the current state of affairs in EU relations with ASEAN, the Gulf Cooperation Council and CAN. The qualified information provided by our authors shall pave the way and give incentives for further debate on these often controversial issues.

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## EU-ACP Relations: Evolution and Prospects

Ludger Kühnhardt\*

The European Union is promoting regional integration in Africa and elsewhere. In recent years, with a focus on Africa, the Caribbean and the Pacific, this was related to the negotiation of Economic Partnership Agreements. Since 2002, the EU enticed its ACP partners to engage in these negotiations. The EU claimed that the negotiations would strengthen regional integration in Africa, the Caribbean and the Pacific. By replacing preferential trade agreements (that have been in place with the Yaoundé Conventions, Lomé Agreements and the Cotonou Agreement of 2000) by free trade mechanisms, the EU would comply with WTO provisions. At the same time, the EU claimed relations with Africa, the Caribbean and the Pacific regions would be put on the basis of equality, and a true partnership.

By 2008, interim agreements had been reached with several sub-regions and individual countries or contingent groupings of countries in Africa, the Caribbean and the Pacific. By this time, EU officials had become even more doubtful of the potential of Economic Partnership Agreements than their colleagues from the ACP countries. The EU was looking

for a new rationale in its relations with the countries of Africa, the Caribbean and the Pacific.

The root of EU-ACP relations can be traced back to the Treaties of Rome founding the European Economic Community in 1957. The Treaties of Rome granted a five year trial period for the commercial and financial association of French, Belgian and Dutch overseas territories. Article 131 and Article 136 created a de facto free trade area between the European Economic Communities and its associated areas. The most visible immediate effect was the availability of new European outlets for African tropical fruits. More long-term effects were seen with the establishment of the Development Fund with the Treaties of Rome to improve infrastructure in the southern hemisphere. This was the beginning of a European development policy. In 1963, the relationship between the European Economic Communities and eighteen associated states in Africa plus Madagascar was renewed through the Yaoundé Convention, named after the capital of Cameroon where the agreement was signed. It provided commercial advantages and financial aid to Africa. In force since July 1, 1964, its successor – the Yaoundé II Convention – followed in 1969. The quest for a new footing between

the now European Community and many of its former colonies was increasingly linked to the struggle for a new global economic order. In responding to the continuous demands from the Southern hemisphere, the European Community offered a comprehensive scheme of partnership and preferential cooperation to Europe's most desperate former colonies.

In 1975, the European Community and 46 countries of Africa, the Caribbean and the Pacific signed the Lomé Convention. Further Lomé Conventions followed at an interval of five years. Lomé IV, signed in 1990, included 77 countries. Unlike the Lomé Conventions I to III, the last Lomé Agreement lasted for ten years and included a mid-term review. It covered 638 million people in the Southern hemisphere. The Lomé Conventions entailed innovations and improvements in North-South-relationships:

- On principle trade was conducted on a non-reciprocal basis. The EC partner states – called ACP states (ACP stands for Africa, Caribbean, Pacific) were exempted from the GATT multi-fiber agreement, which placed restrictions

sub-Saharan countries. Africa makes up 95 percent of the total ACP population and gets 80 percent of all support funds provided by the Cotonou Agreement. This agreement replaced the Lomé IV Convention and is intended to last for twenty years. Its main features are the following:

- The Cotonou Agreement emphasizes political dialogue with an increased input from civil society.

- In terms of economic cooperation, it replaced preferential agreements with the principle of reciprocity as requested by the WTO, but potentially did so to the detriment of several EU partner countries in Africa. Until 2008, new regional Economic Partnership Agreements (EPA) with each of the ACP regions were to be negotiated.

- The ACP countries are no longer exempted from the WTO multi-fiber agreements with their restrictions on textile exports from developing countries to industrialized markets. This is extremely important for certain African countries: 58 percent of total

negotiated Economic Partnership Agreements with the following groupings in Africa:

1. West Africa: all ECOWAS member states plus Mauritania;

2. Central Africa: all CEMAC member states plus São Tomé and Príncipe and the Democratic Republic of the Congo.

3. Eastern and Southern Africa: all COMESA member states except Angola, the Democratic Republic of the Congo, Egypt, Libya and Swaziland.

4. SADC minus: all SACU member states including South Africa as an observer, plus Angola, Mozambique and Tanzania.

By 2008, only some interim agreements with contingent groups of partners and individual member states were finalized. The EPA negotiations had turned out to be difficult, if not stuck at an impasse. The European Union and its African partners are now obliged to take stock and start on a new footing. The time has come to put European-African relations into an historical context, to study them in a comparative regional way and to re-define them using a new and comprehensive political strategy. In the course of the past decade or so, the European Union has initiated bi-regional association agreements with MERCOSUR, the Andean Community of Nations (CAN) and the System of Central American Integration (SICA). As of 2008, none of these negotiations have come to fruition - the negotiation with MERCOSUR had even been suspended for several years. In any case, the overall idea of bi-regional association agreements reflects a new strategic vision and orientation. The aim is to achieve a comprehensive political and economic system of cooperation that contributes to stabilizing global developments, supports regional integration as it (really) stands in Latin America and projects the global role of the European Union. If it were successful, bi-regional association agreements would constitute a new global reality and an additional dimension of global governance. Bi-regional association agreements could become a definitive answer to the challenge of globalization and an element in managing the opportunities of globalization. Bi-regional association agreements could be the appropriate element of moving from a post-colonial relationship to a mature relationship of equals in the age of globalization.

As far as Europe's relationship with the former colonies in Africa, the Caribbean and the Pacific is concerned, such a relationship is yet to materialize. In light of the ambivalent experiences with negotiating Economic Partnership Agreements, the EU should reconsider its strategy toward Africa, the Caribbean and the Pacific.

1. The preferential trade relationship with Africa, and subsequently with the Caribbean and the Pacific region has paralleled European integration from its very beginning. Since the initial commitment of the Treaties of Rome in 1957, the European relationship with former or current colonies and overseas territories of some of the EEC (later EC and EU) member states was based on a late colonial and later on a post-colonial relationship. It moved from dependency to cooperation, from colonial dominance to guilt and development



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### Meeting at the EU-Africa Summit 2007 in Lisbon

on textile exports from developing countries to industrial markets. When GATT was replaced by the World Trade Organization (WTO) in 1993, this principle came under increasing pressure from countries and regions not participating in this exclusive non-reciprocal trade arrangement.

- In a spirit of partnership and cooperation, the European Community unilaterally exempted certain ACP- products from customs levies and import taxes.

- The most innovative component of the Lomé Convention was the stabilization mechanism for raw materials: This was a fund created by the EC to ensure a minimum price for raw materials from the partner countries if the price for their raw materials fell below a certain threshold or in case of an extremely bad harvest. This STABEX system constituted a resource transfer to the ACP budgets. On June 23, 2000, a new long-term approach to the relationship between the European Union and its ACP partners, including Africa began: The Cotonou Agreement was signed between the EU and 15 Caribbean, 14 Pacific and all 48

exports from Lesotho and 39 percent of total exports from Mozambique are textiles.

- Several preferential elements of the Lomé Convention favored agricultural activities in countries producing beef (Botswana, Namibia, Zimbabwe), sugar (Tanzania, Mauritius, Malawi, Swaziland) and the economies of the land-locked African countries. They have been discontinued by the Cotonou Convention.

The main reason for the fundamental shift from preferential trade arrangements to the principle of reciprocity was the ruling of the WTO Dispute Settlement body. According to them, the provisions of the Lomé Convention were unfair as they gave preference to banana exporters in the Caribbean and in other countries who maintained special relations with Europe. The Cotonou Agreement stipulates the principle of reciprocity in free trade. To comply with its logic, the Cotonou Agreement divided the ACP countries into different regional groupings. The subsequent negotiation of Economic Partnership Agreements left it to the African countries to decide with which groupings they wished to negotiate with the EU. Since 2002, the EU



aid. It continued to be influenced by the special vested interests of some former European colonial powers in some of their former colonies (and continuously existing overseas territories). The European Union as a whole has grown as this relationship has matured. Economic Partnership Agreements (EPAs) were meant to be a modernizing continuation of this policy of five decades. However, they were too narrow, one-dimensional in their economic orientation and almost anti-political. They never had the potential to be a comprehensive strategy for re-designing Europe's relationship with Africa, the Caribbean and the Pacific.

2. The negotiations of Economic Partnership Agreements were inherently contradictory as far as the main normative objective of the European Union is concerned: promoting regional integration in Africa, the Caribbean and the Pacific. While the EU was claiming to promote regional integration, it did not recognize the existing regional groupings as an equal negotiation partner. Instead of negotiating in the Caribbean with CARICOM, the EU "invented" CARIFORUM to include Cuba and the Dominican Republic. Both these countries are not considered by CARICOM to be helpful engines of Caribbean regional integration, considering they do not belong to CARICOM. Instead of negotiating with the Pacific

Islands Forum (PIC), which has established itself in recent years as the nucleus of pan-Pacific regional integration, the EU preferred a different approach of negotiation vis-à-vis Australia and New Zealand on the one hand (both of which are PIF member states), the Melanesian group of PIF countries, Papua New Guinea in particular, on the other hand, while not pursuing a comprehensive negotiation strategy with the PIF as a whole. In Africa, the situation was just as incoherent. The EU was negotiating with four idiosyncratic groupings and not comprehensively with any of the existing regional groupings. However, in order to support regional integration in Africa, the EU needs to recognize regional groupings as they exist, no matter their substance, no matter how complex and difficult the relationship may be and no matter how comprehensive the EU approach ought to be to accommodate the interests and conditions of all the respective regional partners. It would always maintain, at best, a halfhearted support for region-building.

3. The European Union needs to develop a comprehensive political strategy for its future relationship with the regional groupings in Africa, the Caribbean and the Pacific region. Together, they may well pursue the goal of reciprocal free trade as one tool but they should never elevate reciprocal free trade to be the

ultimate and comprehensive goal of a bi-regional relationship. The regional groupings in Africa, in the Caribbean and in the Pacific have matured. They still may be weak, contradictory and insufficient. Yet, as they exist they are expressions of a genuine and independent expression of region-building. They have become political processes and ought to be supported as such. They have to be taken seriously by the European Union as a political and economic expression of the genuine interest of the respective people, societies and states. The European Union can define criteria for the management of bi-regional relationships. These criteria ought to be defined by normative principles inherent in the European integration project, including the promotion of human rights, rule of law, democracy, good governance and market economy. However, only a political approach culminating in coherent, comprehensive and multi-dimensional bi-regional association agreements with the existing regional groupings in the ACP region can serve as the basis for a new, mature and equal relationship between the European Union and large parts of a world that have outgrown post-colonialism.

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<b>State of Negotiations on Economic Partnership Agreements (EPAs), (May 2008)</b>
<b>Eastern and Southern Africa</b>
<ul style="list-style-type: none"> <li>The LDCs Djibouti, Eritrea, Ethiopia, Malawi, Sudan and Zambia export under the EBA initiative since 1/1/2008.</li> <li>An ESA-EU framework agreement and an EAC-EU framework agreement have been signed as interim agreements. These are expected to lead to two full EPAs by the end of 2008 and by July 2009 respectively.</li> </ul>
<b>Southern Africa</b>
<ul style="list-style-type: none"> <li>Botswana, Lesotho, Namibia, Swaziland, Mozambique (23/11/2007) and Namibia (12/12/2007) signed interim agreements, while Angola is still negotiating.</li> <li>South Africa is continuing to exporting to the EU under the TDCA.</li> <li>SADC-EPA states plan on applying a full EPA by the end of December</li> </ul>
<b>Central Africa</b>
<ul style="list-style-type: none"> <li>Cameroon and the EU initiated an interim agreement on 17/12/2007.</li> <li>An interim agreement with Gabon may be concluded in 2008.</li> <li>The third non-LDC Republic of the Congo has shown little interest in the negotiations.</li> <li>The LDCs Central African Republic, Chad, Democratic Republic of the Congo, Equatorial Guinea and São Tomé and Príncipe export under the EBA initiative since 1/1/2008.</li> </ul>
<b>West Africa</b>
<ul style="list-style-type: none"> <li>The non-LDCs Ivory Coast and Ghana signed interim agreements with the EU.</li> <li>The remaining non-LDCs, Nigeria and Cape Verde, export under the standard GSP and under the EBA initiative since 1/1/2008.</li> <li>The LDCs East Timor, Kiribati, Samoa, Solomon Islands, Tuvalu and Vanuatu export under the EBA initiative since 1/1/2008.</li> <li>A full regional EPA is expected to be concluded by the end of 2008.</li> </ul>
<b>Caribbean Region</b>
<ul style="list-style-type: none"> <li>Initiated a full EPA with the EU. The formal ministerial signature of the Caribbean-EU EPA is scheduled for June 2008.</li> </ul>
EBA: "Everything But Arms", GSP: "Generalized System of Preferences", LCD: "Least Developed Country", TDCA: Trade, Development and Cooperation Agreement
Source: ZEI, Stefan Busse

# EPAs: Regional Integration or Disintegration of Africa

Liwaaddine Fliss\*

The Cotonou Agreement, signed in 2000, is a partnership agreement between the European Union (EU) and the African, Caribbean and Pacific States (ACP). Before the Cotonou Agreement, European-ACP trade relations were facilitated by the Lomé Convention, which was signed in 1975. The Lomé Convention was renewed and renegotiated several times, and gave rise to Lomé I, Lomé II, Lomé III, and Lomé IV. Though the Cotonou Agreement allowed for the continuation of Lomé IV non-reciprocal trade preferences, it also provided for the replacement of those preferences by the Economic Partnership Agreements (EPAs) at the end of 2007. On 27th September 2002, the EU and the ACP countries officially opened negotiations on EPAs. These negotiations aim to replace the non-reciprocal preferential trade regime by World Trade Organisation (WTO) compatible reciprocal trade agreements. The process of EPA negotiations between the EU and ACP countries has reached a critical stage. As it became apparent that negotiations on comprehensive EPAs would not be concluded by the 31st December 2007 deadline, the EU proposed an interim solution, namely interim agreements.

## What are interim agreements?

Interim agreements serve as a means of circumventing the deadline without contravening WTO rules while also safeguarding preferential access by non-Least Developed Countries (non-LDCs) to EU markets. It is foreseen by the EU that comprehensive agreements will supersede interim agreements. As such, a number of interim agreements contain *rendezvous* clauses to this effect – to conclude negotiations to a full EPA in 2008.

## Current Position of the African Groupings

The African region has been negotiating EPAs under four regional blocs; the Economic Community of West Africa States (ECOWAS), the Southern African Development Community (SADC), the Economic and Monetary Community of Central Africa (CEMAC) and the East and Southern Africa (ESA).

The ECOWAS and CEMAC groupings have rejected the idea of an interim EPA on the grounds that it does not adequately address the issue of binding commitments on development dimensions of EPAs. They have opted for the continuation of current negotiations with a view to a completion of comprehensive EPAs, which would require the extension of the current WTO waiver.

The ESA and SADC groupings have agreed to interim EPAs. In the case of ESA, the interim EPA, which is called the Framework Agreement, covers trade in goods, development cooperation, fisheries etc. They have also agreed with the EC to conclude the negotiations for a comprehensive EPA by the end of December 2008, which will replace the Frame-

work Agreement. However, the ESA countries do not have a common position on trade in goods.

The East African Community (EAC), the Least Developed Countries (LDCs), the small vulnerable economies comprising of the Island States of Mauritius, Madagascar, Seychelles and Comoros, and the non-LDCs do not have the same tariff liberalization schedule offers. The ESA-EU Framework Agreements leaves the ESA Countries, which are not in a position to conclude the WTO compatible trading arrangement, the option of the Everything But Arms (EBA) for LDCs and Generalized System of Preferences (GSP) for non-LDCs.

## EPA - Challenges posed to African integration

The African integration process has been faced with a number of challenges over the years that have slowed it down. How do the EPAs affect regional integration process? Do they pose a fundamental obstacle to the integration process? Or will an EPA eventually strengthen regionalism and continental integration among African countries?

When initiated, EPAs are supposed to build on and reinforce regional integration within the negotiating regions. Despite this assertion by the European Commission (EC), concern remains that rather than supporting regional integration efforts the EPA negotiations may actually be undermining the process. This is primarily due to the manner in which countries have configured themselves to negotiate EPAs; the extent of the proposed liberalisation involved, as proposed by the EC; and fear that regional markets will open up to the EU countries before they are consolidated internally.

The Regional Economic Communities (RECs) are the building blocks of African integration. However, the four African EPA negotiating groups appear to be further complicating the rationalization of the RECs by splintering groupings and do not entirely correspond to the eight groups of REC. This has in some cases splintered regional alignments by forcing African countries to choose the body under which to negotiate with the EC. For example, many African countries, in particular in ESA, opted to favour national interests over commitments to regional solidarity and the overall regional agenda when considering which regional EPA grouping to join, with some countries shifting from one configuration to another a few years into the negotiations.

As result of the configuration of African countries during the EPA negotiation process, divergence of opinion among countries and regional groups concerning the choice of trade regime adopted (some countries have opted for interim, EBA/GSP). Consequently, this situation could hinder the construction of Customs Unions (both existing and emerging) as well as the income individual countries derive from these unions. Therefore, failure by regions to sign a common EPA could prevent

establishment of a Common External Tariff (CET). Consequently, regions with a Customs Union would defacto fail to be such, and those embarking on such a union could be derailed.

A number of studies have been conducted to assess the impact of EPAs on ACP countries. Most of these studies point out that these EPAs will have adverse effects on public finances and trade balance. It should be noted that most ACPs rely on international trade taxes for revenues. Once these taxes are eliminated, they are expected to affect the amount of revenues collected with far-reaching consequences.

In addition, one recurrent concern expressed during the EPA negotiations was that countries in the same economic region might liberalize different baskets of products and so create new barriers to intra-regional trade in order to avoid trade deflection. In this regard, there is a need to stress that if regional groupings are not sufficiently harmonised before a Free Trade Area (FTA) is launched with the EU then an EPA could create new barriers to intra-regional trade. In the event that African countries within the same region fail to agree a common exclusion list this would raise the likelihood of having to maintain rigorous border controls to differentiate between goods originating regionally and goods originating from the EU. Imposing these costly rules of origin checks would reinforce barriers to intra-regional trade rather than reduce them. Under these circumstances, an EPA could result in the creation of greater barriers to integration. In the case of EAC, by contrast, all members have joined the EPA and have accepted identical liberalization schedules. If these are implemented fully and in a timely way economic integration will have been reinforced.

Within the EPA negotiation process, if the EU signs an FTA with various individual African countries and the latter do not sign an FTA among themselves, then only the EU benefits because it has free access to all markets whereas the African countries only have free access to the EU market. Therefore, the incentive for exporters is to invest in the EU country rather than in the African countries in order to serve and access all of the African markets. This scenario could make African countries become increasingly dependent on EU imports and further marginalise Africa in the global economy rather than strengthen it. EPAs are not the sole challenge facing the attainment of regional integration in Africa. However, if efforts do not focus on addressing current constraints within the context of EPA negotiations, the process risks further engraving the current problems of regional integration.

As way forward, EPAs should serve as development-orientated tool to eradicate poverty and support the deepening of intra-African trade; facilitate the implementation of regional integration; be underpinned by the principle of sequencing with African integration initiatives

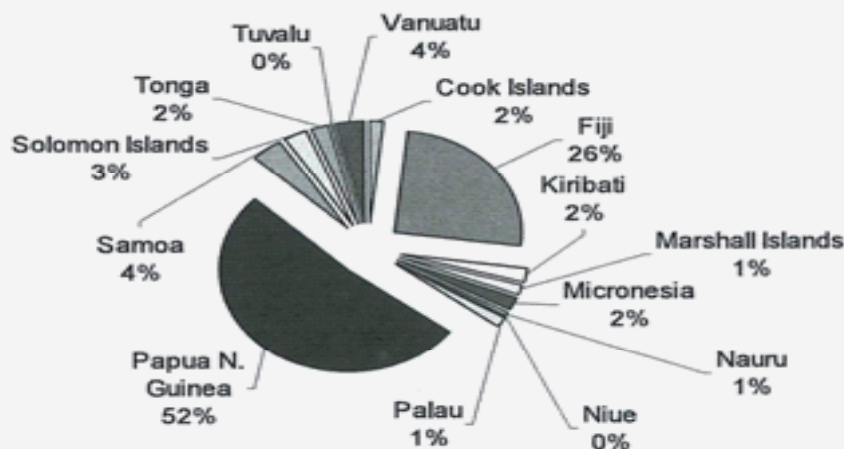
taking precedence; and provide adequate resources to build capacity to meet the EPA requirements. The African negotiating countries and groups should remain united in engaging the EC on EPAs and strengthen the coordination and harmonisation of the positions.

These actions should be undertaken prior to concluding a full EPA, which will require a pragmatic extension of the interim agreements so that African countries can realign themselves along a common axis.

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## Progress in Pacific EPA Negotiations

**Pacific Islands GDP distribution, South Center 2007: EPA Negotiations in the Pacific Region. Some Issues of Concern, Analytical Note, Geneva 2007, S. 11.**



\* Ruth Knoblich

The negotiation process of a comprehensive regional Economic Partnership Agreement (EPA) between the Pacific ACP countries (PACPs) and the European Union turned out to be difficult and painstaking with regard to a number of central issues. The intention to conclude an EPA by the end of 2007 could not be implemented. Merely Papua New Guinea (PNG) and Fiji, two constituent actors of the 14 Pacific negotiating partners, came to agree upon a first step with the EU by initialling a bilateral Interim Agreement on trade in goods.

Substantial divergences and the fact that the EU conducted bilateral negotiations with PNG and Fiji derogated the closedness of the Pacific group and inflamed tensions between the Pacific Island States and the EU at the end of 2007. Nevertheless, negotiations have been continued in 2008 and gained momentum in recent months. PACP ministers reaffirmed the joint PACP-EU Declaration of October 2007 at their meeting in Nadi in March 2008 to negotiate a comprehensive EPA by the end of this year.

Some unique characteristics distinguish the Pacific region from other ACP regions. It is composed of small island-states dispersed across a large part of the Pacific Ocean far from Europe. They are geographically isolated, with few possibilities for economic diversification and exceedingly vulnerable to natural impacts like sea-level rise and typhoons. Transportation costs are very high – a structural disadvantage for economic growth and market expansion. The intra-regional trade at less than 0.2% is marginal, but is however slowly but surely growing. Unlike other ACP regions, trade flows with the EU are minimal. The region mostly trades with Australia and New Zealand, followed by various East Asian countries and the USA. The European Union is the destination market of around 11% of Pacific exports, while only

4% of the PACP imports originate in the EU. Therefore, overall an EPA would probably only have a small effect on the region.

Fiji and PNG, the two largest PACP countries in terms of population and size of their economies, are an exception. Averaged out over a five year period, around 90% of total PACP exports into the EU and around 40% of total PACP imports from the EU involved PNG and Fiji.

A core objective of the EPAs is promoting regional integration. The EU describes the EPA process as a catalyser for regional economic cooperation and integration within the Pacific region – both seen as key instruments for the integration of ACP countries into the world economy.

European concepts for integration in the Pacific region encounter the regional integration process developed within the region itself. In certain parts these concepts interfere. The Pacific Island Forum (PIF), founded in 1971, is the region's political and economic policy base. It comprises the 14 PACP countries plus Australia and New Zealand and has become 'the nucleus of pan-Pacific regional integration' during the last years. Instead of pursuing a comprehensive negotiation strategy with the PIF as a whole, the EU preferred a separate approach vis-à-vis Australia and New Zealand.

In 2005, PIF countries introduced the Pacific Plan into force. This strategy paper aims to strengthen regional cooperation in broad areas and to promote integration. All Pacific island states agreed on it. Therefore, certain conceptual differences between this paper and European integration strategy pinpoint some difficulties accompanying the EPA negotiations. The Pacific Plan promotes regional integration from the bottom up and shows high sensitivity to the individual development issues of the smaller island-states among the Pacific island countries. Intra-regional trade among the 14

Pacific island states is to be promoted by the Pacific Island Countries Trade Agreement (PICTA). In 2011 PICTA will be enlarged to include Australia and New Zealand by the Pacific Agreement on Closer Economic Relations (PACER) and will comprise all 16 PIF states. A crucial point for some Pacific island states is the linkage of EPA negotiations with PACER: the moment when PICTA countries enter into trade liberalisation negotiations with another developed non-Forum country, i.e. the EU, they immediately have to enlarge these negotiations to include Australia and New Zealand. Given Australia's and New Zealand's trade dominance in the region, there are fears that some of the knock-on effects of the EPA may include possible job losses in domestic industries, with competition from cheaper imports and losses of revenue because of tariff reductions. Thus, even if the direct overall economic effect of an EPA is likely to be small, its indirect one is likely to be severe.

Disagreements between the EU and the PACP countries which hinder EPA negotiations remain in certain areas, i.e. on rules of origin, on investment as well as on development cooperation, but particularly in the fisheries sector and on temporary labour mobility in the service sector.

The fisheries industry shows the greatest potential for future export growth and is regarded as a key sector for the EPA by the PACPs. The European market is the leading world market for canned tuna and thus the EU is highly interested in access to the Pacific fishing grounds, as well as in raw material for their canneries. For PACPs the conclusion of an EPA requires less strict rules of origin particularly in the fisheries sector.

The EU and the PACPs agreed on the service sector to be included in the EPA in accordance with the General Agreement on Trade in Services (GATS). PACP countries emphasize EU Mode 4 concessions – temporary movement of labour - as a crucial issue. What they pro-



pose is a quota-based system for skilled and semi-skilled workers moving to the EU. In the view of the European Union, PACP's proposals on Mode 4 concern migration and therefore need to be discussed with individual EU Member States.

A wide range of individual expectations and concerns about the EPA exists among the Pacific island states. For most of the PACP countries with low trade flows to the European market, the combination of PACER-trigger effect and the Europeans' refusal of PACP's Mode 4 request more than likely explained their lack of interest in negotiating a comprehensive EPA. During a two day seminar in Madang at the end of April 2008 it was proposed that PACP countries explore their options regarding a comprehensive EPA. Therefore national consultations will be undertaken in all Pacific ACP countries and their individual positions concerning various trade-related issues - especially EPA negotiations, PICTA and PACER - will have to be analysed.

PNG's interest in the EPA is clear: It is primarily concerned with ensuring access to the EU market for its canned and otherwise processed fish. According to officials, PNG would have lost around 15000 cannery jobs if they had not initialled the Interim Agreement. However, PNG's interest goes far beyond access to the European market. The PNG government developed the concept of the Maritime Industrial

Zone near Madang. This is a major regional fisheries initiative in cooperation with other PACPs which aims to harness the economic benefits of the marine resources, especially tuna. This initiative requires a development fund for capacity building and technical support as well as European assistance in resultant social and environmental problems. On the other hand, strategic grants are provided to the EU.

Fiji's major goal in concluding an EPA initialling the Interim Agreement is the imminent loss of the Sugar Protocol, affecting around 200000 people in Fiji, 25% of its population. Fiji's conclusion of the Interim Agreement or the EPA keeps the Sugar Protocol protected as long as possible, instance until 2009. As part of the EPA, the EU guarantees two other transition periods for lower but set prices until 2015, when sugar will have to be traded duty and quota free. The EPA will provide adjustment funding through this process. In addition to that, Fiji is interested in capacity building in services as well as enhancement of transport and infrastructure. Tourism is becoming increasingly important in Fiji, and the islands are establishing themselves as a hub for trade among PACP countries, as well as a hub onward transit for some PACPs' international trade.

It is becoming apparent that the way countries are handling Pacific EPA negotiations is

changing. The seminar in Madang, mentioned above, showed a broader and more coherent approach to the complex backgrounds of the Pacific region. A comprehensive group consisting of government officials - among them representatives from the PIF Secretariat - together with civil society and business organisations from PACP countries and from the EU took stock of the EPA negotiation progress and discussed the way ahead.

Despite such improvements, disagreements on important areas of negotiation between the EU and the PACP states remain. The lead spokesman for the PACP trade ministers, Hans Joachim Keil, advocated in July 2008 that both sides should focus on finalising outstanding issues, mainly on trade in goods. More delicate topics like trade in services should be suspended in order to stay on schedule and could be revisited by rendez-vous clauses. The European Union recently proposed the CARIFORUM EPA as a benchmark in the context of trade related rules. That proposal was a knocked on the head by the Pacific ACP countries for being far too advanced and onerous for small Pacific economies. To sum up, the Pacific states and the EU have not quite agreed what exactly a comprehensive EPA would look like, but both sides are confident of taking the next step for the successful conclusion of negotiations.

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**EU-ASEAN Foreign Minister Meeting in Nürnberg during the German Presidency in 2007**

## The ASEAN-EU Relations

Chaesung Chun\*

ASEAN-EU relations have developed over past 30 years demonstrating a model for region-to-region cooperation. Thinking of most bilateral cooperative relations based on state-to-state relations, ASEAN-EU relations are rather exceptional and seminal, especially in the period of regionalization in the 21st century. In addition, theoretically speaking, strengthening ASEAN-EU relations suggest one way

of organizing global politics in the so-called "postmodern" transition based on inter-regional politics. If the two regions of Europe and ASEAN with their own drives toward regional integration succeed in inter-regional cooperation, global politics will take on a different shape in the future. Since last year there have been negotiations for a FTA between ASEAN and EU(AEUFTA). In June, 2008, the fifth round of talks took place in Manila, with the hope that the FTA negotiations will soon be concluded. Looking back upon the ASEAN-EU relations,

they are grounded in long-term and diversified cooperative relations. In February 1977, the Special Meeting of ASEAN Foreign Ministers in Manila decided to establish ties with the Council of Ministers of the EEC and the Committee of Permanent Representatives (COREPER). Through these mechanisms, ASEAN could formalize its relationship with the EU. In 1994, the relationship was intensified with the 11th ASEAN-EU Ministerial Meeting (AEMM) in Karlsruhe, Germany. At the Karlsruhe

meeting, there was agreement on the beginnings of an ASEAN-EU Senior Officials Meeting (SOM) which was launched in Singapore in 1995. In addition the New Asia Strategy was inaugurated in 1994 and the strengthened ASEAN-EU set the stage for multi-level cooperation. This manifested itself in the Asia-Europe Meeting (ASEM), the ASEAN Regional Forum (ARF), ASEAN-EU Ministerial Meeting (AEMM), ASEAN-EU Economic Ministers Meeting, ASEAN-EU Senior Officials Meeting, the Post Ministerial Conferences (PMC) 9+1 and 9+10, and the Joint Cooperation Committee (JCC) Meeting. ASEAN is now the EU's fifth largest export market and also its fifth largest trading partner. The EU is also the second largest trading partner for most countries in ASEAN after the United States. ASEAN exports to the EU accounted for about 13 percent of its total exports, while EU exports to ASEAN amounted to about 4.0 percent of its total exports. The relationship between the two regions has been expanded to many other areas such as security, environments, human rights, disaster relief, and energy. In November 2007, Commemorative Summit was held to celebrate the 30th anniversary of ASEAN-EU relations.

In the Joint Declaration of the ASEAN-EU, a "Plan of Action to Implement the Nuremberg Declaration on an EU-ASEAN Enhanced Partnership" was produced. In that action plan, the two regions decided to commit to further enhance ASEAN-EU dialogue and cooperation, support the implementation of the UN Global Counter Terrorism Strategy, promote disarmament and non-proliferation of weapons of mass destruction, support the Initiative for ASEAN Integration (IAI), and deal with the problem of Myanmar by supporting the mission of the UN Secretary General. Also they tried to intensify the implementation of the activities agreed under the Trans-Regional EU-ASEAN Trade Initiative (TREATI) and the Regional EU-ASEAN Dialogue Instrument (READI), and deal with environmental issues such as climate change, air pollution, and energy security. One of the most important current issues between ASEAN and EU is the FTA negotiation. Since the 8th AEM-EU Consultation Ministers Meeting on 4 May 2007 in Bandar Seri Begawan, Brunei Darussalam agreed to enter into the FTA negotiations, five rounds of talks have been held. If the AEUFTA is concluded, it will cover more than one billion people in 37 countries, based on region-to-region bilateral free

trade mechanisms. It is also expected that the integration process of the ASEAN which aims at creating a single market by 2015 will be accelerated with the conclusion of the AEUFTA. However, obstacles are not absent. There are big discrepancies between the economies of the ten ASEAN members which make the negotiations rather difficult. Countries in ASEAN need to adapt to meet various national conditions for their own national interests. Another major obstacle is Myanmar. The EU is imposing economic sanctions against the junta, and insists that there should be some signs of improvement in the situation of Myanmar. The issue of EU human rights in the partnership and cooperation agreement prior to the conclusion of a free-trade agreement needs to be appropriately dealt with. Yet, despite all these hurdles, expected gains for each sector, such as the rise in export and investment, fair trade, and more cooperation in the area of business services, will set the drive for further cooperation.

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## Recent developments in EU-GCC relations - Chances and Obstacles

Stephan Busse\*

Whereas EU negotiations on Free Trade Agreements or Association Agreements with other regional groupings like ASEAN have only begun relatively recently, talks with the Gulf Cooperation Council (GCC) have been ongoing for about two decades now - still without any sign of agreement. Since the 1989 signing of a cooperation agreement between the EU and the GCC, both sides have been continuously attempting to negotiate a Free Trade Agreement. Having stalled for several years in the 1990s, the negotiations resumed in 2002, with the GCC Customs Union coming into force. Although an agreement is periodically announced as being imminent, most recently under the German EU presidency, the negotiations are still on-going. The latest GCC-EU Joint Council in May expressed that "important progress has been made" and noted that "the parities are getting closer to an agreement". At the beginning of its EU presidency, France already stated that a conclusion on the FTA would be one of its main priorities.

Taking this into consideration, what are the reasons for the big efforts being made to conclude the agreement and why is it taking so long? A Free Trade Agreement between said two blocks would be the first ever bi-regional agreement of such dimension. Beside this historic relevance, concrete opportunities are at stake for both sides, while various obstacles hinder an agreement. One of the EU's key requirements for carrying on with the negotiations was a common market within the GCC. While the common market was founded at the beginning of

2008, another project of high regional importance is less successful: the monetary union. The appointed date of establishing a full monetary union in 2010 seems to have fallen off the drawing board. While the GCC agreed on the foundation of a joint central bank in 2009, it also signaled a delay in establishing a common currency. The main reason is the record high inflation. Furthermore, there is also an ongoing discussion about the decision to peg the currencies of all member states to the US-dollar until a common currency is established. While the Oman decided to leave the whole project in 2006, Kuwait stepped out of the line in 2007 by linking its currency to a basket of currencies rather than only to the US-dollar. With the dollar flagging and the oil price rising, the pressure is increasing and concerned member states to alter their strategy. Whereas interregional trade only accounts for 10 percent of the GCC members overall foreign trade, the EU is the GCC's number one trading partner, stoking a natural interest in concluding a favorable FTA. In case of the EU, this interest comes from the increased importance of fuels and derivatives, which make up two thirds of imports to the EU from the GCC. Having closer relations of all sorts to the GCC might also become of importance for the EU's security policy concerning the Middle East in the years to come. One of the biggest obstacles for concluding the FTA seems to be similar to problems in other negotiations the EU is undertaking with different regional groupings or single states: the bundling of questions concerning non-trade issues like human rights and governance with trade issues in trade deals. For years now, the GCC is bemoaning the increasing number of conditions of various sorts the EU is putting up for discussion.

In June 2008, the Secretary-General of the GCC, Al-Attiyah, affirmed the GCC's criticism concerning the EU trade policy: "The GCC countries reject the imposition of conditions and political demands by the European side in order to sign an economic agreement". Nevertheless, there are also problematic economic issues that scupper expectations of a swift agreement. While the GCC hopes to attract an influx of industrial investment from the EU in concluding an FTA, GCC members still abide by restrictions on foreign ownership. On the other hand, the GCC is criticizing the EU for protectionism by imposing tariffs on imports of aluminium and petrochemical products from the GCC. While both sides strive for better access to the market of the other region, the status quo favors European companies. This way, the pressure is on the GCC to bring the negotiations to a successful end, which might help the EU to assert the said non-economic additions to the FTA, even if the talks drag on for years to come.

1. [http://www.consilium.europa.eu/ue/Docs/cms\\_Data/docs/pressData/en/er/940/36.pdf](http://www.consilium.europa.eu/ue/Docs/cms_Data/docs/pressData/en/er/940/36.pdf), 27.07.08.
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## Three Questions to Freddy Ehlers, Secretary-General of the Andean Community (CAN)

**1. The CAN currently seems to be divided: while Peru and Colombia strongly favor liberal economic models, Bolivia in particular does not favour this path. Could this conflicting situation lead to the end of the CAN?**

Surely not. Since the difference in economic approaches among member countries became evident, we have been able to work out a regional integration model of "unity in diversity". The basic principles of this model are tolerance and respect.

Andean countries realise they cannot do without regional integration in an era of globalisation. Further, they acknowledge the benefits of almost 40 years of integration in the CAN and are not willing to lose them. Beyond economic models, they work together on a day-to-day basis in dozens of programmes related to social development, environmental policy, external relations, political cooperation and trade.

In fact, there are many more points of agreement than of disagreement among member countries and there is a clear political will shared by their governments to push forward the integration of the Andean region.

**2. What powers does the General Secretariat have to help to overcome the current existing discrepancies between the member states?**

The General Secretariat, according to article 30 of the Cartagena Agreement, is responsible of ensuring the application of this

Agreement and compliance with the provisions that comprise Andean Community Law.



**Freddy Ehlers (Ecuador), Secretary General of the Andean Community of Nations/ Comunidad Andina de Naciones (CAN)**

In that respect, we contribute to upholding the rule of law in the integration process, thus helping to solve discrepancies peacefully. May I remind that our dispute solving mechanism is considered to be the most advanced among regional integration organisations in the Americas.

We also share with member countries the power of initiative, which is key to propose ways to move forward and deepen regional integration in spite of differences that may arise among member countries on specific subjects. For instance, we have achieved pathbreaking advances in cooperation on environmental issues, particularly related to the fight against climate change and the conservation of our biodiversity, as a result of the General Secretariat's proposal to give this matter the highest level of priority.

**3. How does the rift over the EU "Return Directive" on undocumented immigrants relate to the recent freezing of negotiations between the Andean Community and the EU?**

The EU has made it clear that negotiations were suspended due to the lack of consensus among Andean countries in two of the fourteen existing subgroups under the trade pillar of the Association Agreement. We do not believe the discussion over the "Return Directive" is related to this matter and we hope to relaunch negotiations as soon as possible – hopefully in September 2008 – in order to sign the Agreement before the end of next year.

Besides, I would like to point out that the Andean Community has a firm stance regarding the protection of migrants. Our land has welcomed European migrants for centuries and we expect a similar treatment for our migrants. We expressed our views to the EU in a letter signed by the four Andean Ministers of Foreign Affairs and will present a common position at the Manila Global Forum on Migration and Development.

In reply to the Ministers' letter, the EU has renewed its commitment to dialogue on this issue, as it was agreed at the EU-LAC Summit in Lima. We are confident that this will happen and will be ready to engage in talks in order to press for more favourable conditions for our migrants as well as to ensure countries of origin can take full advantage of migrants' contribution to their development.

Questions: ZEI, Ariane Kössler

### Bi-Regional Relations EU-CAN

At the 17th CAN Presidential Meeting in Tarija (Bolivia) in June 2007 the EU and the CAN (Comunidad Andina de Naciones) announced the launch of negotiations for a comprehensive Association Agreement between both regions. The objective of this Association Agreement is to have a closer strategic bi-regional cooperation through three pillars: political dialogue, cooperation and trade.

Three rounds of negotiations for the establishment of an Association Agreement between CAN and the EU were held. In terms of trade negotiations, it was agreed to exchange basic information about the base tariffs, which was the starting point for the CAN's tariff reductions and of the tariffs applied by the EU in Nov. 2007. Advances were made at the meetings of the negotiating committees, although there is still an evidence of existing asymmetries between the two blocs.

Source: ZEI, Pavlina Georgieva; Christoph Kornes



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