Trade Negotiations
Insights

Issue 08
Volume 8. October 2009

Available online
www.ictsd.net/news/tni
www.acp-eu-trade.org/tni

ICTSD
International Centre for Trade and Sustainable Development

European Centre for Development Policy Management
ecdpm

The Lisbon Treaty – Implications for ACP-EU Relations[1]

Eleonora Koeb

Following the positive result of the referendum in Ireland on 2 October 2009 – but pending ratification by one EU member state, the Czech Republic – the Lisbon Treaty is widely expected to enter into force before the end of the year.

Despite a great deal of uncertainty on the interpretation and implementation of some of the new provisions under Lisbon, ACP-EU relations in general and ACP-EU trade relations in particular are expected to be affected in a number of areas. This article looks at a selected number of key issues, in particular the stronger profile the EU is expected to play on the world scene, the more politically driven yet more consistent EU external action under the guidance of the new High Representative of the Union for Foreign Affairs and Security Policy (EUHR), as well as more unified EU external commercial and migration policies.

Overall changes in ACP-EU institutional relationship

The Lisbon Treaty will change the way the EU will relate to its international partners through the two new leading figures in external relations: the EUHR – as the Vice-President of the European Commission (EC), with its diplomatic staff, the European External Action Service (EEAS) – and the President of the European Council. Those two figures are expected to guide a more politically driven EU external action, in which a multitude of EU external policies and instruments, including trade and development cooperation, are to be used in a complementary and consistent manner. The EUHR will coordinate the interplay of the intergovernmental EU Common Foreign and Security Policy and the European Security and Defence Policy with the European Commission's external action areas applied to address a widening agenda of global challenges. This widening agenda is well illustrated by the expansion of the set of overarching objectives of EU foreign relations under the Lisbon Treaty, which now include the eradication of poverty as well as global trade integration.

In this new set-up of EU external relations, the special traditional institutional relationship of the EU with the ACP cannot be taken for granted anymore. The implementation of the EEAS will lead to a restructuring of the EC internal arrangements, with uncertain implications for relations with developing countries. The Treaty has the potential to streamline and rationalise the EC development architecture. There are various options of how to address the current multiplicity of instruments with thematically and regionally overlapping coverage managed by fragmented structures.

The main question for the ACP is whether the geographical desks for ACP countries, where the allocation and programming of Official Development Assistance is currently conducted in DG Development, will be partly integrated into the EEAS and hence be brought under the control of the EUHR. The scenario at the other end of the spectrum of options for EC architectural change would be a strengthened DG Development, uniting all EU development policy under one Commissioner, merging at least the current DG DEV, the development-relevant part of DG RELEX and DG Europeaid. Other hybrid models for the architectural reform are being discussed. The two options sketched represent the two extreme measures, which would bring an end to the current special treatment of the ACP manifested in the traditional geographic identification of DG Development with the ACP.

In this context, it is noteworthy that the reference to the ACP – in place since the

(Continued on page 3)

Bananas, Economic Partnership Agreements, and the WTO

Giovanni Anania

The conclusion of the Doha Round or an agreement to end the banana dispute at the WTO would significantly reduce the preferential margins that African, Caribbean and Pacific banana exporters enjoy under their Economic Partnership Agreements with the European Union.

On 1 January 2008, the EU implemented the Economic Partnership Agreements (EPAs) it had negotiated with many African, Caribbean and Pacific (ACP) countries. All agricultural exports from ACP countries that had successfully concluded the negotiations – most on an interim basis – are now allowed duty- and quota-free access to the EU. Bananas, along with sugar and rice, are widely recognised as the three agricultural commodities that would bring the greatest export benefits to ACP countries under the EPAs (for sugar and rice, however, the agreements call for a progressive removal of EU market protection by 2010).

In July 2008, eleven Latin American countries, the US and the EU appeared to have reached a provisional agreement to bring to an end the long-standing banana dispute at the WTO. However, the failure of the Geneva mini-ministerial to conclude a Doha Round 'modalities' deal left the issue unresolved[1]. Since then, the EU and banana producers that export under the EU's €176 per tonne most-favoured-nation (MFN) tariff have continued to negotiate in order to try to find a solution to the dispute.

Market access simulations

Recent research commissioned by ICTSD assessed the expected benefits for ACP banana exporters from the elimination, as a result of the EPAs, of the EU preferential import quota for ACP banana exports in place until the end of 2007. The study also examined how these benefits would be affected due to the erosion of preferential margins deriving from the conclusion of current WTO negotiations.

Six different policy scenarios were modelled. All simulations were generated with respect to 2016 and include the implementation of the EPAs. Differences in the scenarios relate to assumptions made with regard to the conclusion of multilateral and 'bilateral' (EU, on one hand, and MFN banana exporters and the US, on the other) WTO negotiations and the consequent reductions in banana tariffs (see Box 1). The table below shows some of the key findings.

Minor Effects on EU, but Major on ACP and MFN Exporters

Due to its current domestic policies, banana production within the EU is largely independent of changes in trade policies. However, producers' incomes will be affected by policy changes through the effect they could have on domestic prices.

The Economic Partnership Agreements are likely to have only a minor impact on the internal EU market, but a very significant one on ACP and MFN exports of bananas to the EU. As a result of the EPAs, ACP exports in 2016 are forecast to increase by 84 percent (from 970,000 tonnes to 1,800,000 tonnes) at the expense of MFN exports, which are expected to drop by 5 percent overall, but see a 24 percent decline in the EU. The EU's MFN tariff would have to be reduced to €60/ tonne, everything else held constant, to leave MFN exports unchanged compared to level they would be likely to reach if the EPAs were not implemented.

Effects of the EU import regime for bananas extend to other markets as well. The more open to MFN imports the EU market becomes, the higher the price of bananas in other importing countries would climb, and thus the lower their imports. However, when import tariffs in importing countries other than the EU are reduced or set at zero as a result of the conclusion of the Doha Round and the implementation of its provisions on tropical products, then, everything else held constant, US imports are expected to decrease rather than increase. This is because the tariff the US imposes on its banana imports is much lower than those of other major importers. For the US, the 'trade diversion' effect of tariff reductions in countries other than the EU prevails over 'trade creation'. MFN exports to the US (the second largest banana importer) decrease, while those directed to other net-importers, which currently impose larger tariffs, expand significantly.

If the July 2008 tentative agreement between the EU, MFN countries and the US were to be implemented, it would affect both the EU's imports of bananas and its domestic price. ACP banana exports would remain well above pre-EPA levels, while MFN exports (although they would increase by almost 400,000 tonnes) would remain below pre-EPA levels.

If the Doha Round is concluded and includes the tentative July 2008 agreement on bananas, it would not affect the EU market much with respect to the scenario in which only this agreement is implemented. Both MFN and ACP exporters would benefit from the liberalisation of banana trade in countries other than the EU.

MFN vs ACP interests

For MFN exporters the issue is trade liberalisation: the more liberalised banana trade becomes, the higher will be export prices, exports and export revenue. The conclusion of the Doha Round is more beneficial to them than the July 2008 agreement with the EU, as long as the multilateral agreement includes the provisional July 2008 deal, or the provisions for tropical products are those on which consensus seems to have emerged in July 2008 in Geneva.

The most favourable scenario for ACP countries would be to retain quota- and duty-free access to the EU market without the conclusion of the Doha Round or the implementation of the tentative July 2008 agreement. Should the latter alternative occur, it would imply the erosion of one-third of the benefits resulting from the preferences granted by the EU within the EPA context. If the EU MFN tariff were to be reduced, it would be better for ACP countries if it takes place within the Doha Round framework since that would bring an increase in market access in non-EU countries and a partial diversion of MFN exports towards such markets, increasing ACP competitiveness in the EU market, as well as the EU import price.

MFN and ACP banana exporters thus share at least one common interest: if a WTO agreement is to be reached, this should be the conclusion of the Doha Round rather than a deal between MFN countries and the EU alone, along the lines of the tentative July 2008 accord.

The modelling exercise suggests that by 2016 least-developed countries (LDCs) will not be able to compete with MFN and ACP countries in the EU banana market. Moreover, this would be the case regardless of the trade policy regimes in place, i.e. even without the implementation of the EPAs. Nevertheless, the conclusion of the EPAs implies an erosion of the preferences granted to LDCs under the EU's Everything but Arms initiative. With regard to the possible outcomes of the Doha Round negotiations, the more open the EU becomes to MFN banana exports, the harder it will be for LDCs to compete in this profitable market.

Finally, while the results presented appear robust enough to withstand changes in a number of the assumptions made in the modelling exercise, they are relatively sensitive to the hypotheses regarding expected changes in yields. Because ACP exporters are, generally speaking, less efficient in producing and marketing bananas than their MFN rivals, this finding suggests that aid targeted at improving efficiency in banana production in ACP and LDC countries may be as beneficial as granting them preferential market access, and that the negative effects of preference erosion can be offset by providing financial and in-kind resources needed to improve the logistic infrastructure and technical efficiency of their banana industry. This result is consistent with ACP countries' request for additional technical and financial aid from the EU aimed at improving the market competitiveness of their bananas as a condition for their acceptance of the tentative July 2008 agreement.

Modelling of the different policy scenarios

Two scenarios were based on the hypothesis that no Doha Round agreement would be reached. The first of these also assumed that bilateral negotiations on the current WTO dispute would fail to achieve a mutually acceptable solution. This scenario thus simulates the impact of the implementation of the EPAs only (see the column on 'No EU-MFN deal' in the table below).

In contrast, the second projection period assumed that the EU, MFN countries and the US would agree to implement the tentative agreement reached in July 2008, i.e. by 2016, the EU would replace its current applied €176/t MFN tariff by a €114/t import duty. Since there would be no Doha agreement, tariffs imposed by other net-importing countries would remain unchanged (see the first of the two columns on 'EU-MFN deal' in the table below).

The other projections were predicated on a Doha Round agreement and the completion of the implementation period by 2016.

One of the scenarios (second to last column in the table) assumed that the final deal on agriculture would include the tentative agreement reached by the EU and the MFN countries in July 2008. Bananas would be included in the list of 'tropical products'. Based on the convergence that seems to have emerged during the July 2008 meeting in Geneva, the simulation assumed (with the exception of the tariff imposed by the EU) that WTO Members would eliminate tariffs below 20 percent and reduce all those above 20 percent by 80 percent.

The last column in the table presents the implications of no separate agreement between the EU and MFN exporters. All bananas would be considered tropical 'tropical products', and the EU would have to cut the €176/tonne MFN tariff it introduced in 2006 by 80 percent, which would mean a post-Doha tariff of €35.2 per tonne.

Two other, much less likely, possibilities were also modelled in the study (these are not included in the table on page 9).

The first would be a total liberalisation of banana trade by 2016, which would present the worst outcome for ACP countries and the best for MFN exporters. The other assumed no separate agreement on bananas. The EU would cut its scheduled €680/t MFN duty by 80 percent, resulting in a 2016 tariff of €136/tonne. Using the applied MFN tariff (€176/t) as a baseline would reduce the import duty to €35.2/t. These alternatives probably represent the boundaries for any decision on the EU MFN banana tariff in a Doha agreement.

Selected simulation results for banana trade in 2016

	Base 2016 w/out EPAs	EPAs			
		No Doha Round Agreement		Doha Round Agreement	
		No EU-MFN Deal[2]	July 2008 EU-MFN Deal[3]	July 2008 EU-MFN Deal[4]	Trop. product tariff reduction[5]
Imports (1,000 tonnes)					
EU-27	4850,8	4893,2	5165,7	5126,3	5471,7
– from ACP countries	775,0	1784,1	1541,5	1576,6	1269,0
– from MFN countries	4075,8	3109,1	3624,2	3549,7	4202,7
– from LDC countries	0	0	0	0	0
US	4412,0	4475,0	4433,1	4388,4	4334,2
Rest of the world (net imports)	4496,6	4620,2	4538,0	5170,7	5080,8
Exports (1,000 tonnes)					
Total ACP	967,1	1784,1	1541,5	1576,6	1269,0
Total MFN	12792,3	12204,3	12595,3	13108,9	13617,7
LDCs	0	0	0	0	0
Export revenue (US$1 million)					
– ACP countries	382,7	1213,0	918,4	958,4	636,0
– MFN countries	4703,3	4321,4	4573,6	4915,0	5266,0

Author
Giovanni Anania is Professor at the Department of Economics and Statistics, University of Calabria, Italy. The author based this article on his research paper entitled 'How Would a WTO Agreement on Bananas Affect Exporting and Importing Countries?' available at http://ictsd.net/programmes/agriculture

Notes

1 Bridges 2008, Vol. 12, No. 4, Page 6
2 MFN tariffs would remain at their present levels: €176/tonne for the EU; 0.5 percent for the US, and 18.9 percent for the rest of the world. ACP countries would have duty- and quota-free access to the EU.
3 If the tentative agreement of July 2008 is implemented without an overall Doha accord, the EU's MFN tariff would drop to €114/tonne, while other countries' tariffs would remain at their present levels.
4 If the July 2008 agreement is implemented as part of an overall Doha deal, the EU's MFN tariff would come down to €114/tonne. Other countries would eliminate import duties below 20 percent and reduce those above 20 percent by 80 percent, as envisaged in the draft text on the liberalisation of tropical products.
5 This scenario assumes that the July 2008 agreement is rejected by WTO Members. The EU, and others with tariffs exceeding 20 percent, would apply an 80 percent cut to their MFN duties.