UACES 38th Annual Conference

Edinburgh, 1-3 September 2008

www.uaces.org

Draft for UACES Conference Exchanging Ideas on Europe 2008, Ednburgh

Can Deep Integration EPAs be Good for Development?

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Introduction

This paper explores the potential development gains of "deep integration" in the context of EPAs. The only one signed so far is with Cariforum so the paper draws on other work on "deep FTAs" we have carried out at Sussex, in particular recent work on EU India, EU-Egypt and preparations for ECOWAS and ESA, as well as other work on Central Asia.

Economic Partnership Agreements (EPAs) have been proposed by the EU to bring its preferences for developing countries into line with WTO rules. In essence the GATT states that any preferences given by WTO members to others must either be non-discriminatory (Art I) or fully comprehensive and reciprocal so as to qualify as a customs union or free trade area (GATT Art XXIV), and the GATS has similar rules. Certain exceptions exist, notably that preferences can be given to groups of countries in the same circumstances so long as there is no discrimination between them, (GSP or EBA); and developing countries can. But after the creation of the WTO and its tougher disciplines the EU signed the Cotonou agreement with the ACP states to bring its bilateral agreements into line with the consensus view of what the WTO rules implied, namely that unless the EU extended its preferences to all countries similar to the ACP states, the EU's preferences had to be turned into symmetrical Free Trade areas, which implied bigger tariff cuts for the ACP partners than the EU. In

addition the EU as part of its own strategy decided that it would seek to extend liberalisation beyond pure tariff issues into area such as:

- Trade in services
- Competition Policy
- Protection of intellectual property rights
- Standardisation and certification
- Sanitary and phytosanitary measures
- Trade and environment
- Trade and labour standards
- Consumer policy and protection of Consumer Health[1]

Many observers comment that the EU is in effect trying to secure a de facto an acceptance of the WTO "Singapore" issues (Competition, investment, trade facilitation, transparency in public procurement) which had been rejected by the WTO membership at Cancun. Pascal Lamy remarked in a paper shortly after the Cancun talks collapsed that developing countries who had been unwilling to discuss these issues in the WTO nevertheless appeared[2] quite willing to discuss them in bilateral fora.

The aim of this paper is not to address in depth the debates about EPAs in general. There is extensive debate about the desirability of the tariff cuts that EPAs call for on the part of developing countries and on the other hand whether actually such trade policy changes are actually required under WTO rules by virtue of Article XXIV.[3] Nor are we addressing the issue of the merits of alternatives to EPAs, which seem available to states eligible for GSP+ or EBA.

It is worth noting however that whilst a strong case can be made that the continuation of trade preferences in goods requires some action to secure conformity with GATT Article XXIV, there is no particular legal reason why additional deep integration elements need to be included. These are at the discretion of the parties. The main constraint that the GATS imposes is that under GATS Article V, if services are

[1] http://ec.europa.eu/development/geographical/cotonou/cotonou2000_3_en.cfm#Heading7
[2] Pascal Lamy (2003)

included in an EPA this must be on a comprehensive rather than a piecemeal basis, the relevant obligation being worded slightly less ambiguously that GATT Art XXIV's call for substantially all trade to be covered.

But our main aim here aim is to identify the conditions under which, when a country has decided to enter into broad trade negotiations it makes sense to incorporate "deep integration" (DI) in order be beneficial for economic development. In effect where countries have signed interim EPAs should they go on to deeper ones, and are the critics of the Cariforum EPA right that the regulatory aspects are harmful?[4]

First we must consider what Deep Integration means[5]. The term DI has a number of meanings but in general it means the inclusion in an FTA or CU of domestic regulatory issues. The bottom line of our analysis is that regulatory harmonisation cannot easily be justified in terms purely of market access benefits, but where existing domestic regulations are inadequate or non-existent an RTA can be an opportunity to "upgrade". This critically depends however on the imported regulations being appropriate for the partner economy.

The EU's strategy in trade agreements places great emphasis on deep integration in the sense that it recognises that shallow integration in the form of the removal of trade barriers such as tariffs and QRs is inadequate. It is a familiar result of trade policy analysis that the impact of removing tariffs can be very small, above all when tariffs are low initially and trade shares are small. Even the creation of the Common Market was estimated at the time to have generated no more than a 1% increase in GDP. However the Cecchini estimates of the impact of the completion of the Internal Market came up with numbers around 5%. This is possible only if the regulatory harmonisation raises productivity for non traded goods and services rather than merely affecting trade.

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[3] Berthelot 2006 argues that not only is the trade liberalisation undesirable for LDCs but that the WTO's "Enabling clause" would obviate the need for this.
[4] See Girvan; Kelsey
[5] See Gasiorek and Holmes 2008

The term Deep Integration was first coined by Lawrence (1996) to contrast with shallow integration which refers to the removal of barriers to trade at borders, notably tariffs and QRs. Lawrence used DI used it to refer to a process of removing barriers to trade and investment that are *behind the border*, notably regulatory barriers or even mere differences that make it harder to do business across borders than within jurisdictions. For services all liberalisation is necessarily "deep." The term Deep integration should perhaps be extended so that the policy dimension referred to here can be called Deep Institutional Integration (DII) while simultaneously we should be aware of market processes that are related to this. Deep market Integration (DMI) can be used to refer to market institutions that integrate productive systems. Multinational firms, value chains, corporate networks - are all example of DMI. We might possibly wish further to distinguish the outcome of these processes in terms of trade and invest inflows and other possible indicators such as the degree of contestability across borders. We could call this for want of a better term Deep Outcome Integration (DOI). The contribution of the paper can perhaps be read as a negative one: unless DI can be approached in the way we sketch out, a deep FTA cannot happen and a shallow one is unlikely to be very valuable.

There are several conditions under which why one might expect the benefits of DI to be greater than merely shallow:

1. When tariffs are low their removal has little effect but if they are high there is a risk of trade diversion, but removing regulatory barriers is thought to be generally trade enhancing, because it is more likely to be MFN or "erga omnes" and to increase trade from zero.

2. Where there are indeed potential positive gains from Shallow integration these may be frustrated unless NTBs are also removed

3. Experience of the European Internal market programme and of the recent CEEC accession suggests that the biggest effect of regulatory alignment does not so much lie in the improved market access as in the upgrading of standards (using this term loosely) across the whole domestic economy

4. Evidence also suggests that the productivity enhancing effects of trade occur when fine degrees of specialisation occur, allowing firms to invest in learning

by doing in particular product niches or steps in the value chain, and to take part in production systems that facilitate technology transfer

The gains may come from the emergence of private and public arrangements that can reduce transactions costs, enhance certainty and predictability of behaviour and create markets that are contestable and free of adverse externalities

The role of an FTA in promoting this deep integration is then to remove unnecessary regulatory obstacles to trade and to creating a facilitating environment in which mutually advantageous private contracts and market-led institutional arrangements can flourish.

We have elsewhere[6] tried to schematise the links between trade policy and new types of trade flows, such as the development of "Smithian" specialisation in niche markets and production chains. We see Smithian specialisation as occurring when firms focus on a particular niche product (eg screws of a certain gauge) or one step in the chain of tasks going into a final product. This often involves separating service components from manufacturing. This "unbundling" relies on markets that are credibly open and where quality can be assured without costly post delivery inspection.

We see potential market failures that can be addressed as arising out of

Asymmetric information:
Learning Spill-overs:
Reputational spill-overs
Environmental spill-overs:
Economies of scale and transactions costs in standardisation of conformity assessment etc:
Collective action and coordination failures and network externalities

DI can address these, but it is clear that the market can also handle them, and where the market does not we cannot always be sure institutional integration is the solution. We see a remarkable burgeoning of DMI and DOI in East Asia with only limited DII. Perhaps most remarkable is the intensity of trade links between China and Taiwan in

the absence of any official diplomatic links at all or until recently even regular direct flights![7]This leads to the possible conclusion that DII is unnecessary. However we see a historical relationship between DII DMI and DOI.

Can deep integration help development?

An argument that it can do so can be based on the following premises:

1. That for DMI in goods to succeed there must be a base on which to build. We argue below that various forms of intra-industry trade can be seen as creating the basis for profitable DII. Where firms are specialising in niche markets (either horizontally or along a quality axis) the predictability of quality is important. Even a firm selling on price alone will not be able to enter a market if its good fall below a certain standard. The existence of intra industry trade (IIT) may signify scope for further deep integration.

2. that trade in services is critically dependent on regulatory barriers. Clearly for EU-India this is a major issue for both sides. It is also important for Cariforum and Mauritius, but is a delicate issue in other negotiations.

3. In services and also in the matter of standards and quality, the biggest benefits if any are likely to come from the impact of externally driven reforms on the domestic market rather than from market access as such.

We should however be very clear that the domestic impact of deep integration is complex: there will be losers as well as winners. We should distinguish:

- Firms that are currently exporting who will have an improved home business environment
- Firms able to enter export markets
- Consumers who like products made to international (or FTA partner) standards

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[6] Gasiorek & Holmes
[7] But see Li (2008) for an alternative interpretation of the E Asian story.

- Home firms who cannot meet higher standards and go out of business
- Consumers who do not want to pay for the international (or FTA partner) standards
- And in the context of the present study – third country firms

The risk of even successful DI is that it might advantage those firms that are well placed to profit from trade opening whilst marginalising others. This is of course not the exclusive result of DI. The difference however is that with regulatory harmonisation the less productive lower quality producers cannot compete on price. The position is in fact quite complex. In studies of the impact of standards in East and West Africa Swinnen and Humphrey both observe that small peasant farmers cannot meet the quality demands of EU supermarkets, but larger commercial farmers often can and they estimate that peasant farmers can in fact increase their incomes by becoming employees on commercial farms. In cases like this the EU is not in fact exporting its rules, but simply requiring, whether thru the Food and Feed regulation or whether thru market pressures via Eurepgap that producers and countries that wish to export to the EU ensure goods sent to the EU conform to EU rules.

The role of DI in these cases is to assist the standards infrastructure.

The issues

The areas identified as a priority by the EU have included Competition policy, Services, and to a lesser extent than the USA, IPRs. Interestingly standards harmonisation is less of an issue.

So far only the Cariforum EPA has included regulatory and services issues, though other non EPA FTAs to whuich we shall refer do include these elements.

Competition

Most recent EU trade agreements involve some obligation to police anti-competitive practices that affect trade. The Cotonou agreement Article 45 commits all aprties to adopt competition policy to address trade matters in a manner like that of the EC Treaty and implictly specifies that EPAs should include competition issues. The Cariform EPA (Title IV ch 1) echoes this by requiring the partners to adopt competition rules that outlaw anti-competitive practices that may affect trade. In fact Caricom has been developing a competition policy along these lines anyway. Some authors have argued that applying even these very loose competition disciplines reduces scope for development policy[8]. It is hard to find a basis for this. Domestic monopolies in small economies are extremely unlikely to generate economies of scale – more likely just rents from exploiting bottlenecks.

Critics have suggested that the Cariforum EPA limits the ability to operate state monopolies but the text specifically allows state monopolies but puts limits on their ability to discriminate.

The EPA is extremely weak on cooperation in competition policy. It *allows* but does not require exchange of information.

But these provisions are more likely to sustain the competition authorities of CARICOM than to affect trade.

The collapse of the Trade and Competition Agenda at the WTO in Cancun has led many to suppose that this is a negative issue for developing countries. In fact recent work commissioned by UNCTAD suggests that effective competition policy is a positive factor for development. [9] In fact the EUs recent agreements have been quite soft in terms of the obligations they impose on partners. What is most striking however is that the relevant provisions do not contain binding obligation for co-operation. Developing countries can adopt competition laws by themselves but they cannot implement cooperation arrangements. South African competition officials have expressed satisfaction with the fact that the EU-SA TDCA at least indicates the possibility of cooperation. But we know that exchange of confidential information only occurs with the EU's own ECN.

IPRs

The CARIFORUM EPA does go further than the WTO on IPRS, notably on Geographical Indicators and enforcement. But is does include conformation of the Cariforum side's right to use the public health derogations in TRIPS.

Public Procurement

On public procurement the min requirement is for transparency not increased market access, but critics claim this will de facto increase market access, but it is actually hard to construct a pro development case for non-transparent public procurement.

Services

Services is typically a controversial issue. However it would be unwise to assume that services regulation in developing countries is initially set in a wise and benign way for the benefit of consumers rather than producers. Cariforum like other developing countries has an offensive interest in opening the EU market- as well as an interest from an efficiency perspective in liberalisation of its own markets and the agreement reflected this. The South Centre (2008) has published a critical evaluation of this

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[8] Girvan

aspect of the EPA. They complain that the EU's offer to open its markets is comparable to its Doha GATS offer, and argue that the confirmation of the right to regulate is too circumscribed. They argue as does Kelsey that the treaty might necessitate privatisation even though it is not actually specified.

But they acknowledge that the Caribbean countries as exporters of services have something to gain in this area.

This part of the deal is interesting because it offers ex post MFN treatment, ie each party must offer to the EPA partner any market opening that they later offer to third parties (such as the US). This can be seen as a useful way to avoid trade diversion, or as a possible problem for future negotiations. But this clause does not refer to intra-EU and intra-Caricom liberalisation.

Mauritius is also an interesting comparative case. Interviews in 2003 revealed that Mauritius, eager to escape dependence on clothing and sugar preferences wanted to move into services, and were ready to accept virtually any conditions the EU might make in an EPA, especially in financial services: essentially the quality of domestic regulation was seen as a way of enhancing credibility abroad as well as improving service at home.

The key issue is always whether developing countries have more to gain by opening their services markets or by protecting local producers. Ultimately this should be a decision for developing countries. But one does not have to be an ultra-liberal to suspect that many developing countries have both an interest in de-regulating their own service markets and in securing better access to the EU. It is our understanding that the Indian government feel both of these matter, as evidently did the Cariforum group, but this may be a lesser priority for most of Africa.

Technical standards

On the face of it this appears to offer good opportunities for reduce non tariff barriers. In practice we know that the EU is unwilling and probably unable to offer the key

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[9] Brusick et al UNCTAD

arrangement of “mutual recognition of conformity assessment” in the absence of an internationally accredited standards regime in the partner country.

The key issue is how far the adoption of external norms can raise domestic productivity. Additional market access gains tend to be quite limited.

Even the relatively advanced Cariforum EPA says not more than:

> Cariforum EPA Art 56
>
> 2. In this regard, the Parties agree on the importance of establishing harmonized SPS measures both in the EC Party and between CARIFORUM States and undertake to cooperate to this end. The Parties also agree to consult with the aim of achieving bilateral arrangements on recognition of the equivalence of specified SPS measures.
>
> 3. In the absence of harmonized SPS measures or the recognition of equivalence, the Parties agree to consult on ways to facilitate trade and reduce unnecessary administrative requirements.

The EU-Egypt FTA also offers little more than hope that one day Egypt’s standards regime will allow for MR.

Standardisation issues are key to realising potential specialisation and productivity enhancing gains from any EPA. SPS issues are the top priority Accreditation and conformity assessment are key. Publicly financed investment in *regional* conformity assessment centres offer potential economies of scale but need to be tied to economically important and higher value added sectors but even if testing is subsidised private sector has to bear the cost of adjusting production methods and that may discourage it from taking advantage of improved regional conformity assessment infrastructure even if benefits potentially far exceed costs. Credibility of conformity assessment in export markets is the key issue. The new EU regime makes it impossible to avoid addressing these issues, but how far EPAs can help is difficult to say.

Technical standards are also an issue in the non-EPA negotiations between the EU and India. India would clearly like a relaxation of tight rules in the EU governing

their goods, but as a recent article noted in the context of an India-Asean FTA, India's domestic standards regime is somewhat inadequate and in the absence of any domestic upgrading or negotiation in this area, would lead to India potentially opening itself up to low quality imports with no market access, though in practice this would presumably only apply to goods failing to meet home standards. This prompts an Indian technical expert to write:

FTAs and safety standards

Unlike the EPAs so far standards have been a major concern for the negotiators of some EU FTAs. Indian negotiators are known to want to see some form of mutual recognition in an EU-India FTA. The following comment in a slightly different context however goes some way to explain the EU's reluctance to concede this.

"Unlike India, most Asean countries have a very robust regime of quality and safety standards for products imported into their markets. What that means under an India-ASEAN FTA is that Indian manufacturers, despite having lower entry tariffs into Asean, will still not be able to export their products unless they meet the strict safety and quality regulations of those countries." Economic Times | 1 January 2008 http://www.bilaterals.org/article.php3?id_article=10841

The author suggests that this should be a stimulus to upgrading within India, but our thesis is that if this is done the main impact would be on the quality (and cost) of production in India rather than trade flows. So if an FTA with an industrialised partner stimulates this the domestic productivity impact would be the main one.

As we noted EU-Egypt contains very few hard rules, but the case of potatoes illustrates the issue. Egyptian agricultural exports are vulnerable to SPS rules and in particular new potato exports can be blocked if any consignments are found to be

contaminated with "Brown Rot"[10] -This is an area where externalities are rife. Eliminating brown rot depends on the general use of clean irrigation water in entire districts. EU exporters of seed potatoes have an interest in the integrity of the potato market as of course do EU consumers. This is a valuable case where state to state cooperation to ensure the flow of trade via DI can be useful.

Unlike the Egypt and India cases the inclusion of standards issues in EPAs pose additional problems not merely of improving infrastructure but of putting basic arrangements in place

It may be worth recalling at this point the multilevel aspects of this. *Standards* are voluntary norms defining production or performance requirements if compliance with the standard is to be claimed. These can be made compulsory by *regulation*.

Demonstration of compliance with standards, whether mandatory or voluntary, requires *conformity assessment* (CA) procedures. Increasingly CA takes the form of "*quality assurance*" where repeated inspection of the production process is required rather than merely sampling of the products.[11] This process is itself verified by *accreditation* procedures.

Sub-Saharan Africa generally is not well endowed with conformity assessment agencies that have been internationally accredited. There is a chicken and egg problem as the market for accreditation depends on the extent of CA activity. There is virtually no accreditation capacity in the region.

Standards are covered by the WTO TBT and SPS agreements which enjoin members to achieve social objectives by basing their regulations on international standards (principally those of the ISO and *Codex Alimentarius*) wherever it is possible . The flexibility these WTO rules contain However has been used by developed countries to justify tougher standards than those of ISO and Codex. The WTO thus encourages a weak form of *harmonisation* to ISO and Codex norms. However given the freedom of states to vary this, it can also be characterised as a form of *conditional mutual recognition*. If country X bases its regulations on international standards then products

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[10] For more details see Holmes Iacovone et al.
[11] Initially the US focussed on checking goods at the import stage but it is also moving in the EU's direction of process control.

made to the standards of country X shall be deemed to meet those of country Y unless Y can show its different mandatory standards are needed to meet a legitimate objective.

Here we shall focus mostly on the SPS are which covers health issues, as these raise most problems for developing countries.

The context of SPS discussions is that the EU imposes tight requirements on all countries wishing food products to export to the EU. The negotiation of an EPA does not necessarily create extra obligations but it may be an opportunity to commit to standards that will secure market access in exchange for Aid for Trade. It is the ambition of several Sub-Saharan African countries to secure aid form the EU to upgrade standards and an eventual MR agreement to ensure that their products are not subject to costly and time consuming inspections at the EU borders. But this is a very ambitious target and it is not clear how far EPAs can deliver.

The EU's new food and feed regulation requires that all countries trading with the EU have a "Competent Authority" in place. This is a public body to oversee all public and private standards activity in the SPS field.

- "For products of animal origin, EU food law requires that the competent authority of the exporting country offers guarantees as to the compliance or equivalence with EU requirements. The competent authorities in the exporting third country shall in particular ensure that:
- • Their control services comply with the operational criteria laid down in EC law, in particular in Regulation (EC) No 882/2004,
- • The establishments that are authorised to export to the EU comply and continue to comply with the EC requirements and that the list of such establishments is kept up-to-date and communicated to the Commission (Article 12, paragraph 2 of Regulation (EC) No 854/2004),
- • The certification requirements are satisfied. ..(e.g. that the certificate must be issued before the consignment to which it relates leaves the control of the competent authority or the third country of dispatch).

For non animal products the requirements are less.

• "The traceability provisions of the Regulation do not have an extra-territorial effect outside the EU. This requirement covers all stages of production, processing and distribution in the EU, namely from the importer up to the retail level.

• Article 11 should not be construed as extending the traceability requirement to food business operators in third countries. It requires that food/feed imported into the Community complies with the relevant requirements of EU food law.

• Exporters in trading partner countries are not legally required to fulfil the traceability requirement imposed within the EU (except in circumstances where there are special bilateral agreements for certain sensitive sectors or where there are specific Community legal requirements, for example in the veterinary sector).

• The objective of Article 18 is sufficiently fulfilled because the requirement extends to the importer. Since the EU importer shall be able to identify from whom the product was exported in the third country, the requirement of Article 18 and its objective is deemed to be satisfied.

• It is common practice among some EU food business operators to request trading partners to meet the traceability requirements and even beyond the "one step back-one step forward" principle. However, it should be noted that such requests are part of the food business's contractual arrangements and not of requirements established by the Regulation."

Doherty (2005)[12] notes:

"Food control systems should cover all food produced, processed and marketed within the country, including imported food. Such systems should have a statutory basis and be mandatory." Quality norms must be "equivalent" to the EU.

Countries (or regions) wishing to trade with the EU, irrespective of bilateral arrangements thus need to set the legal framework and to ensure that the private sector is doing what it says. But the primary responsibility rests with the private sector.

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[12] Martin Doherty (2005) "Requirements of a food control system under EU food and feed regulation 882/04"

Increasingly market forces are driving the process. Supermarkets cannot sell products not deemed to be safe. They have an incentive to promote the existence of a competitive supply and bear the ultimate costs if things go wrong. They have an incentive to push as many of the costs as possible on to their suppliers, who have an incentive to accept this burden in order to keep their market.

However, testing and certification activities are private goods in a number of senses.

They are generally carried out by private firms for private firms (often foreign). Moreover whereas there is clearly a public good in the duration of a standard (even if they are actually sold commercially) the spillover effects of testing and certification are less. Inspecting firms visits another and charges on a daily basis. Each individual firm has to be separately assessed. There are far fewer economies of scale. There are clearly some spillover effects. It is reported that for the purposes of certification:

"In 2000 SAC (UK) charged individual producers a certification fee of £200, plus inspection costs of £350 /day per inspector, plus air fares, accommodation and other expenses." [13] Some of the fixed costs can clearly be reduced if there are many site visits, but the variable costs of testing remain high because of the intense use of skilled personnel.

In the EPA context we carried out some analysis at Sussex of the potential importance of these issues in the context of food standards for ECOWAS and for Ethiopia within ESA. In the ECOWAS case the secretariat were hoping that an EPA might be an opportunity to secure EU support for an improvement in the regional standards infrastructure, while the Ethiopians were more concerned about market access to the EU.

The ECOWAS/UEMOA regional strategy on standards has multiple objectives addressing:

- The upgrading of national standards infrastructure
- The harmonisation of infrastructure at the regional level

[13] M. Doherty (2006) SPS RELATED PROBLEMS FACING EXPORTERS IN ACP COUNTRIES

- A degree of harmonisation with the EU

Implicitly it is also addressing the ECOWAS members' existing WTO obligations to base all SPS measures on scientific evidence and international standards where possible. A slightly less strong obligation exists for TBTs. The purposes of such a programme are also multiple

- To improve productivity within member states
- To improve the free circulation of goods within ECOWAS
- To improve external market access

also

- To improve product quality for regional consumers

All of these are unambiguous benefits. However there are other effects as the policy should also improve market access for external producers into the ECOWAS market. This is a benefit in terms of freedom of choice for consumers, but there is a downside if newly harmonised standards are not in fact suitable for local consumer demands and also if local producers cannot easily meet them. Here a producer cost might actually translate to a consumer loss as well. A study observed the success of local artisanal food processing activities in West Africa. "Studies in capital cities of different Western and Central African countries have shown that a number of non-tradeable have become regionally traded products".[14] It is would be important to ensure that SPS policy promotes this trade by ensuring regional products can circulate easily.

A key point that has to be addressed is that of costs. Standards infrastructure is not free and there are important considerations as to the private and public impact.

This has been dealt with in the UNIDO study by Holmes et al.[15] The public good

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[14] See "Case studies of agri-processing and contract Agriculture in Africa" Denis Sautier, Hester Vermeulen, Michel Fok, Estelle Biénabe November, 2006 www.rimisp.org/getdoc.php?docid=6597

[15]Holmes Iacovone et al Capacity-Building to MeetInternationalStandards asPublicGoods .

dimension includes both pure positive spillover effects and scale economies. Standards once written are available for all. However in most industrial countries Standards agencies, even if publicly controlled are in fact commercial fee charging bodies. The US ANSI for example is a private organisation. It makes revenue by selling standards and by a variety of consultancy and testing activities. Moreover increasingly standards are set by private bodies such as supermarkets, compliance costs falling on *their individual suppliers.*

What emerges clearly is standardisation activity is a complex mix of public and private goods. But the point of departure of any analysis has to be to distinguish the public and private elements. There is as yet inadequate private sector support for the standards regime in the region, and an EPA which offers aid for trade needs a base to work from.

Clearly the more producers can be inspected at the same time the less the unit cost. It is imperative to recognise that no trade agreement can reduce the marginal costs of conformity assessment to zero, even if some costs can be covered by trade related aid. Note also that the set up costs include not only the public costs of creating infrastructure but also the private costs of setting up new methods of production. Setting up the infrastructure is thus a necessary but not sufficient condition for improvement. The private sector need to be persuaded that the costs of meeting the standard will pay off and that the public infrastructure is credible to the regulatory authorities in the export markets.

As Doherty 2006 notes:

> "The public sector may design the framework within which food may be exported to the EU, but it is the private sector that bears the responsibility for actually delivering the level of safety required within this national framework."

Moreover the benefits are likely to be private benefits. However deserving they may be the financing issues are relevant. If the state is financing or even co-financing the basic infrastructure it is private firms that incur the main benefits and even if initial

costs are paid by donors the on going costs have to be recovered by either charges or taxation. A UNIDO study for ECOWAS highlighted the importance of private sector engagement both in improving quality and engaging with the testing and certification processes. It identified "Lack of interest and support from the private sector" as a major potential source of risk for the programme.

Compliance with international quality assurance norms can indeed sometimes both raise productivity and lower costs as well as ensuring more marketable products, (notably when pesticide use is carefully monitored and reduced). However in general the variable costs of meeting norms such as HACCP[16], and private standards such as Eurepgap, the European supermarket standards body, can be very high, sometimes too high for small producers to meet, both in terms of compliance and conformity assessment.

Meanwhile a recent study for Kenya found:

> "Establishment of EurepGAP for these smallholders cost at least £2,340,000 which was £1,183 per grower in simplistic terms. On average, farmers paid 36%, exporters paid 44% and donors paid 20% of this cost. Maintenance of EurepGAP for these smallholders cost at least £1,500,000 or £760 per grower, of which farmers paid 14% and exporters paid 86%. The farmer's contribution works out at £104 per grower, but actual contributions ranged between schemes from £1.10 to £175 per grower for smallholder (0.1-1.0ha) groups and £1,183 for 10 larger farms (~10ha) certified individually under option 1 of Eurepgap".[17]

Many Kenyan growers had to withdraw from the scheme, even though the exporters and the overseas importers were contributing to costs. This study stressed that the obstacles did not lie in incapacity of Kenyan firms to meet the norms, but the costs of certification and registration which are necessary to secure market access. However other studies [18]have found that even if costs of certification can be brought down, many peasant farmers simply cannot meet EU norms: an EPA cannot solve this "trade facilitation" problem. It is worth noting that Humphrey and others have found that

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[16] Hazard Analysis and Critical Control Point
[17] Graffham et al 2007

larger commercial farmers can often meet EU standards. The result is that trade expansion in this context can improve the lot of the poorer, but by turning them into waged labourers.

Many criticisms have been levied at the EU for its excessively tough stance on food safety, typified by the controversy over aflatoxin standards for peanut butter.[19] However subsequent work by the World Bank has questioned the basis of these calculations arguing that actual losses may have been hundreds of thousands rather than hundreds of millions of dollars. [20]

The EU is not going to use the EPA negotiations as an occasion to loosen its SPS standards. Nor is it likely to give the ECOWAS partners public sector assistance that will be enough to upgrade standards infrastructure across the board to a level that will both harmonise within the region and externally AND upgrade quality of traded and non-traded production alike!

The ECOWAS studies make it abundantly clear that there is a comprehensive challenge to be met, through all levels of accreditation, conformity assessment, standardisation and metrology (eg capacity to monitor pollution levels in water accurately).

Doherty (2006) [21] notes that:

> "The EPA negotiations present the opportunity to tackle some of these national deficiencies on a regional basis."

To establish standards infrastructure to the EU requirements is estimated as likely to cost around €2m per country. But scale economies can be achieved in setting up laboratories, he notes:

"Not all services may be suitable for regionalisation but it is clear that there is a definite scope for some consolidation and for the creation of new SPS capacity in this

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[18] Humphrey 2008 and Swinnen 2007
[19]. Wilson, John S. & Otsuki, Tsunehiro, 2001. "Global trade and food safety - winners and losers in a fragmented system," World Bank
[20] Jaffee and Henson (2005)
[21] M.Doherty (2006) "EU-ACP Negotiations In Focus on. Sanitary and Phytosanitary Measures"

area. The expenses necessarily reflect the size and the structure of particular geographical groupings but are estimated to cost upwards of €5 million for each region."

Regionalisation can create economies of scale by in principle permitting all existing export flows to use the same testing facilities, and to raise the volume somewhat.

But in West Africa it appears that regional standards infrastructure is not yet near the point where it is financial viable without aid.

STANDARDS AS MARKET ACCESS BARRIERS?

In the context of the EPA negotiations with Ecowas and ESA we were asked to explore whether there were significant SPS barriers that could in the best of all possible worlds be mitigated by a deep EPA.

As we noted above the most cited case of obstacles, to West African exports to the EU has been the aflatoxin case. The EU 2006 Food safety Rapid Alert report notes that Mycotoxins of which aflatoxins are part were a high proportion of the alerts of various types. West Africa is vulnerable on this score. Of the 2909 "Notifications" of potential SPS risks (of which 917 came from products originating in Europe itself),

RASFF Notifications by product origin in 2006

	Cases
Eastern Africa	22
Central Africa	3
Northern Africa	71
Southern Africa	10
Western Africa	97
World	2909

Source Annual Report on the Rapid Alert System for Food and Feed 2006 p. 66[22]

African countries notably West Africa have a relatively high share of import alerts.[23] This is especially so in the Mycotoxin area, which includes Aflatoxin. This area is clearly one where the region would benefit from better quality assurance. It is clearly appropriate to carry out trade analysis to assess where barriers are likely to be capable of being addressed by SPS upgrading, (eg where exports are entering other markets successfully).

Ethiopia

At Sussex we also attempted an exercise of this kind in the context of the Ethiopian negotiations for an EPA within ESA in collaboration with the Ethiopian Development Institute to explore whether there were indications of avoidable regulatory barriers to exports from Ethiopia to the EU which an EPA could help overcome.

We sought to examine whether the country was succeeding in selling important export products into the US more easily than the EU, implying *avoidable* barriers in

[22] http://ec.europa.eu/food/food/rapidalert/index_en.htm
[23] The ECOWAS share of the EU's non oil imports is around 2%.

the EU. It appeared not. The EU accounts for nearly 45% of the Ethiopian coffee exports and the USA only for 5%. In the case of leather and leather products and textiles and garments, the USA has a negligible share of Ethiopian exports. -The European Union accounts for nearly 37% of leather and leather products and 18% of textiles and garments, the USA only takes 0.2% and 1% respectively.

We also checked Ethiopia's vulnerability to SPS interceptions. Both the EU and the US maintain databases of products stopped at the frontier for suspected SPS violations[24]. A major potential achievement of an EPA could be to reduce this, if for example Ethiopia could ensure that all testing was complete before the product left the country.[25] The results of this investigation were however somewhat limited. We found that in each the 3 most recent years (2004-2006) Ethiopia had seen only 1 product stopped by the EU[26]. In 2005 there were a total of 21 interceptions from the East African region. Those countries whose products were most frequently stopped had over 100 cases each. Thus unless there is a major deterrent effect we cannot say that SPS checks have been a major direct impediment to exports. At the same time we did not find evidence of significant SPS challenges by the US to Ethiopian products.

In a more comprehensive analysis based on this idea we considered two comparator groups of countries. First we took a group of countries which we call Developed Countries (DCs), and secondly the Rest of the World, but excluding Ethiopia's neighbours[27]. On average, 32% of Ethiopian exports went to the European Union and 21% to the Rest of the Developed World. But there was a group of products where other DCs took more than the EU. Could this be due to regulatory barriers susceptible to reduction by an EPA? We could not find any evidence for this.

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[24] See http://ec.europa.eu/food/food/rapidalert/index_en.htm and http://ec.europa.eu/food/food/rapidalert/report2005_en.pdf; also http://www.fda.gov/ora/fiars/ora_import_country.html

[25] It is worth remembering however that contamination can occur in transit, even at the EU port itself, so no exporter safety check can be absolute.

[26] The EU raised alerts during 2005 and 2006 for Aflatoxins in Chilli powder and mixed spices from Ethiopia. In 2004 they raised an alert for the presence of "Colour Sudan 1" in red chilli.

[27] For the Developed Countries we have taken: USA, Japan, Australia, Canada, New Zealand, Mexico, Turkey, Israel, Singapore, Taiwan, Hong Kong, Norway, Switzerland. For the neighbours we have included the following: Djibouti, Sudan, Eritrea, Kenya, Egypt, Somalia, Yemen, Oman, UAE, Saudi Arabia

It seems more likely that the main obstacles to exports lie on the supply side. It would be unrealistic to suppose that an EPA would be the occasion for the EU to relax its SPS standards or to give such massive aid-for-trade as to make a qualitative difference to Ethiopia's ability to access the EU's market. Nor could an EPA make more than a marginal willingness to the EU's move towards mutual recognition of testing and certification. Even Egypt has resisted full harmonisation of SPS rules in the context of its FTA, even though this could eventually lead to MR. Core compliance costs are currently too high.

Conclusions

Our work at Sussex does not support either the very pessimistic or optimistic views of deep EPAs.

We can't assume that regulations in EPA partners are optimal and that any adoption of EU-type rules eliminates desirable policy space. For example on public procurement it is far from obvious that making it harder for local monopolies to get exclusive rights to public contracts is an essential element in economic development. The Cariforum EPA clearly indicates the nature of the EU's ambitions but the difference between its content and that of the other "interim EPAS" surely indicates local policy preferences and the fact that the EPA negotiations were an occasion to unify within Cariforum/Caricom.

Negotiators clearly saw advantages in this opportunity to make internally valuable reforms. Errol Humphrey, Ambassador of Barbados & Vice-Dean of the CARIFORUM College of EPA Negotiators told a conference: "CARIFORUM perceived that the EPA could be a good vehicle through which to advance the region's development by addressing a number of the supply-side constraints which have been negatively affecting our competitiveness."[28]

On the other hand the almost complete absence of "internal market" type harmonisation is not merely the result of political inertia. As the Egypt and Indian

[28] http://trade.ec.europa.eu/doclib/docs/2008/april/tradoc_138606.pdf

experiences – and indeed the EU's own story show, harmonisation of technical standards and their full and credible implementation is itself part of the [process of economic development and not a simple shortcut to achieve it.

In fact the nature of EPA negotiations has not helped regional integration in the rest of Africa as the EPA groupings cut across existing FTAs – a point that would be more serious however if these FTAs showed signs of making progress.

We are left with the notion that perhaps Deep Integrations is a "Nudge" phenomenon. If the government concern recognizes the value to harmonisation with international rules (and the EU's rules are rarely very different from general global norms) then the EPA can be an opportunity to reform but it is not a cheap and simple way to overcome market access barriers in the EU.

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