



Pacific Institute  
of Public Policy

# Pacific lessons from the Economic Partnership Agreement

## Key messages:

- » EPA negotiations were spread over five years and failed to produce agreement.
- » The Pacific countries could have been better prepared to ensure their interests were properly represented.
- » By encouraging the Pacific islands to lower trade barriers, the Europeans really thought that they were doing good.
- » Given the current trend towards encouraging 'good governance', it is ironic that proponents are simultaneously pushing for measures which would reduce the ability of governments to fund their operations effectively.
- » The Pacific islands must be allowed to promote a select few areas in which they have an actual or potential comparative advantage, such as tourism, food processing, fisheries and certain agricultural products.

Briefing Paper:

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A trade deal between the world's biggest economic region the European Union – and the world's smallest – the Pacific – was never going to be easy. The Economic Partnership Agreement (EPA) negotiations were spread over five years, but by the deadline on 31 December 2007, the Pacific and the EU had failed to come to any agreement. But it may not be just a case of bullying by the big guys. The Pacific countries could have prepared better, ensured that their interests were properly represented, and collaborated more appropriately.

By the end of 2007 the African, Caribbean and Pacific (ACP) group of countries was supposed to have negotiated a series of separate trade agreements with the European Union. The Cotonou Agreement, signed in the capital of Benin in 2000 (but which would have been signed in Fiji had not the June 2000 Speight coup intervened), superseded the old Lomé conventions which had governed Europe's trade relations with its former colonies. The deal was for the first time to be reciprocal – meaning that Brussels would expect the same access abroad as it was prepared to concede at home, subject to some negotiated asymmetry.

Six years of European trumpet-blowing; assurances that the deal would be 'development-friendly'; an emphasis on regional solidarity. None of this was enough to prevent a forgettable outcome. The ACP fragmented. First to sign up was the Caribbean. Several African regions argued that Brussels was using the deal to lever open markets. The Pacific<sup>1</sup>, the minnow of the group, could reach no deal. In the end Fiji and Papua New Guinea agreed to sign individual agreements to maintain preferential access to the European markets. These agreements will likely set a precedent for other countries, should they wish to sign in the future.

The European Commission (EC) had steadfastly refused to consider most of the Pacific's proposals, including those on labour mobility, fisheries, investment and services; instead urging uniform liberalisation.<sup>2</sup> Brussels refused to recognise that the Cotonou Agreement allowed alternatives to an Economic Partnership Agreement (EPA). It must be said that the ACP Secretariat and the regional bodies failed to make any such comprehensive counter-proposals. As it stood, however, the only area of compromise was in allowing states to sign up to any agreement only if they wanted to.

1. The Pacific ACP countries are the Cook Islands, Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. June 2008

2. Financial Times, 28 November 2006. 'Brussels rejects moves to link trade with aid'.

## Motivations

As with all trade negotiations, every country or region is involved for particular reasons. Recognising that parties to a negotiation are acting in their own interests does not mean mercantilism. It is simply to understand that every party has, or should have, a strategy.

Many people misunderstood Europe's motivations. Some, influenced by international non-government organisations (NGOs), argued that the EC was trying to prise open Pacific markets so that its companies could sell more in the region (for example see Kelsey 2005). This may have been true for Africa, but the Pacific countries in question produce products and services worth about US\$11 billion a year, about the size of a medium-sized European town. Europe's GDP is US\$16.5 trillion. How many European companies want to trade with, or invest in a group of tiny countries on the other side of the world, spread across thousands of miles of ocean?

Others believed that the EU was a benevolent friend, come to deliver cargo like the Americans in the Second World War. While it would be nice if this were true, the reality of trade talks is that countries and regions hold their own interests uppermost – they cannot afford to behave otherwise. However confidential discussions with key players suggest the main reason for the EPA deal was that Europe no longer wished to keep defending special treatment for the ACP group of countries at the World Trade Organisation (WTO). A WTO waiver giving special preferences for the ACP was due to end in 2007. Washing its hands of its former colonies would help the EU to go after bigger, fast-growing markets like India, China and Brazil.

Compared with Africa<sup>3</sup> the Pacific was the site of little skulduggery. True, the EC may not have been sorry to see the Pacific islands split, but negotiations were so unbalanced that any divide-and-conquer strategy would have been irrelevant. Brussels simply delivered its demands to Suva without feeling the need to listen. The EC did promise to continue aid funding for the region and allowed lengthy transition periods for tariff reductions.<sup>4</sup> Additional motivations underlay the EPA. The EC clearly wants access to Pacific fisheries because Europe has depleted its own stocks. But in the end fish wasn't even negotiated under the EPA and the EU continued its policy of bilateral deals.

Several Pacific countries, particularly Fiji and Papua New Guinea, were suffering preference erosion. Even if the Pacific islands maintained special rates for their exports to Europe, the further Europe lowered its tariffs for other developing country imports, the less competitive Pacific goods would become. The idea of raising preferences was never on the agenda – and would have meant a harder landing when the inevitable occurred. Sooner or later the region would have to open to the outside world. The simple reality of globalisation meant something like an EPA was always likely.

At worst, the EC can be described as a 'Bad Samaritan'<sup>5</sup>. Its liberalisation agenda was driven by a genuine belief that freer trade in all areas is the route to economic prosperity. By encouraging the Pacific islands to lower trade barriers for all goods and services among themselves and to the wider world, the Europeans really thought that they were doing good.

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3. *Financial Times*, 12 December 2007, 'How Europe's tradetalks with poor former colonies became mired in mistrust'.

4. Originally there was talk of extra funding above the existing European Development Fund, although this never materialised.

5. 'Bad Samaritans' is the title of the latest book by Cambridge political economist Ha-Joon Chang (2007).

## The key players

### *The European Union*

For Brussels, the Pacific was a fly in the ointment. The EU had little to gain or lose from the outcome in the Pacific. Few commercial interests were involved. Influenced by powerful NGOs operating in the region and historical connections from the colonial era, most Europeans appear to care more about Africa than a group of far-flung and seemingly exotic islands. Many European governments spend an increasing proportion of their budgets on aid, so Brussels was happy to continue disbursing the European Development Fund.

Europe was committed to a similar approach in most of the ACP regions. Even the labyrinthine corridors of Brussels didn't contain enough personnel to deal with countries on an individual basis. Using a cookie-cutter approach would save time and effort. In addition Brussels knew that any agreement with the ACP regions would set a precedent for its next negotiations, likely to be economic partnership agreements with more lucrative markets. Under the leadership of Commissioner Mandelson the EU believed that broad-ranging trade liberalisation is a panacea, irrespective of time and place.

Once the ACP had divided, the Head of the ACP Sir John Kaputin lacked the authority to bring it back together and the game was all but over. Given that the motivation of the EU was mainly to stop having to defend the Lomé waiver at the WTO, as soon as individual countries pursued different objectives the EU knew it would achieve its goal much more easily.

### *The Pacific Islands Forum Secretariat*

Forum-bashing is a popular sport around the Pacific region, and arguably it serves an important purpose in promoting democratic accountability. But negotiating on behalf of 14 small, resource-strapped island countries was never going to be easy. Member countries are widely divergent in terms of population, economic potential, wealth and cultural background. The region's governments are notoriously unstable – and at the extreme end of the scale the Solomon Islands was suffering the aftermath of a violent uprising. Asking Honiara for feedback on arcane issues such as rules of origin seems a bit irrelevant when gunmen were fleeing the capital. The Forum therefore had to decide parts of strategy for itself; and a certain degree of compromise was always likely in such a diverse region. Yet there is a long-standing difficulty with the Forum's position. In effect regional capitals cede sovereignty to it on trade policy and other areas, but with minimal representation. For Ministers to sign papers once or twice a year at regional meetings does not give them genuine authority over the Forum's decisions. Sometimes it felt like countries were answering to the Forum rather than the other way round. To this end, in July 2004 the Melanesian Spearhead Group, comprising Papua New Guinea, Vanuatu, the Solomon Islands and Fiji, made a spontaneous submission on its EPA position to the Forum secretariat. This paper appears to have been ignored, or at the very least allocated minimal priority in the negotiation strategy. In most regions, including the EU, trade negotiators are politically required to reflect country demands. If not, they lose their jobs.

In the name of consultation, the Forum produced an avalanche of technical documents and visited each country a handful of times to run workshops. Yet the Forum should have known that the miniscule budgets and resources of most trade departments meant that officials did not have enough time to pore over each of the scores of technical papers. The private sector, which is even less able to decipher international trade-speak, was all but left out of negotiations. The president of the Papua New Guinea

manufacturers' association, Wayne Golding, proved a valiant exception. But generally it was as if the Forum had decided that the main issues had been decided in advance. All that was left was to iron out the details.

### ***Pacific island governments***

Most governments were interested in keeping state coffers topped up because they depend on import tariffs for a substantial proportion of their income - in some cases a fifth of total revenues. The EPA itself wouldn't have meant a significant decline in tariff revenues because the region only imports about €200 million worth of goods a year from Europe. Many Pacific capitals were concerned about the precedent that the EPA would set for the Pacific Agreement on Closer Economic Relations (PACER), which is likely to involve lowering tariffs on goods from Australia and New Zealand. Considerable midnight oil has been burned over the definition of 'substantially all trade' - a WTO requirement for free trade agreements. Pacific island governments worried that the EU's definition of 80% would force them to cut tariffs on goods from their biggest trading partners, forcing them to look elsewhere for revenues. They were therefore negotiating in Europe with one eye on Canberra and Auckland.

In many Pacific island countries the fiscal regime is inflexible, making it difficult for governments to capture any additional surplus through other forms of taxation. Customs departments already struggle to administer and collect existing tax revenues. A vulnerable revenue position leaves little room for the major fiscal changes that would result from significant and rapid tariff reductions with major trading partners. Given the current trend towards encouraging 'good governance', it is ironic that proponents are simultaneously pushing for measures which would reduce the ability of governments to fund their operations effectively. Yet governments must undoubtedly take some of the blame for not giving enough feedback. Many simply did a good ostrich impression, burying their heads in the sand and hoping for a beneficial outcome. The current lack of attention to trade policy throughout the region must change; otherwise the default option will occur.

### ***Non-government organisations***

Many NGOs appear to have simply lifted trade policy ideas from their European counterparts. It is all very well for NGOs to argue that institutions like the International Monetary Fund and World Bank should tailor their policies more to individual countries; but so should NGOs.

The infant-industry argument, for instance, requires special adaptation to micro-states, which have tiny markets and will never develop large production bases. The problem with believing that Europe was seeking market access in the Pacific was that it encouraged attempts to copy larger countries, where widespread protection and development of local markets may be more appropriate. Most Pacific islands can afford only to protect and develop a select number of strategic activities. Broad-ranging protection for local companies can be counterproductive, leading to higher prices and worse services. The local market is so tiny that some domestic businesses are unlikely ever to develop much. Vanuatu's inter-island shipping is reserved for a few, unreliable and expensive operators. Trade between the islands suffers as a result. Civil society remained mostly uninformed. Few organisations, apart from a select group of journalists, put across the issues in plain language. If NGOs believed in sustaining protection, in which areas? If they believed in lowering prices for consumers, what were they going to do about it? Just saying 'no' was not enough (for example see Oxfam 2006). Influential European NGOs could have been recruited to publicise events.

As small, apparently defenceless victims, the islands could win considerable public support. Putting forward a realistic alternative agenda, tailored to the region, would have reaped dividends.

## **Lessons**

The EPA episode raises major questions about sovereignty and self-determination. Can small states run their own affairs, or must they defer to regional organisations? Are the island nations condemned to a life of bullying by the big boys?<sup>6</sup>

### ***1. No negotiation without representation***

The Forum should either become more democratic or less powerful. If not, it risks becoming irrelevant. Pacific island countries cannot continue to cede power to it when it appears not to be taking their interests fully into account. Countering the democratic deficit would require more government representatives formally involved in the political machinery, rather than the current situation, where a couple of regional leaders are chosen in a non-transparent way. Only with formal democratic representation will the Forum be able to truly reflect regional demands and negotiate effectively. The Melanesian Spearhead Group already appears to be making moves toward bypassing the Forum, this year unveiling a Chinese-funded secretariat building in Port Vila.

Consultants could have been used far more effectively. The UN model, whereby central administrators subcontract work to outside consultants, is inappropriate. An element of subjectivity exists in all reports, and using different consultants to formulate policy results in inconsistency. More bluntly, several of the reports published in the run-up to the EPA were simply of insufficient quality and did not reflect governments' true demands. The timing of the reports was also inappropriate, with several commissioned at the eleventh hour of negotiations (mid 2007). Most senior Forum staff are qualified to perform technical work on trade policy, as are regional government administrators. A roster of capable government officials should be established and they should be paid to do the work free from political influence, with the quality of work assessed independently.

### ***2. Brief the press, influence opinion***

Any trade negotiations require a media blitz. The Forum should have publicised all information fully in the media and openly online at an early stage and adopted a public relations strategy. People need to feel involved in order to achieve useful feedback. At the very time when information should have been made fully available, many governments and ordinary people found it difficult to understand and access key documents. For most islanders the EPA became an obscurity being discussed thousands of miles away in Suva which had little to do with their lives. In reality, nothing could be further from the truth. The agreement would have far-reaching development implications for each country.

### ***3. The Pacific way***

Pacific islanders tend to promote decision by consensus. Formal 'European' decision-making models are considered culturally alien, resulting in a loss of face for the loser. Yet events during the EPA discussions led to the suspicion that the Pacific way was to prevaricate. First, the countries could not agree on a candidate to lead the Forum, in 2003 leaving the way clear for a compromise candidate that few openly favoured. Next, in-fighting between Samoa and Papua New Guinea meant that relations soured further with the election of former PNG Foreign Minister Sir John Kaputin as head of the ACP in 2005. Instead of a prize-fighter

6. See Kelsey, J. (2004) *Big Brothers Behaving Badly*.

with the skills to push the group's interests, African ACP members grumbled that Kaputin did not have the experience to represent the organisation at such a crucial stage. A process involving secret ballot would have led to a smoother outcome in both cases.

#### 4. One size doesn't fit all

Is there real strength in numbers, or can strength derive from smaller, cohesive groups? Certain matters can be discussed at the regional level, including negotiating machinery and transition arrangements, as the Caribbean Regional Negotiating Machinery did for CARICOM, the Caribbean Community and Common Market. Collaboration is essential, for example on trade facilitation and to manage revenue volatility associated with islands' small scale and geographic isolation. The islands are so small that they must band together if they are to achieve anything on the international stage. They must understand on the one hand their geo-political and economic marginality and vulnerability and on the other hand consider how this disadvantage can be re-conceptualized and transformed into opportunity. But discussion of some things is perhaps best left at the national level. Melanesia trades in forestry products. Polynesia doesn't. Until recently, Melanesians found it difficult to get work permits abroad. Cook islanders, Samoans, Tongans and others have long been able to travel and work easily in New Zealand, and Micronesian Compact countries in the USA.

Each country requires national resources to make regional funding work. It is no use devoting regional funding into standardising Customs procedures when each individual department of Customs operates on a shoestring. Even at the WTO, with its spaghetti-bowl of overlapping groups, the ACP is so unwieldy as to be almost useless. Arguably it should focus on the EPA negotiations – the primary purpose of its existence. Better to negotiate in smaller regional or issues-based blocs than to reach platitudes in order to satisfy every member of a big gang.

#### 5. Death by a thousand Eurocrats

International trade negotiations have become a war of attrition. Success is almost as much about numbers as it is about technical prowess or negotiating power. Small countries are at a clear disadvantage. For instance at the Cancun WTO Ministerial meeting in 2004, where the global development round of trade talks for the first time really hit the buffers, the Vanuatu delegation had three members, the Solomons two, and Papua New Guinea half a dozen. In contrast the Japanese and American delegations each had 150. How could the small countries even keep track of events, let alone contribute usefully? During the EPA negotiations the Pacific islands were simply stretched too thin. At the time only two of the 14 countries had representation in Europe. Forum members had to travel to Europe to attend discussions. Criticisms must be levelled at the newly-established Forum office in Geneva, which, according to several observers, underperformed during the critical stages. That Vanuatu has since established its own diplomatic presence in Brussels suggests that it does not feel fully satisfied with the performance of the Geneva office.

#### 6. Levelling the playing field

The Pacific ACP countries had no power to inflict a marginal cost on their bigger partner. They therefore had to accept the European position. Transparent, well-designed guidelines, laid out in advance, would have helped protect them. These guidelines could have at minimum involved a European pledge not to go beyond current WTO commitments on investment and government procurement, and laid out transitional arrangements. As it was, the entire negotiations appeared to be in flux until the final hour, when many governments had no choice but to either

opt out or sign up to a hastily-conceived agreement. Neither of these outcomes had been expected or prepared for. This is a lesson worth learning, given that the region is currently involved in other trade negotiations, including PACER. To leave everything undecided until the end is to play into the hands of the powerful.

#### 7. Future negotiations

Ardent free-traders will argue that the Pacific islands should open their markets unilaterally. Each country can maximise efficiency by trading according to its comparative advantage. But ask a copra farmer in Vanuatu's Banks islands if he wants his children to be stuck with such backbreaking work in 20 years' time, and he will probably give you short shrift. Despite their small size, the Pacific islands must be allowed to promote a select few areas in which they have an actual or potential comparative advantage, such as tourism, food processing, fisheries and certain agricultural products. Ultimately tariff reductions may best be achieved on a timescale with which the islands can cope, with accompanying institutional changes, rather than dictated by bigger players.

The Pacific islands could have done a better job in negotiations by being better prepared and undertaking widespread public consultation. They could have made sure that the Forum heard their demands. Leadership of the ACP should have been better utilised. The islands could have publicised their cause. And a few countries could have collaborated more on the issues that concerned them most. They could have identified the industries, products or services that were their biggest priorities. It is always easy to blame the big players, but if the Pacific is to challenge its bigger partners, next time it should assemble all its resources ahead of time.

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