

# EU Trade Policy and Conflict

**Oli Brown**  
[obrown@iisd.org](mailto:obrown@iisd.org)  
Project Manager  
Trade, Aid and Security

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International Institute for Sustainable Development

161 Portage Avenue East, 6th Floor

Winnipeg, Manitoba

Canada R3B 0Y4

Tel: +1 (204) 958-7700

Fax: +1 (204) 958-7710

E-mail: [info@iisd.ca](mailto:info@iisd.ca)

Web site: <http://www.iisd.org/>

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The links between international trade and security have been recognised for centuries. As the French philosopher Montesquieu put it in 1749, ‘wherever there is commerce, manners are gentle’.<sup>1</sup> Indeed, the creation of the European Common Market in 1955 owed much to the belief of its founders in the need to build a community of nations cemented through trade. Trade can be a powerful driver of growth; reducing poverty, promoting regional integration, creating non-military ways of resolving disputes and providing strong incentives for stability. Recent empirical studies have given weight to the old adage that countries that trade on equal terms tend not to fight.<sup>2</sup>

However, when conducted within a framework of unfair rules or in situations of weak governance, trade can actively drive conflict. Economies opened up abruptly to trade can suffer severe adjustment costs and a loss of government revenue from lowered import duties. Trade rules can lock countries into reliance on the export of commodities subject to volatile and declining prices, over which they have little influence. The expanding scope of the global trade regime makes it harder for developing countries to protect and support vulnerable industries.<sup>3</sup> Finally, trade in some natural resources, particularly timber, oil and diamonds, has strong associations with poor governance and increased economic and political instability.<sup>4</sup>

The EU is the world’s largest trading bloc. Importing the most agricultural goods from the developing world<sup>5</sup>, and helping to drive the global trade liberalisation agenda, the EU is perhaps the most important player in the evolution of trade policy and its potential impact on development and security. As a consequence, the EU can not pretend that its trade policy is ‘conflict neutral’. For reasons of enlightened self-interest as much as anything else it is vital that the EU develops trade policies that are sensitive to conflict. After all, failed states and warring factions make for poor trading partners and expensive peacekeeping missions.

This chapter investigates the impacts of EU trade policy on violent conflict in the developing world., the leverage the EU can exert through its trade policy to promote peace in countries at risk of conflict and the ‘export’ of the EU model through Regional Trade Agreements and the European Neighbourhood Policy.

### **Can EU trade policy deliver peace and development?**

Encouragingly, this is an area that the EU seems well aware of – even if there are many concrete steps still to be taken. By reducing certain tariff barriers, being somewhat flexible to the needs of the developing world and introducing initiatives to counter the trade in conflict resources, the EU has shown some courage and vision.

For example, in May 2003 the Commission set in train the Forest Law, Enforcement, Governance and Trade (FLEGT) initiative, which will create a licensing system to

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<sup>1</sup> Cited in Macartan Humphreys, *Economics and Violent Conflict* (Harvard University, February 2003), p 8 n71

<sup>2</sup> Macartan Humphreys, *Economics and Violent Conflict* (Harvard University, February 2003), p.8

<sup>3</sup> Mark Halle, Jason Switzer and Sebastian Winkler ‘*Trade, Aid, Security – elements of a positive paradigm*’, the International Institute for Sustainable Development (IISD), 2004

<sup>4</sup> The literature in this area is vast. A good introduction might be Mark Taylor and Anne Huser *Security, development and economics of conflict: problems and responses*, FAFO-paper 2003 (<http://www.fafo.no/pub/rapp/715/index.htm>) also Ian Bannan and Paul Collier ‘*Natural Resources and Violent Conflict: Options and Actions*’ World Bank, 2003

<sup>5</sup> The EU takes around 85% of Africa’s agricultural exports and 45% of Latin America’s - Europa, ‘*Trade in Agriculture*’ (<http://trade-info.cec.eu.int/comm/trade/goods/agri/stats.htm>)

identify legal timber products for export to the EU.<sup>6</sup> It is hoped this will reduce the trade in illegal timber, which, is estimated to make up 10 percent of the €150bn annual timber trade.<sup>7</sup> Likewise, the EU has played a prominent role in the Kimberley Process which established a certification scheme in January 2003 to stem the trade in conflict diamonds.<sup>8</sup>

Adopted in February 2001 the EU's 'Everything but Arms' (EBA) initiative granted duty-free access to imports of almost all products from Least Developed Countries (LDC) without quantitative restrictions, except for arms and munitions.<sup>9</sup>

Trade policy can also help with the reconstruction of economies in the aftermath of natural disaster or conflict. One of the EU's responses to the Asian tsunami of December 2004 was to accelerate the reduction of tariffs on affected country exports to help them jump-start their economic recovery.<sup>10</sup> There is certainly scope for similar actions to help countries recently emerging from conflict as part of a strategy for long-term growth and reconstruction.

However, there is no room for complacency. The EU is not maximising the development gains from its trade policy. In practice, developing countries are often excluded from EU markets. Even where there has been increased access, the benefits of trade are not automatic; rapid export growth is no guarantee of accelerated poverty reduction. Instead it can propel the rapid polarisation of rich and poor. Initiatives such as FLEGT and the Kimberley Process, while important, are partial responses to niche issues.<sup>11</sup>

Whilst preaching the rhetoric of free trade and leveraging open developing country economies, the EU is still heavily subsidising its own producers and exporting its products at below cost price. Many countries are being trapped in low-value added ghettoes without the capacity to diversify their economies. The promise of EU markets is being lost to a significant proportion of the world.

Between 1975 and 1995 Africa's share of the EU market fell by two thirds; from 6.7 to 2.7 percent.<sup>12</sup> Despite preferential agreements with the EU, many countries, particularly in Sub-Saharan Africa, are finding it impossible to trade themselves out of poverty and instability. Poverty undermines human security and creates the conditions for conflict to turn violent. A recent study of 40 Sub-Saharan countries estimated that a five percent drop in annual growth more than doubled the likelihood of civil war.<sup>13</sup>

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<sup>6</sup> <http://www.illegal-logging.info>

<sup>7</sup> Emily Fripp, *FLEGT and Trade: what will the impacts be?* Chatham House, RIIA, November 2004 ([http://www.illegal-logging.info/papers/FLEGT\\_and\\_Trade\\_Impacts.pdf](http://www.illegal-logging.info/papers/FLEGT_and_Trade_Impacts.pdf))

<sup>8</sup> See Europa Trade Issues - *the EU and the Kimberley Process* ([http://europa.eu.int/comm/external\\_relations/kimb/intro/](http://europa.eu.int/comm/external_relations/kimb/intro/))

<sup>9</sup> See Europa Trade Issues - *Generalised System of Preferences – Everything but Arms Initiative* ([http://europa.eu.int/comm/trade/issues/global/gsp/eba/index\\_en.htm](http://europa.eu.int/comm/trade/issues/global/gsp/eba/index_en.htm))

<sup>10</sup> EuropaWorld 'Commission considers relaxing trade measures to relieve Tsunami affected countries', 14 January 2005

<sup>11</sup> See Natalie Pauwels, 'War economies: EU policy options' in *Europe in the World – essays on EU foreign, security and development policies*, BOND 2003, pp. 65-71

<sup>12</sup> UNECA 'Economic Report on Africa in 2004: Unlocking Trade Potential in the Global Economy' United Nations Economic Commission for Africa, E/ECA/CM.37/6, 28 April 2004 (<http://www.uneca.org/cfm/2004/overview.htm>)

<sup>13</sup> Miguel, Satyanathy, Sergenti, April 2003

Uncompromising market liberalisation, economic shocks, stagnation or decline in fragile states have caused civil conflict by amplifying social inequalities, producing corrupt elites and placing the heaviest burden on the poorest and most vulnerable. This can provide triggers or accelerators for violence, (such as unemployed youths finding alternative livelihoods with organised crime or terror groups), or can form a structural cause of violence (such as conflict over unequal access to resources such as land, minerals or public services). This is especially the case where there is an absence of strong institutions to absorb economic transitions and to manage and satisfy competing resource demands such as land, minerals or public services.

The links between states failure and the illegal economies of war are particularly strong. War economies, particularly illegal trade in valuable natural commodities like diamonds and timber, can exacerbate and sustain conflict. The huge profits to be made from unregulated trade reduce the incentives for peace. These patterns filter through society, entrenching corruption and inequitable local, national and regional patterns of governance. Where systems of government are weak and shadow economies strong, little legal trade occurs, and there is a proliferation of illegal trade in arms and resource exploitation (see chapter X).

### **Stability and growth require more than market access**

A recent independent study concluded that the EU has the lowest market access barriers of the major trading blocs.<sup>14</sup> However, tariff barriers alone do not tell the whole story. Import duties are just the door fee; the real challenge is remaining competitive once in the EU market, with its complex, rapidly changing regulations. Complying with the regulations and paying for independent certification can be extremely costly. Developing countries, particularly the LDCs, lack the market knowledge and technical capacity to take advantage of the few opportunities that exist.<sup>15</sup>

Moreover, after intensive internal lobbying from European producers, the EBA agreement was weakened by important exceptions. Under the EBA initiative quota and duty free access for rice, sugar and bananas will be phased in over a period of eight years.<sup>16</sup> These exceptions are among the most important goods produced in developing countries. In addition, strict rules of origin coupled with bureaucratic hurdles mean that only a small percentage of products from the developing world entering EU markets with preferential treatment. Early evaluations of the EBA indicate that its impact has been limited.<sup>17</sup>

### **Double standards in EU trade policy**

Even if developing world producers manage to negotiate the turbulent waters of EU import regulations, they reach a playing field made grossly unfair by the EUs subsidies

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<sup>14</sup> Out of the US, Japan, EU and Canada. Study published by the French institute National pour la Recherche Agricole (INRA), 24<sup>th</sup> July 2004. Cited in <http://www.euractiv.com> see also [http://trade-info.cec.eu.int/doclib/docs/2003/july/tradoc\\_113490.pdf](http://trade-info.cec.eu.int/doclib/docs/2003/july/tradoc_113490.pdf)

<sup>15</sup> Vorley, Bill and Tom Fox, "Global Food Chains - Constraints and Opportunities for Smallholders" (paper presented at the Prepared for the OECD DAC POVNET Agriculture and Pro-poor Growth Task Team Workshop, Helsinki, 2004), 20.

<sup>16</sup> See Europa Trade Issues - *Generalised System of Preferences – Everything but Arms Initiative* ([http://europa.eu.int/comm/trade/issues/global/gsp/eba/index\\_en.htm](http://europa.eu.int/comm/trade/issues/global/gsp/eba/index_en.htm))

<sup>17</sup> Paul Brenton, 'Integrating the Least Developed Countries into the World Trading System: the current impact of EU preferences under Everything But Arms' World Bank, 2003 (<http://econ.worldbank.org/view.php?type=5&id=25494>)

system. In 2003 the EU was spending a massive \$41 billion on agricultural subsidies, including export subsidies.<sup>18</sup>

On average each farmer in the EU is subsidised by a sum that is hundred times greater than the average annual income of an African farmer.<sup>19</sup> From the perspective of developing country producers the EU's long discussed de-coupling of subsidies from production in the Common Agricultural Policy (CAP) must seem a largely cosmetic exercise.<sup>20</sup> In fact, a 2005 World Bank study concluded that despite the 2003 CAP reform there are still subsidy incentives for EU farmers to increase production.<sup>21</sup> In effect, EU 'liberalisation' maintained support for agriculture but reshuffled the subsidies and taxes to make them less costly to the EU and more easily defensible in the WTO.<sup>22</sup>

Agricultural subsidies, which result in export dumping<sup>23</sup>, cause farmers in developing countries to suffer low prices, lost market shares, and unfair competition. The sugar industry is one example. EU sugar costs three times as much to produce as in India and five times more Zambia but, paradoxically, the EU is the world's 2<sup>nd</sup> largest exporter of sugar.<sup>24</sup> The explanation lies in EU sugar subsidies; €2.7 billion 2003.<sup>25</sup> One study estimated that EU subsidies and market restrictions on sugar cost Mozambique \$38 million in 2004 and Malawi \$32 million.<sup>26</sup> The EU subsidy policy not only denies the developing world crucial revenue and destabilises key industries, it also costs the average European in terms of higher taxes and prices.

Despite decades of intervention in their own markets, the EU, both at the WTO and through its own bilateral trade agreements, is not supporting developing country initiatives to protect small-holder farmers from unfair international competition. This approach, coupled with the EU's extensive subsidy regime, 'won' the EU the top place in Oxfam's 'Double Standards Index' – which sought to gauge the gap between the rhetoric of free trade and the reality of trade protectionism of the major trade powers.<sup>27</sup> According to Oxfam, 'Europe's *tour de force* is making developing countries open up their agriculture sectors in the name of free trade, and then pouring in millions of tonnes of highly subsidised products'.<sup>28</sup>

## Volatile commodity prices

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<sup>18</sup> The average EU subsidy per farmer per year between 1998 and 2000 was \$16,028 compared with an average per capita income in low-income countries of \$400 in 1999 : Oxfam Briefing Paper 'Europe's Double Standards – how the EU should reform its trade policy with the developing world', Briefing paper 22, 2002, p. 1

<sup>19</sup> Oxfam Briefing Paper 'Europe's Double Standards – how the EU should reform its trade policy with the developing world', Briefing paper 22, 2002, p. 10

<sup>20</sup> Oxfam International, 'EU Hypocrisy Unmasked: Why EU Trade Policy hurts development' Briefing note, 5<sup>th</sup> May 2003

<sup>21</sup> John Baffes & Harry de Gorter, World Bank, 2005 p. 85

<sup>22</sup> Christopher Stevens 'Food trade and food policy in sub-Saharan Africa: old myths and new challenges' Development Policy Review, Overseas Development Institute, 21 (5-6), pp 669-681, 2003.

<sup>23</sup> Exporting at prices below the costs of production

<sup>24</sup> Don McKinnon, 'We must end the world's trade apartheid subsidies', International Herald Tribune, Paris, June 8<sup>th</sup> 2004, p. 11

<sup>25</sup> Steven Pollard, 'Aid like this is fatal' The Times, London, 27<sup>th</sup> September 2004, p. 19

<sup>26</sup> 2003 Oxfam study cited in, Don McKinnon, 'We must end the world's trade apartheid subsidies', International Herald Tribune, Paris, June 8<sup>th</sup> 2004, p. 11

<sup>27</sup> Oxfam Briefing Paper 'Europe's Double Standards – how the EU should reform its trade policy with the developing world', Briefing paper 22, 2002

<sup>28</sup> Ibid. 2002, p. 1

Perhaps the most serious trade issue facing many developing countries is the massive volatility and decline in the price of primary commodities. Dependence on one or two minimally processed exports for a large percentage of government revenue makes a country especially prone to the global commodity markets. In addition, their exports create few jobs, attract little inward investment and often opaque revenue flows can lead to increased corruption and poor governance; the so-called 'resource curse'.

In sub-Saharan Africa there are 17 countries where non-oil exports account for more than 75% of export revenue.<sup>29</sup> Statistical studies point to a strong correlation between dependence on natural resources and increased risk of violent conflict in low income countries. If 25 percent of GDP is derived from primary commodity exports risk of civil war jumps to around 30 percent.<sup>30</sup>

Oversupply and the collapse of the commodity price agreements at the end of the 1980s led to violent price fluctuations along a downward trajectory for many commodities.<sup>31</sup> By 2000, prices for 18 major export commodities were 25% lower in real terms than in 1980; for 8 of these commodities the decline had exceeded 50%.<sup>32</sup> The UN estimates that for every \$1 in aid received by sub-Saharan Africa since the early 1970s, \$0.50 has been lost as a result of deteriorating terms of trade.<sup>33</sup>

Ethiopia and Burundi rely on coffee for between 60% and 80% of their export earnings, so the two-thirds fall in the price of coffee between 1980 and 2000 devastated rural livelihoods, slashed government revenues already strained by debt repayments and radically undermined health and education programmes, all of which can be drivers for conflict.<sup>34</sup> It has been convincingly argued that the sinking price of coffee in the early 1990s in part precipitated the Rwandan genocide of 1994 by halving export revenue, eroding livelihoods and exacerbating ethnic tensions.<sup>35</sup>

However, there has been little political will in the EU to find a successor to the commodity price regime – perhaps in part because some members host the futures exchanges that profit massively from the volatility. Yet if nothing is done to change the status quo the long term cost on development and security will be immense.

Many countries, particularly in sub-Saharan Africa, are finding it exceptionally difficult to reduce their reliance on natural resources and diversify their economies by processing and adding value to their products. In part this is due to internal supply-side constraints; such as poor education levels, low levels of technology and poor infrastructure.

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<sup>29</sup> Oxfam, *'Rigged Rules and Double Standards – trade, globalisation and the fight against poverty'*, 2002, p. 150

<sup>30</sup> Paul Collier and Ian Bannon, *'Natural Resources and Violent Conflict – Options and actions'* World Bank, 2003, p. 3

<sup>31</sup> Oil being the notable exception

<sup>32</sup> Cocoa, Coffee, Lead, Palm Oil, Rice, Rubber, Sugar and Tin: Oxfam, *'Rigged Rules and Double Standards – trade, globalisation and the fight against poverty'*, 2002, p. 151

<sup>33</sup> UNCTAD, *'Economic Development in Africa: Performance, Prospects and Policy issues'* New York and Geneva, 2001

<sup>34</sup> Oxfam, *'Rigged Rules and Double Standards – trade, globalisation and the fight against poverty'*, 2002, p. 150

<sup>35</sup> Mark Halle, Jason Switzer and Sebastian Winkler *'Trade, Aid, Security – elements of a positive paradigm'*, the International Institute for Sustainable Development (IISD), 2004, p. 13

But external factors are also important. EU regulations tend to get stricter with increased processing. Consumer-ready coffee, for example, is more strictly regulated than raw coffee beans.<sup>36</sup> In addition, the continued presence of tariff escalation is particularly damaging. It acts as a disincentive to investment, inhibits value-added processing and leaves many countries locked into volatile primary commodity markets characterised by low and deteriorating world prices.<sup>37</sup>

### **From Preferential Trade Agreements to Sanctions: Carrots to Sticks?**

As the world's largest trading bloc, the EU can exert powerful leverage with its trade policy. Increasingly, the EU is bundling human rights, governance and security concerns into the provisions of its bilateral trade agreements. In so doing the EU is using its trade policy as a vehicle to impose EU social, environmental and foreign policy concerns on its partners.

Through a complex system of trade 'carrots and sticks' the EU is attempting to make effective use of its 'soft' power; as opposed to its limited military, or 'hard', power. In the face of resistance from the developing world, which generally opposes the incorporation of non-trade conditions in trade deals, does this policy amount to effective engagement or blunt coercion?

### **The 'Carrot' of Preferential Trade Agreements (PTAs)**

The EU manages a complex and evolving web of bilateral and multilateral PTAs. It offers preferential access to its market in return for combinations of reciprocal access, trade liberalisation or 'better' social and environmental protections. Increasingly, the EU's PTAs include social, governance and environmental criteria; many of which are potential conflict drivers.

For example, a more generous version of the Generalised System of Preferences (GSP) scheme is offered to drug producing countries that tackle the drug trade effectively.<sup>38</sup> There is currently debate over whether and how to introduce a similar scheme to reward those countries that are enthusiastic participants in the 'war on terror'. Pakistan, for example, was given an increased textile quota allowance to the EU in 2002 in tacit recognition of its co-operation with the US led invasion of Afghanistan.<sup>39</sup> At the June 2002 Seville meeting, the European Council agreed to incorporate a terrorism clause in

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<sup>36</sup> It also triggers higher tariffs (9-12%) than unprocessed coffee (0%) – Faizel Ismail 'On the Road to Cancún: A development Perspective on EU Trade Policies' Paper presented at the 10<sup>th</sup> European Association of Development Research and Training Institutes General Conference, held in Ljubljana, Slovenia, 19-21 September 2002

<sup>37</sup> It should be noted that exports from the LDCs, under the EBA initiative, do not pay tariffs and therefore do not suffer from tariff escalation. They do however meet non-tariff barriers to trade in the form of stricter regulation for goods with greater processing.

<sup>38</sup> Under the special GSP arrangement on drugs additional tariff preferences are granted in order to assist beneficiary countries in their struggle to combat illicit production and trafficking of drugs. See Europa, 'Trade issues – Generalised System of Preferences' <http://europa.eu.int/comm/trade/issues/global/gsp/gspguide.htm>

<sup>39</sup> Following satisfactory co-operation in the fight against terrorism, Pakistan was included in the GSP special arrangement on drugs and a MOU was signed with the EU increasing the level of textiles and clothing quotas for exports in exchange some increased reciprocal access. The EU was later forced to withdraw this preference following a complaint to the WTO by India on the grounds of unfair treatment. See Bridges, 'India wins landmark GSP case' volume 7,, no. 37, 5<sup>th</sup> Nov 2003 (<http://www.ictsd.org/weekly/03-11-05/story1.htm>)



all EU agreements, including free trade agreements, as an inducement against state support of terrorism.<sup>40</sup>

The 2000 Cotonou agreement lists three so-called ‘essential elements’: respect for human rights, democracy and the rule of laws. If contravened, these conditions can lead to suspension of cooperation - including the cancellation of preferential access.<sup>41</sup> A fourth, slightly weaker, condition is the ‘fundamental element’ of good governance.<sup>42</sup>

Statistical evidence of the impact of this conditionality is scant but EU trade does seem to provide a powerful incentive for better governance. However, meeting somewhat subjective criteria set by the EU is of concern to the developing world, worried that a supposed contravention could be used as an excuse for European protectionism.<sup>43</sup>

### ***‘Equal rules for unequal partners constitute unequal rules’<sup>44</sup>***

#### **ACP-EU relations and Economic Partnership Agreements**

The Lomé agreements, the first of which was signed in 1975, gave preferential access to certain products from 77 African, Caribbean and Pacific countries. However, over the years Lomé’s potential was frustrated by continued EU tariff barriers, tariff escalation and rules of origin requirements that hindered economic growth and diversification in ACP countries.<sup>45</sup> Lomé’s limited impact and its non-compliance with WTO rules led to the Cotonou agreement, signed in June 2000.<sup>46</sup>

A limited WTO waiver allowed the 20 year Cotonou agreement to offer continued non-reciprocal preferential access<sup>47</sup> until 1<sup>st</sup> January 2008. After the waiver runs out Least Developed Countries (LDCs) can continue to trade on non-reciprocal terms under the EBA initiative. Other ACP developing countries are left a stark choice. They can return to the GSP system, which offers non-reciprocity but on much worse terms.<sup>48</sup> Alternatively, they can negotiate Economic Partnership Agreements (EPAs) with the EU. The EU is working hard to ensure that EPAs are the only option on the table.<sup>49</sup>

EPAs would offer largely the same degree of preferential access as before but with the important difference that the countries would have to offer reciprocal access to EU

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<sup>40</sup> Report of the European Union to the Security Council Committee established pursuant to resolution 1373 (2001) concerning counter-terrorism, S/2002/928, p.4

<sup>41</sup> ECDPM. 2001. *Cotonou Infokit: Essential and Fundamental Elements* (20). Maastricht: ECDPM.

<sup>42</sup> Contrary to the essential elements, a State facing governance problems will not have to fear a suspension of aid, with the notable exception of ‘serious cases of corruption’

<sup>43</sup> See Barbara Rippel ‘Common Market Doesn’t Mean Collective Preferences’ in EU Reporter, Vol. 4, Nr. 08, February 2004 ([http://www.eureporter.co.uk/images/EUR\\_ezine\\_16-20Feb04.pdf](http://www.eureporter.co.uk/images/EUR_ezine_16-20Feb04.pdf)) also Euractiv ‘Full interview with Vandana Shiva on the ills of the world trading system’ 8<sup>th</sup> March 2004 (<http://www.euractiv.com/Article?tcaturi=tcu:29-117411-16&type=Interview>)

<sup>44</sup> Amartya Sen - Cited by Eveline Herfkens, High-Level Parliamentary Seminar on Policy Coherence for Development, OECD, Paris, France, October 2, 2003

<sup>45</sup> Alistair Fraser and Nancy Kachingwe ‘Can Europe’s trade agenda deliver a just partnership with developing countries?’ in *Europe in the World – essays on EU foreign, security and development policies*, BOND, May 2003 pp. 57-66

<sup>46</sup> Alistair Fraser and Nancy Kachingwe ‘Can Europe’s trade agenda deliver a just partnership with developing countries?’ in *Europe in the World – essays on EU foreign, security and development policies*, BOND, May 2003 pp. 57-66

<sup>47</sup> Which means that the ACP countries have certain access rights to the EU markets that they need not reciprocate for EU goods.

<sup>48</sup> Fraser and Kachingwe, 2003, p. 59

<sup>49</sup> Fraser and Kachingwe, 2003, p. 60

goods. This prospect, along with the speed of the negotiations, is a cause of great concern to the countries involved. Stefan Szepesi writes, “If concluded, EPAs will constitute an unprecedented reciprocal free trade agreement between the world’s largest single market and some of the poorest economic regions”.<sup>50</sup>

Negotiations for EPAs began in 2002 and the clock is ticking fast. If no agreement is reached by the end of 2007 countries will revert to normal GSP status.<sup>51</sup> The concern is that the regional blocs negotiating with the EU, facing deadlines and without sufficient capacity to negotiate effectively, will end up with dangerously destabilising deals.<sup>52</sup> Whereas the EU used to negotiate with the 77 ACP countries together, it is now dealing with much smaller, regional blocs with much diminished bargaining power.

In the case of Fisheries Partnership Agreements, the EU is negotiating bilaterally for fishing access to the territorial waters of coastal states on a case by case, or a divide and rule basis, depending on your point of view. Not only does this result in often imbalanced agreements, it represents a negotiating strategy that undermines the EU’s oft-repeated commitment to regional integration.

In essence, the ACP countries have nothing to gain and everything to lose from the EPA negotiations; they are fighting to keep hold of the preferential access they already have. Concerns over the impact of the EPAs revolve around two main areas: the impact of reciprocity and trade liberalisation that is in excess of existing WTO rules.

The EU is choosing to interpret WTO rules in a very conservative way by requiring that regional trade agreements cover ‘substantially all trade’, as to mean at least 90 percent.<sup>53</sup> This means that the vast majority of all European products, many of which are heavily subsidised, can enter the poorest markets in the world, such as those in Benin, Chad and Mauritania, duty free.<sup>54</sup> Many countries are concerned that requirement for reciprocity, phased in over a 10-12 year period, will slash government revenues from import taxes<sup>55</sup>, ruin their balance of trade and open up domestic industry to unfair competition from subsidised EU exports.

Secondly, the EPAs include commitments to trade liberalisation that are greater than those required by WTO membership as well as going beyond the Doha agenda and Cotonou agreement.<sup>56</sup> It does this in three important areas of ‘non trade concerns’: three of the four Singapore issues (relating to transparency in government procurement, competition and investment policies), trade in services (GATS) and intellectual property

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<sup>50</sup> Szepesi, S. 2004. *‘Coercion or Engagement? Economics and Institutions in ACP–EU Trade Negotiations’* (ECDPM Discussion Paper 56). Maastricht: ECDPM.

<sup>51</sup> Though it is widely agreed that if the EU chose it could pursue a second waiver at the WTO – the EU’s insistence that this would be impossible is a negotiating strategy: Private communication

<sup>52</sup> See for example; Africa Trade Network (ATN) Report from workgroup on EPAs support the Eastern and Southern African countries in the launch of negotiations with the EU, Harare, 5<sup>th</sup> February 2004

<sup>53</sup> Whereas the US interpreted ‘substantially all’ as meaning 80% in a free trade agreement with the Dominican Republic. Oxfam Briefing Paper *‘Europe’s Double Standards – how the EU should reform its trade policy with the developing world’*, Briefing paper 22, 2002, p. 9

<sup>54</sup> Matt Griffith and Liz Stuart *‘The Wrong Ointment – Why the EU’s proposals for trade with Africa will not heal its scar of poverty’*, CAFOD, November 2004, p. 16

<sup>55</sup> For example, in Ivory Coast, Sierra Leone, and Uganda, trade taxes represent 40 per cent, 49 per cent, and 48 per cent of total government revenue respectively The EU has already stated that it is not prepared to countenance new debt cancellation initiatives as a way of compensating for these revenue losses. Fraser and Kachingwe, 2003, p. 60

<sup>56</sup> See Matt Griffith and Liz Stuart, CAFOD, November 2004

rights (TRIPS). These areas of ‘offensive interest’ have already been vigorously contested by the ACP bloc at the WTO.

Joseph Stiglitz argues that the imposition of the Singapore Issues on developing countries would ‘almost surely impede development’.<sup>57</sup> If included in the EPAs liberalisation of these areas will further constrain the policy space of developing countries, cost a great deal to implement and have potentially dramatic impacts on health and social service provision.<sup>58</sup> The EU protests that it is offering similar access for the developing countries but as the Nobel Laureate Amartya Sen puts it, ‘Equal rules for unequal partners constitute unequal rules’.<sup>59</sup>

### **The ‘Stick’ of Trade Sanctions**

With its limited military power, the EU has attempted to use its trade power through sanctions to avert or resolve conflict - with somewhat mixed results. Historically, trade sanctions alone were not enough to bring change to South Africa’s apartheid regime, while decades of US sanctions on Cuba ironically helped to entrench the very regime the sanctions were supposed to displace. More recently, trade sanctions on Iraq throughout the 1990s failed to precipitate regime change, ultimately resulting in the more ‘direct’ and much bloodier approach of the US and the UK.

Agreements such as Cotonou provide for trade sanctions in cases of severe human rights abuses, aggressive international behaviour and so on. In 2001 the EU threatened to impose increased duties on goods produced in Israeli settlements in an attempt to help resolve the Palestinian-Israeli conflict.<sup>60</sup> It also threatened Russia with trade sanctions should it attempt to bloc EU expansion.<sup>61</sup> However, trade sanctions tend to be successful only when there is a limited objective and a significant reward. The decade of diplomatic and trade pressure on Libya to give up the Lockerbie bomb suspects is a case in point.

Trade sanctions tend to be very blunt, reactive instruments which affect the poorest members of society most. Not only can trade sanctions frequently contravene WTO rules, it is also difficult to generate the political will to construct and maintain a trade sanctions regime. This has been the experience of those attempting to implement EU trade sanctions on the regime in Myanmar, a process that has been stymied by some member’s reluctance to lose valuable trade links.<sup>62</sup>

As a result the EU tends to be unwilling to impose comprehensive trade sanctions. Instead it prefers to suspend development aid and impose ‘smart sanctions’ which are designed to minimise their impact on the well being of the civilian population; for example by implementing selective travel and financial restrictions on regime members, such as is case with Zimbabwe.<sup>63</sup>

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<sup>57</sup> Cited in Matt Griffith and Liz Stuart, CAFOD, November 2004, p. 7

<sup>58</sup> Matt Griffith and Liz Stuart, CAFOD, November 2004, p. 5

<sup>59</sup> Cited by Eveline Herfkens, High-Level Parliamentary Seminar on Policy Coherence for Development, OECD, Paris, France, October 2, 2003

<sup>60</sup> Dan Ephron ‘Israel warns against EU sanctions’ *Washington Times*, 1 May 2001, pg. A11

<sup>61</sup> BBC Monitoring Newsfile, *Russian Politician criticises EU sanctions threat*, 23 February 2004

<sup>62</sup> See for example, Global Information Network ‘*Asia-Europe Summit ignores Top Burmese Dissident*’ New York, 13 October 2004

<sup>63</sup> Common Council Position of 18 February 2002 concerning restrictive measures on Zimbabwe (2002/145/CFSP) <http://www.mfsc.com.mt/mfsa/sanctions/313R.03.pdf>

Nonetheless, trade measures did play a key role in the sanctions regime of 1998-2000 placed on the Federal Republic of Yugoslavia. The measures adopted included an embargo on the sale and supply of petrol, a ban on trade and investments, a freezing of the assets of Slobodan Milosevic's associates in addition to visa restrictions, and a ban on international flights to and from Yugoslavia.<sup>64</sup> However, whilst sanctions might have pushed Milosevic towards signing the Dayton Pact, it was ultimately the war that removed him and enforced regime change. As Jayanath Dhanapala, the Under-Secretary General for Disarmament Affairs, puts it, sanctions are a 'complex, flawed but indispensable tool'.<sup>65</sup>

### **Export and expansion of the security-trade benefits of the European Union**

The EU is a unique experiment that has, to date, proven remarkably successful at inhibiting outright conflict within its borders. Many other regions look to the EU as an illustration of the benefits of regional integration. For its part, the EU has been an enthusiastic proponent of its own model around the world.

### **The European Neighbourhood Policy**

The expansion of the EU to 25 member states in May 2004 presented the Union with new borders, new neighbours and new challenges. The ineffectual response of the EU to the Balkan wars of the 1990s provided proof, if needed, of the EU's limited military power. Consequently the EU has since focused on securing its borders with trade agreements rather than tanks.

A recent and important initiative is the European Neighbourhood Policy (ENP). The rationale behind the ENP is to prevent the emergence of new dividing lines after the EU enlargement by establishing privileged relationships in a way that, according to the World Bank, 'is distinct from EU membership'.<sup>66</sup> In May 2004 the Commission presented the 'European Neighbourhood Policy Strategy', which set out in concrete terms how the ENP will work.<sup>67</sup>

The ENP is directed at the EU neighbours without, in most cases, much prospect of accession; particularly those who have come closer to the EU as a result of enlargement. Sixteen countries are included: Ukraine, Belarus, Moldova, the three countries of the South Caucasus (Armenia, Azerbaijan and Georgia) as well as ten countries around the southern and eastern Mediterranean.<sup>68</sup> Assistance to other neighbours with stronger accession prospects, such as the Western Balkans and Turkey, is covered under a separate pre-accession strategy.<sup>69</sup>

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<sup>64</sup> EU, External Relations, *Relations with South Eastern Europe – EU Sanctions* ([http://europa.eu.int/comm/external\\_relations/see/fry/sanctions.htm](http://europa.eu.int/comm/external_relations/see/fry/sanctions.htm))

<sup>65</sup> Keynote address by Jayanath Dhanapala, 'Final Expert Seminar on Smart Sanctions – the next step: arms embargoes and travel sanctions' Bonn International Centre for Conversion, Berlin, 3-5<sup>th</sup> December 2000

<sup>66</sup> World Bank, 'The World Bank and the EU's European Neighbourhood Policy' 2004 [http:]

<sup>67</sup> Europa *Europe in the World – the European Neighbourhood Policy*, 2004 ([http://europa.eu.int/comm/world/enp/policy\\_en.htm](http://europa.eu.int/comm/world/enp/policy_en.htm))

<sup>68</sup> Morocco, Tunisia, Algeria, Libya, Egypt, Israel, the Palestinian Authority, Lebanon, Syria and Jordan

<sup>69</sup> Europa, 'PreAccession Strategy' (<http://www.europa.eu.int/comm/enlargement/pas/index.htm>)

One main objective is to increase trade between the partner countries with the incentive of eventual inclusion within the EU internal market.<sup>70</sup> The EU is drawing up action plans with each partner country for the implementation of the policy based on 'traditional' EU principles: joint ownership and commitment to common values, including democracy, the rule of law, good governance and respect for human rights, and to the principles of the market economy, free trade and sustainable development, as well as poverty reduction.

As well as monitoring the partner countries' progress, the EU will provide support through existing programmes which, from 2007, will be complemented by a new financial instrument, the European Neighbourhood Policy Instrument (ENPI). For the period 2004-6 the EU will provide €255 million for the ENP, which is likely to increase dramatically between 2007 and 2013.<sup>71</sup>

In effect, the arrangement provides for a hazy middle ground between non-membership and full accession. Some within the EU worry that these partner countries are being led to unrealistic expectations that the ENP will ultimately deliver them full membership.<sup>72</sup> While it is still early to judge its effectiveness, the ENP is likely to prove very influential in the years to come.

### **Exporting the Regional Integration Model**

In general, the EU is an enthusiastic proponent of regional integration elsewhere in the world as a stepping stone to more extensive trade liberalisation, as well as increased economic and political stability. EU delegations overseas are actively encouraged to help 'export' the EU's model of regional integration pushed by closer trade links.<sup>73</sup> This is backed up by EU funds to support regional organisations like the African Union and the Pacific Forum with the specific expectation of contributing to the prevention, management and resolution of violent conflicts.<sup>74</sup>

And regional integration is progressing fast, propelled in particular by a growing number of regional trade agreements. For example, in December 2004 the members of MERCOSUR and the Andean Pact signed an agreement for closer economic and political integration, to be called the the South American Community of Nations, with an explicit nod to the trailblazing role of the EU.<sup>75</sup>

There seems to be some frustration in the EU that the progress of integration has been more cosmetic than concrete.<sup>76</sup> In part this is because the countries concerned, particularly in Africa but also in Asia, tend to produce largely the same goods and so there is relatively less benefit to be had from freer trade. Perhaps it is also because many regions seem to view integration primarily as a way to increase their bargaining power in trade negotiations that are increasingly dominated by the EU and the US. They do not

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<sup>70</sup> World Bank, *The World Bank and the EU's European Neighbourhood Policy* 2004 [<http://wbln0018.worldbank.org/ECA/europeanintegration.nsf>]

<sup>71</sup> World Bank, *The World Bank and the EU's European Neighbourhood Policy* 2004 [<http://wbln0018.worldbank.org/ECA/europeanintegration.nsf>]

<sup>72</sup> Personal communication

<sup>73</sup> Personal communication

<sup>74</sup> Council of the European Union, *Council Common Position concerning conflict prevention, management and resolution in Africa*, SN 1010/04, January 2004, p.3

<sup>75</sup> Euractiv *'First steps taken towards a south American EU'*, 8<sup>th</sup> December 2004

[<http://www.euractiv.com/Article?tmuri=tem:29-133262-16&type=News>]

<sup>76</sup> Personal communication

feel the same impulsion to closer political and economic union that has been the driving force of European integration since the devastation of the Second World War.

There is no rule that says regional integration is automatically positive. Without careful negotiation and implementation, regional integration between countries of widely differing size, wealth and influence can cement inequalities, create tensions and trigger conflict. During 1980s and 1990s the EU encouraged rapid regional integration and structural adjustment policies on Francophone West Africa, urging the free movement of goods but not people and without providing for a redistributive wealth mechanism that would have helped surmount the adjustment costs of trade liberalisation and integration. Some analysts argue that much of the subsequent instability in Francophone West Africa can be explained by this uncompromising process which drove up unemployment and undermined government social programmes.<sup>77</sup>

### **Conclusions**

The EU has made progress in undermining the shadow economies of conflict by tackling the illegal trade in some conflict resources. However, the EU needs to confront the structural ways in which its trade policy can inadvertently promote instability. In particular, EU trade policy could do a great deal more to encourage growth and equality in the developing world, to help countries move away from reliance on volatile commodity revenues, to mitigate the adjustment costs of liberalisation, enable developing countries to support sensitive domestic industries, add to value to their products, and to push the world trade agenda towards more conflict sensitive policies. These objectives are fundamental to both sustainable development and to peace.

Meanwhile, the EU needs to consider how best to exert the leverage of its trade policy to reduce conflict around the world. Conditions attached to preferential trade agreements (carrots) can provide strong inducements towards better governance, democratic processes and political stability. However, reactive sanctions (sticks) tend to be less effective at neutralising existing conflict situations. And while the EU is a powerful example of the security benefits of regional integration it should be remembered that the EU is a unique experiment and not necessarily applicable elsewhere. If the European Union is serious about promoting growth, political stability and growing interdependence through its trade policy and well as increasing the coherence between its trade, conflict prevention and aid policies it needs to consider the following changes to its current trade regime.

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<sup>77</sup> Personal communication. See also Cyril Aba Musila *'Crises et Conflits en Afrique de l'Ouest: état des connaissances*, OECD, 2002 <http://www.oecd.org/dataoecd/18/51/1838411.pdf>

## Recommendations

### **To improve conflict sensitivity in EU trade agreements:**

- Conduct **conflict assessments** of existing and forthcoming trade agreements, especially EPAs, moving beyond the superficial economic and social impacts to focus on the impacts on economic and political stability.
- Train Commission staff, in both Brussels and delegations, in **conflict sensitivity** so that the design of country strategy papers addresses the role of trade in conflict prevention. In addition, DG trade officials should form part of the Council-Commission joint assessment missions to countries at risk of conflict, and be involved in the design of 'preventative strategies'.
- Secure a **WTO waiver** for continued non-reciprocal trade access for the ACP countries, for a period of 5 years, to allow more time for the negotiation of EPAs.
- Assess the **impact of conditionality** in Preferential Trade Agreements on governance and peace-building in partner countries

### **To promote equitable growth, political stability and good governance:**

- **Expand the EBA initiative** to all low income developing countries. And push for a similar initiative to be adopted by the US, Canada and Japan.
- **Reduce EU subsidy support** for agricultural products, particularly sugar, to create a level playing field for the agricultural exports of developing countries.
- Provide **additional trade preferences** for countries emerging from violent conflict as part of a long-term strategy for reconstruction.
- **Increase resources** available to ACP countries for adjustment policies following the eventual implementation of EPAs (if that is what they choose).
- Generate the political will for a **stabilisation fund or commodity agreement** that reduces price volatility of commodities.
- Help producers in the developing world meet the costs of certification; through **increased technical support** as well as **harmonisation of standards and regulations** in OECD countries.
- Support ACP proposals for greater **WTO flexibility for regional trade agreements**. WTO rules for regional trade agreements were designed for agreements between parties of broadly comparable levels of development – not for trading blocs with huge disparities. The ACP has put forward proposals for the re-writing of these rules, but the EU has so far failed to support these proposals at the WTO.