

Sustainability Impact Assessment (SIA) of trade negotiations of the EU-ACP Economic Partnership Agreements



Revised Inception Report (Final)

31 January 2003

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In co-operation with:



EcoMod  **Net**

Institut de Prospective Africaine



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For more information about our Consortium and this project, please visit our website:

www.sia-acp.org.

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Acronyms

ACP	Africa-Caribbean-Pacific
CAFP	Caribbean Agriculture & Fisheries Programme
CAP	Common Agricultural Policy (EU)
CARICOM	Caribbean Community
CARIFORUM	The Caribbean Forum of ACP States
CFU	Caribbean Fishery Unit (CARICOM Fisheries Resource Assessment and Management Programme)
COMESA	Common Market for Eastern and Southern Africa
CRIDNET	Caribbean Agriculture Science and Technology Network System
EAC	Eastern Africa Community
BNLS	Botswana Namibia Lesotho Swaziland
CARICOM	Caribbean Community and Common Market
CARICOM 14	CARICOM without Bahamas
EBA	“Everything but Arms” Agreement
EC	European Commission
ECOWAS	Economic Community of West African States (CEDEAO)
EEC	European Economic Community
EPA	Economic Partnership Agreement
ESI	Environmental Sustainability Index
EU	European Union
EU-ACP	European Union & Africa-Caribbean-Pacific
EU15	European Union member states (currently 15)
FTAA	Free Trade Areas of the Americas
GATT	General Agreement on Tariffs and Trade
GNP	Gross national product
GSP	Generalised System of Preferences
IDPM	Institute for Development Policy and Management
IPA	African Prospective Institute
LDC	Least-developed country
MFA	Multifibre Agreement
OCT	Caribbean Overseas Countries and Territories
OECD	Organisation for Economic Co-operation and Development
PwC	PricewaterhouseCoopers
PRSP	Poverty Reduction Strategy Papers
REPA	Regional Economic Partnership Agreements
RTA	Regional Trade Agreement
SADC	Southern African Development Community
SIA	Sustainability impact assessment
SPS	Sanitary and Phytosanitary
SSA	Sub-Saharan Africa
UEMOA	West-African Economic and Monetary Union
UN	United Nations
UNEP	United Nations Environment Programme
WSSD	UN World Summit on Sustainable Development
WTO	World Trade Organisation
WWF	World Wide Fund for Nature

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I. Introduction

“Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. Our Common Future. (1987)

Sustainable development is a complex concept that incorporates a number of different elements, both substantive and procedural. It presents a paradigm for multi-stakeholder, participatory, decision making in all sectors of society and at all levels from local to regional, to global. Sustainable development challenges decision-makers and policy makers insofar as it demands the integration of economic, environmental and social considerations. It also requires attention to the long-term consequences of present-day decisions and policies for future generations.

The European Union (EU) is committed to promoting sustainable development. In its “Strategy for Sustainability” presented recently at the UN’s World Summit on Sustainable Development 2002 (WSSD) in Johannesburg, the EU elaborated on some of the complexities and challenges associated with sustainable development and the importance of pursuing it as a key policy goal.

“Since 1960, world trade has increased fifteen-fold; global per capita incomes have doubled and many developing countries have succeeded in diversifying their economies. This globalisation process is accelerating as world trading systems extend to embrace more countries and national economies become more open to the international flow of goods, services, capital and people (...). Whilst many economies are growing and are increasingly linked with each other, access to the new wealth is not equally shared. Indeed the gap between the very rich and most poor is getting even wider. Half of the world’s population currently lives on less than €2 a day. In 1960, the income of the richest fifth of the world’s population was 30 times larger than that of the poorest fifth: today it is 90 times larger. About one billion people are unemployed, under-employed or working poor. Two hundred and fifty million children are still forced to work, and 80% of the working age population does not have access to basic social protection. This is a major cause for concern not just for reasons of social justice but because globalisation links all economies so closely that the whole system becomes vulnerable to localised instability.”

The EU has recognised that trade policies or agreements can have potentially wide-ranging impacts on the economy, social development and environment that can be both positive and negative for sustainability. In response, the EC launched its Sustainability Impact Assessment (SIA) Programme in 1999. The SIA Programme has as its goal, the integration of sustainability concerns into the development of trade policy. It includes the development of a framework methodology for assessing the sustainability impacts of trade agreements and the implementation of a broad and intensive dialogue with civil society on DG Trade’s proposed trading relationships, with the goal of integrating sustainability development into trade policy.

This report is the first of a series funded under a four-year framework contract (Trade 02-F3-02) awarded by the European Commission’s DG-Trade to conduct a SIA of the negotiations of the European-Union-Africa-Caribbean-Pacific Economic Partnership Agreements (EPAs) (hereafter ‘EU-ACP SIA’). It is being undertaken by a consortium brought together and led by PricewaterhouseCoopers (PwC) and composed of EcoMod, Solagrall, and the African Prospective Institute (IPA)¹.

¹ More information about the Consortium is available from the project website: www.sia-acp.org.

The overall purpose of the EU-ACP SIA is:

- i. To enhance the analytical awareness and understanding of those involved in the negotiations of EPAs of the links between trade liberalisation (and the EPAs in particular), and sustainability to ensure that EPA negotiations take sustainable development fully into account.
- ii. To feed into research and policy efforts related to the EPA negotiations and to encourage negotiators to adopt positions that will promote sustainability in the EU and in the countries of the ACP.
- iii. To help define, and provide input into policy packages being developed by the EU and by the countries of the ACP to accompany EPAs in order to ensure that the outcome of the negotiations contribute to sustainable development.
- iv. To increase transparency by developing a basis for the discussion with European and ACP stakeholders about sustainability implications associated with the negotiations.

The project is divided into four phases. For Phase 1 (November 2002-July 2003²) the European Commission has directed the consortium to complete the following deliverables, which will be undertaken in parallel:

- provide a qualified Preliminary SIA of the EU-ACP EPA negotiations, including an examination and overview of their potential major economic, environmental and social impacts.
- provide in-depth SIAs of the potential impact of EPAs in two regions: West Africa (ECOWAS & Mauritania) and the Caribbean (CARIFORUM).

This Inception Report launches the project and outlines the work to be performed during Phase 1. A Mid-term Report for Phase 1 is due in April 2003 and the Final Phase 1 Report will be available in July 2003.

The terms of reference for Phase 1 of this EU-ACP SIA are attached in [Annex A](#) of this report.

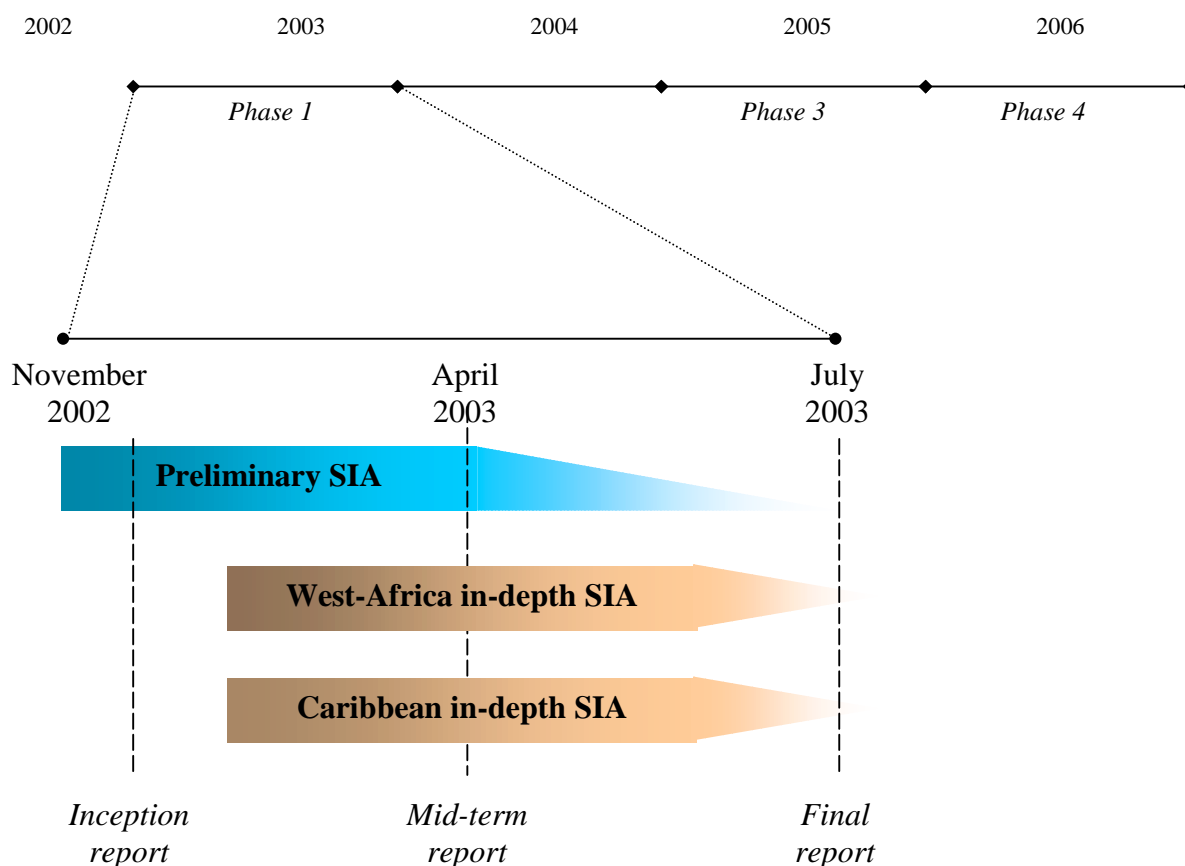
² Under Specific Agreement No. 1 of the Framework contract.

II. Overall Project Description and Management

1. Introduction

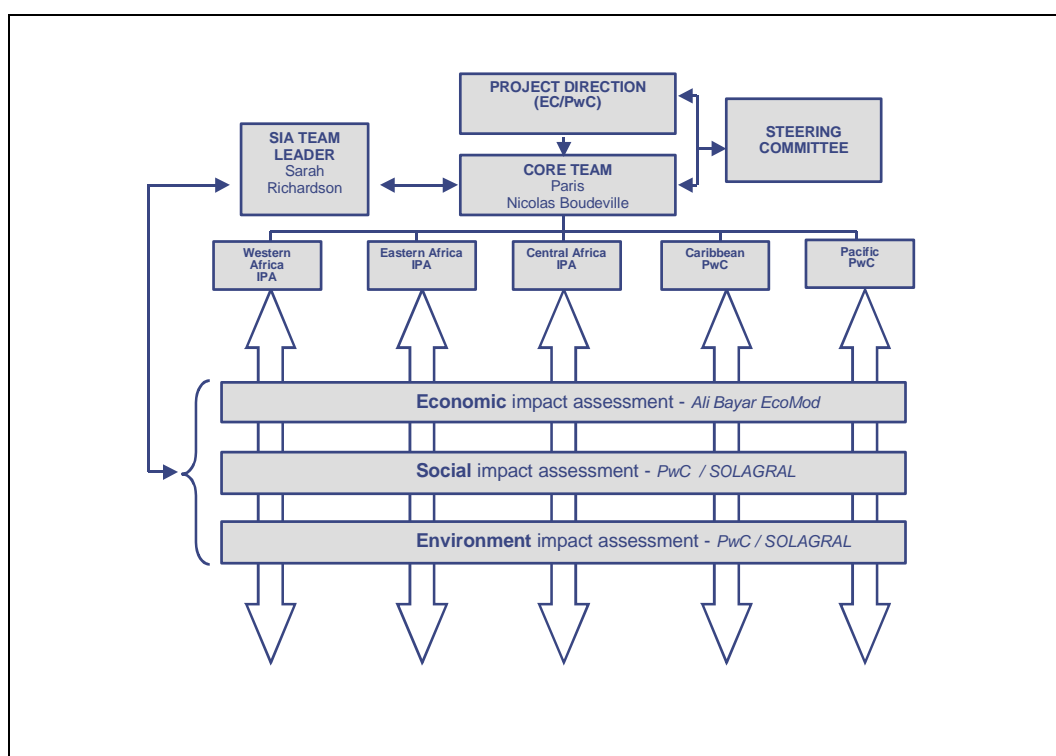
Phase 1 of the project (November 2002-July 2003) includes the following two principal tasks: a Preliminary SIA of the EU-ACP EPAs and in-depth regional SIAs of West Africa (ECOWAS and Mauritania) and the Caribbean (CARIFOUM). In addition, there is an important component of public participation and stakeholder consultation associated with this project that includes a series of meetings with civil society organisations as well as extensive electronic and other outreach. **Figure 1** illustrates the different phases of the overall EU-ACP SIA, with particular attention to Phase 1. **Figure 2** illustrates the project's overall organisational structure.

Figure 1: Phase 1 of the EU-ACP SIA project



Outlines of the content of the mid-term and final reports are attached in **Section 4** of this report.

Figure 2: Organisational Structure



Work performed by the consortium is performed under the supervision of an external Steering Committee. The Steering Committee is scheduled to meet once every two months and provisional dates for meetings with Steering Committee members are listed below:

Table 1: Provisional timetable for the meetings of the consortium's steering committee

Deadline/Date	Event
23 January 2003	Working meeting with members of the Consortium's steering committee to discuss EC comments on inception report.
Week starting 17 March 2003	Working meeting with members of the Consortium's steering committee to provide input for mid-term report.
Week starting 28 April 2003	Working meeting with members of the Consortium's steering committee .
Week starting 16 June 2003 (tbd)	Working meeting with members of the Consortium's steering committee to provide input for mid-term report to provide input to final report.

2. Work Programme and Estimated Levels of Effort

Based on the terms of reference and the composition and contributions of the consortium, the following four tasks are envisioned as key work programme items for Phase 1 of this project:

- (i) Preliminary SIA;
- (ii) In-depth SIAs: West Africa and the Caribbean;
- (iii) Communication and dialogue with stakeholders (meetings, conferences, etc.); and,
- (iv) Project management and electronic communication (website, communication support, etc.)

The Project Team estimates that responsibilities for carrying out the four main elements of the work programme will fall to members of the consortium consistent with the estimated breakdown of man-days that is presented in **Table 2**.

Table 2: Estimated time for consortium partners (TO BE FINALISED)

TASKS/SERVICES	PwC	IPA	Solagral	Eco-Mod	Maeander Ent.
(i) Preliminary SIA	49	43	42	17	21
(ii) In-depth SIAs: West Africa & the Caribbean	41	44	32	20	13
(iii) Communication and dialogue with stakeholders	22	7	7	7	4
(iv) Project management and electronic communication	77	-	-	-	-
Total (Consortium total: 446 man-days)	189	94	81	44	38

A more detailed explanation of items i and ii of the Phase 1 work programme are included in **Sections III** of this Inception Report. Items iii and iv of the Phase 1 work programme, Communication and Dialogue with Stakeholders and Project Management and Electronic Communication will be co-ordinated by the core Project Team at PwC Paris. PwC Paris will be responsible for all aspects of project management including project communications, supervision and co-ordination of tasks.

3. Dialogue with Stakeholders

An integral part of this project is its successful development of a meaningful dialogue with stakeholders about issues related to sustainability and the EU-ACP trade negotiations. The approach that will be adopted in order to ensure the active participation of stakeholders include the following three components:

- (a) Electronic Mechanisms (communications and documentation)
- (b) Stakeholder Meetings (Europe and ACP regions)
- (c) Expert Networking

(a) Electronic Mechanisms

A dedicated Internet website has been created for this project (<http://www.sia-ACP.org>). This website will allow all stakeholders to access information about the project, receive updates on progress and to provide comments and input to the Project Team. The website includes the following features:

- **information about the project** including its context, objectives, consortium partners and developments related to the SIA methodology;
- **documents** that are developed during this project (such as the flyer, an ACP-SIA information kit and project reports) as well as related documents from other sources;
- **electronic links** to other related SIA websites, and in particular the website created by Commission's DG-Trade;
- **an electronic newsletter** that will be produced once every two months and will contain updates related to progress in the project as well as information related to stakeholder participation;
- **an electronic feedback function** that allows stakeholders to comment on, and provide input to, the project; and,
- **a list of events** related to the project, which provides a timetable for consultation as part of this project as well as other events that might be relevant for this SIA.

The website will include a mechanism to track activity, including the number of visits. This information will be used for reporting purposes.

(b) Stakeholder Meetings

To encourage broad and meaningful stakeholder consultation the Project Team will employ, among other things, the experience of the consortium. The consortium is multi-disciplinary and multi-stakeholder in nature and, particularly through its partners in Africa (IPA, Solagral) and regional PwC offices has strong links to the ACP regions.

The consultation process will include a number of meetings to solicit input from stakeholders. In order to encourage the widest and most effective input, meetings will take place not only in Brussels, but also in the ACP regions. A provisional timetable for consultation activities planned during Phase 1 of this project is provided in **Table 3**.

Meetings in Brussels: As in past SIA's, meetings will be organised periodically by the Commission in Brussels as part of the formal consultation process associated with this project. These meetings with civil society will be used to present and discuss the reports that are generated at various stages of the project. In order to encourage active participation by stakeholders, reports will be posted on the project's website and will be open for consultation and comment for a minimum of 30 days. The first stakeholder meeting in Brussels was held on 27 November 2002.

ACP Regional Meetings: Recognising the difficulties associated with effective stakeholder consultation based only in Europe, given the diversity of the ACP, Phase 1 of the project includes plans to hold one two-day workshop in each of the two regions that are the focus of the in-depth reports for Phase 1 (West Africa and the Caribbean). The main purpose of these meetings will be to (i) present, and receive input on, early developments in the Preliminary SIA and, (ii) discuss key issues associated with the in-depth regional studies that will be undertaken in the first half of 2003. The consortium will also try to organise a meeting in both regions to present and discuss the SIA results before presenting a final report to the Commission.

Table 3: Provisional timetable for consultation activities (Phase 1)

Planned activities	Location	Date
Presentation of Inception Report (Meeting with civil society)	Brussels	27 November 2002
Stakeholder Conference on Preliminary SIA	Brussels	6-7 February 2003
Presentation of Mid-term Report	Brussels	To be defined (tbd)
Regional ACP workshops	West Africa (tbd) Caribbean (tbd)	April 2003
Regional presentations and discussions of the results	West Africa (tbd) Caribbean (tbd)	July-Sept 2003
Presentation of Final Report (Phase I)	Brussels	July 2003

A more detailed list of events and planned activities is available from the project website. This timetable will be updated periodically to take into account ACP events, input from stakeholders throughout the consultation process and will also be made available on the website.

Prior to the first stakeholder meeting in Brussels on 27 November 2002, the project launched an information campaign (email and direct mail) to:

- raise awareness with stakeholders (including government representatives) about the project; and,
- invite stakeholders to provide input.

The database associated with this project currently contains over one thousand contacts.

(c) Expert Networking

Members of the Project Team will also seek to identify further opportunities to disseminate information about the project and to engage dialogue with experts in a variety of appropriate fora. This includes monitoring developments and findings in parallel EC efforts to conduct SIAs.

III. Preliminary SIA

One key deliverable for Phase 1 of the project is a Preliminary SIA of the EU-ACP Economic Partnership Agreements. The aim of the Preliminary SIA is to provide an overview of the potential economic, environmental and social impacts of proposed measures that will be subject to negotiation with the framework of the EPAs. The results of the Preliminary SIA will be used to identify priority areas for more detailed assessments that will be undertaken in subsequent phases of this project. This Inception Report aims to introduce the methodological framework that will be adopted in order to undertake the Preliminary SIA.

Consistent with the ongoing work being undertaken on behalf of the EC on SIA, the main stages in the SIA process are as follows³:

- Stage 1: Screening and scoping.
- Stage 2: Detailed assessment of proposed measures.
- Stage 3: Assessment of alternative mitigation and enhancing (M and E) measures.
- Stage 4: Monitoring and post-evaluation proposals.

This Inception Report will introduce the key stages of the assessment process. In particular, it will focus on specific issues related to Stage 1 (screening and scoping) that will be the focus of attention for inclusion in the Mid-Term Report.

1. Background⁴

Co-operation between Europe and the ACP countries dates back to the Treaty of Rome that established the European Economic Community (EEC) in 1957. In that Treaty, the signatories expressed solidarity with the colonies and overseas countries and territories and committed themselves to contribute to their prosperity. The first EEC-ACP association was the “*Yaoundé Agreements*” which were in effect between 1963 and 1975. The basis for the agreements was economic co-operation. The largest share of the resources was directed towards francophone Africa to build up infrastructure in the wake of decolonisation.

In 1973 the United Kingdom joined the EEC. This led to the signing of the wider *Lomé I Agreement*, which was in force between 1975 and 1980 and included 46 ACP countries and the EEC member states. At the same time, the ACP countries formally joined together to form the ACP with the completion of the Georgetown Agreement.

Successive Lomé Conventions were reviewed and updated every five years. They represented the world's largest financial and political framework for North-South cooperation and have long been considered highly innovative models of international cooperation. Some of its original features included:

- **Equal partnership.** ACP countries were given the responsibility for their development and entrusted with the leading role in managing Lomé resources. The EU played a supportive role. This concept of partnership, together with the principles of dialogue, contractuality and predictability, were referred to as the ‘Lomé culture’.
- **Aid and Trade.** Lomé cooperation provided predictable flows of aid over a five-year period and non-reciprocal trade benefits (including unlimited entry to the EEC market for almost 99 per cent of industrial goods and many other products).

³ See Kirkpatrick, C. and Lee, N. (1999); Kirkpatrick, C. and Lee, N. (1999) Kirkpatrick, C. and Lee, N. (2002)

⁴ The following elements have been largely inspired by the “History and Evolution of ACP-EU Cooperation”, ECDPM, January 2001 (Cotonou InfoKit 3).

- **Commodities.** Lomé I introduced the so-called “STABEX” mechanism to help stabilise export receipts on a wide range of agricultural products including, *inter alia*, cocoa, coffee, groundnuts, and tea. Lomé II created a similar mechanism referred to as “SYSIM” for countries heavily dependent on mineral resources.
- **Protocols.** The Convention included protocols on trade in sugar, beef and veal, bananas, and rum. The banana protocol gave duty-free entry to the EU market for specific quota of bananas and has been important for many small Caribbean states. Under the sugar protocol, the Community buys a fixed quantity of sugar each year from ACP producers at guaranteed prices, higher than world prices. This preference helped in the economic development of ACP states such as Mauritius, Fiji, Guyana or Barbados.

The rationale behind non-reciprocal trade preferences was to give customs exemptions or reductions to developing countries on manufactured or semi-manufactured goods, processed agricultural products and textiles. This permitted the entry of manufactured goods and agricultural products into the EU without the payment of duties or quantitative restrictions, provided they were not in direct competition with products covered by the EU’s Common Agricultural Policy (CAP). There was no reciprocity obligation for the developing countries, which are bound only to apply the most-favoured nation clause and not to discriminate between EC countries. The objective was threefold: increase developing countries' export income, promote the industrialisation of these countries and accelerate their economic growth.

After 1990, the preferential EU-ACP relationship came under growing pressure for a number of reasons. In particular, the Lomé trading régime was coming under increasing pressure from the ever-expanding WTO and Lomé’s trade provisions were seen to be incompatible with the new international trading rules. The rules of the WTO on regional trade agreements threatened the continuation of Lomé preferences, on the ground that they discriminated between developing countries by giving better treatment to ACP countries than to other, and sometimes poorer, developing countries in Asia. In addition, despite preferential access to EU markets, ACP exports were deteriorating, dropping from 6.7 per cent of the EU market in 1975 to 3 per cent in 1998. There was little diversification: 60 per cent of total exports were concentrated in ten products. The Lomé Conventions had started out with the primary concern of economic cooperation. By the 4th Lomé Convention, additional elements were introduced including respect for human rights, democratic principles and the rule of law, viewed by some as “conditionalities”.

In this context, in 1996 the EC launched a broad-based consultation on the future of ACP-EU cooperation. From the outset of the process, it became clear that a new round would differ dramatically from the previous cooperative framework. The goals of the EU included: applying greater aid selectivity, differentiation in the treatment of ACP countries; linking aid to performance; making the trade régime 'compatible' with the WTO; ensuring the closer involvement of civil society and the private sector; and rationalising Lomé cooperation instruments.

Negotiations to conclude an agreement to replace the Lomé Convention began in 1998 and were concluded with the signing in June 2000 in Benin of the Cotonou Agreement. The Cotonou Agreement between the EU and the 77 ACP state is slated to be valid for 20 years. It will come into force once it has been approved by the European Parliament and ratified by the national parliaments of the states concerned.⁵ It will be open to revision once every five years. Together, the ACP signatories represent more than 650 million people. A full list of ACP countries and maps of the three major regions are provided in [Annex B](#).

⁵ As of 08 November 2002 twelve European Countries and 62 ACP countries have ratified the Cotonou Agreement. As detailed in its Article 93.2 the ratification of all 15 EU members and two thirds of the ACP countries (i.e. 51) is required for the Agreement to enter into force. As of today, the ratification by Netherlands, Belgium and Italia are thus lacking for the Agreement to be implemented. At the European Level, the Agreement has been endorsed by a conform advice by the Parliament (17 January 2002) and would also be subject to a final Council decision that should take place in December 2002.

2. Main Trade Features of EU-ACP Relationship

The central objectives of ACP-EU co-operation as set out in the Cotonou Agreement are “poverty reduction and ultimately its eradication; sustainable development; and progressive integration of the ACP countries into the world economy” (Article 19). The Agreement proposes a comprehensive and integrated approach to achieving its central objectives and is based on five pillars: a political dimension, a focus on participatory approaches, a strengthened focus on poverty reduction, reform of financial cooperation, and a new framework for economic trade cooperation, of which EPAs are the central component.

Despite the fact that the Agreement was completed in 2000, its trade provisions (the EPAs) were not slated for negotiation until 2002. Negotiations towards the development of the EPAs began on schedule in September 2002 and are expected to last between five and six years. In the meantime, pre-existing non-reciprocal tariff preferences that apply throughout the ACP are maintained until 31 December 2007. Starting in 2008, the EPAs will replace these tariff preferences with provisions to promote liberalisation that is reciprocal and WTO-compatible and cover “essentially all trade”. Trade provisions contained in the prospective EPAs will be implemented over a period of ten to 12 years.

In the coming years, the ACP-EU trading regime that results from the Cotonou Agreement could be profoundly transformed. In the short term, however, only minor adjustments are likely to be felt. The non-reciprocal tariff preferences will exist until the end of 2007, as will three of the four commodity protocols that existed under the Lomé regime. The only major immediate changes are the abolition of the STABEX and SYSMIN mechanisms and of the Rum Protocol.

In April 2002 the EU presented a draft negotiating mandate for the trade negotiations with the ACP to the EU Council for approval [EC (2002a)]. The mandate traces the content and scope of what the EU understands by the EPAs. EPAs will extend beyond trade in goods to cover services and possibly issues such as standards, SPS measures, procurement, intellectual property rights, competition, investment, environment and others. Many ACP countries are still determining their trade policy objectives and negotiating configurations at the national, regional and all-ACP level although ACP Guidelines for the Negotiation of EPAs have been developed [ACP (2002)]. There appears to be some agreement among ACP countries that since any future trading arrangement is an integral part of the overall Cotonou Agreement it should be subject to Cotonou’s objectives of poverty reduction and sustainable economic and social development.

3. Key Considerations for an Initial Methodology

The work to be undertaken for the preliminary SIA of the EU-ACP EPAs will be based on previous SIA methodological studies conducted on the behalf of the European Commission, and in particular the three studies of the Institute for Development Policy and Management (IDPM) at the University of Manchester [Kirkpatrick/Lee et al.(1999/2002)]. This report will also draw on lessons learned from the EU-Chile SIA [Planistat (2002)]. In addition, a number of organisations including the OECD, UNEP, WWF, and others have made contributions to the literature on environmental and sustainability assessments in the form of methodological developments and case studies. The work of these and other organisations will be incorporated into this SIA where relevant. In addition, the work programme for the regional in-depth SIAs will be developed early in Phase 1 of the project in order to integrate findings of the preliminary SIA.

Given the numerous dimensions of prospective EPAs reflecting the diversity in issues and priorities among the various countries and regions represented in the ACP, the methodology employed in this SIA will endeavour to be flexible and adaptable. A comprehensive discussion of attempts to build on the Manchester methodology directed by the context of the EPAs and any unique circumstances associated with the countries and issues involved are introduced here and will be developed in the Mid-term Report.

Generally, the methodology for this SIA should take into consideration the specific circumstance where EPAs, derived from the Cotonou Agreement, are based on a broader basis than a traditional trade liberalisation agreement. The breadth of the Cotonou Agreement puts the EPAs in a context that is not applicable to other trade liberalisation efforts that have been the subject of SIAs. At its core of the Cotonou Agreement is a strong focus on development, including special emphasis on poverty alleviation, gender issues and institutional capacity building, social and human development (including youth issues and cultural development) and regional co-operation and integration. These and other crosscutting issues will be considered in the SIA of the EU-ACP EPAs and in particular, will help frame the mitigation and enhancement measures that will be developed during the final stage of the SIA.

A focus on a participatory approach is also an important component of the Cotonou Agreement, which frames the development of the EPAs.

(a) Screening: Identifying the Trade Issues for Negotiation

The first stage of the methodology involves identifying trade-related issues for inclusion in the SIA. There is some guidance with respect to the purpose and content of the EPAs, in particular, in the provisions of the Cotonou Agreement, signed in 2000 between the EU and the ACP and the preliminary documentation produced by the EU and the ACP countries entering into the negotiations.⁶

Pursuant to the provisions of Article 36 (1) of the Cotonou Agreement, negotiations shall aim at establishing Economic Partnership Agreements between ACP sub-groups defined in accordance with the provisions of Article 37 (5) of the Cotonou Agreement, on the one side, and the European Community, on the other, taking into account the regional integration process already existing within the ACP.

The EPAs are, in essence, trade liberalisation agreements. Their basic content is defined in Articles 36 and 37 of the Cotonou Agreement. The primary building block of the EPAs is the establishment of free trade areas, progressively eliminating tariffs and non-tariff barriers on substantially all trade between the parties, in conformity with relevant provisions of the WTO.

Specifically, EPAs will strive to enhance production, supply and trading capacities, create new dynamics for trade and foster investment. Closer economic integration will be come about as a result of removing barriers to trade between the parties and enhancing co-operation in all areas relevant to trade. Negotiations will take into account the need for trade related policies to be implemented in conjunction with development policies, as well as an emphasis on capacity building and co-operation in multilateral fora with respect to trade and investment. Negotiations of EPAs will take account of the different levels of development of the parties and the regional groupings as well as of the particular economic, social and environmental constraints of the ACP countries and of the capacity to adapt and to adjust their economies to the liberalisation process.

⁶ *EC Directives for the negotiations of Economic Partnership Agreements with ACP countries and regions* [EC (2002a) and the *ACP Guidelines for the Negotiations of Economic Partnership Agreements* [ACP (2002)]

The Project Team has identified a long list of issues related to the negotiation of the EPAs, which will be refined, and from which priority issues for inclusion in the SIA will be selected.

Table 4: Preliminary “Long list” of issues for negotiation of EPAs

A preliminary “Long list” of issues for negotiation	
Trade in Goods / Market Access	Import Duties <ul style="list-style-type: none"> ▪ Imports into the Community ▪ Imports into the ACP countries ▪ Basic duties General Provisions <ul style="list-style-type: none"> ▪ Export duties ▪ Quantitative restrictions ▪ National treatment and fiscal measures ▪ Variable speed. ▪ Food security clause ▪ Safeguards ▪ Antidumping ▪ Stand still ▪ Transparency ▪ Exceptions clause ▪ Classification of goods based on the Harmonised System Rules of Origin Trade Facilitation and customs procedures Preliminary examination of the agriculture and fisheries sectors
Trade in Services	
Current Payments and Capital movements⁷	<ul style="list-style-type: none"> ▪ Including portfolio investment and regulatory framework
Rules-related issues / General Trade-Related Areas (Issues before the WTO)⁸	<ul style="list-style-type: none"> ▪ Competition policy ▪ Intellectual property rights ▪ Standardisation and certification ▪ SPS measures ▪ Trade and environment ▪ Trade and labour standards ▪ Consumer policy ▪ Protection of consumer health
Rules-related issues / Specific Trade-Related Areas	<ul style="list-style-type: none"> ▪ Tax carve out clause ▪ Investment promotion and protection ▪ Public procurement ▪ Standards, technical regulations and conformity assessments ▪ Data protection
Legal Issues	Dispute Settlement

In addition to receiving feedback from and reaching agreement with the Commission, the Project Team may use the following criteria to help in the exercise of prioritising issues for inclusion in a Preliminary SIA:

- The issue exists as a core component of the Cotonou Agreement;
- The issue is likely to be the subject of early negotiations of EPAs with respect to liberalisation;
- The issue is one where one might expect, *a priori*, there may be important sustainability impacts.

⁷ Our analysis will take into account, as far as possible, household money transfers (i.e., money sent back home by ACP country nationals working overseas, e.g., in the EU. These transfers have a significant impact on current payments and capital movements).

⁸ See EC (2002b), draft EC paper on EPA Negotiations: rules-related issues, forthcoming.

Finally, the development dimension of EPAs is an important aspect that distinguishes the negotiations with ACP countries from traditional trade negotiations (see box 1 below).

Box 1 - The development dimension of EPAs

The Partnership established by the Cotonou Agreements is "centred on the objective of reducing and eventually eradicating poverty, consistent with sustainable development and the gradual integration of ACP countries into the world economy"⁹. EPAs must serve this objective. They are therefore above all **an instrument for development**. This is underlined by the provisions of Article 34 (1) of the Cotonou Agreement, which state: " Economic and trade co-operation shall aim at fostering the smooth and gradual integration of ACP States into the world economy, with due regard to their political choices and development priorities, thereby promoting their sustainable development and contributing to poverty eradication in the ACP countries".

The European Commission then stresses that "EPA will ultimately complete the comprehensive approach designed by the Cotonou Agreement, setting in force a powerful combination of political, trade and development cooperation to promote the sustainable development of the ACP countries and to contribute to poverty eradication in these countries"¹⁰. For ACP Countries, "development must therefore be at the core of EPA negotiations"¹¹. Their first strategic objective for these negotiations is then to conclude "development-oriented EPAs"¹².

The Consortium takes full account of this development dimension of EPAs and will therefore examine the development aspect of trade and trade-related issues, as often as required, with special attention paid to supply-side constraints and adjustment measures (compensatory mechanisms, cancellation of debt, etc.), fiscal impact and capacity building requirement¹³. This dimension represents a contribution of the Consortium to fostering a specific SIA methodology for EU-ACP negotiations based on previous work done by the Manchester University.

(b) Scoping: Sustainability Context

A second step in developing a methodological approach to address the EU-ACP EPAs involves an outline of variables associated with economic, environmental and social sustainability with respect to the issues that will be the subject of the SIA. The scoping phase will include a category of issues characterised as "governance and institutional issues". An initial analysis will be undertaken for key issues under negotiation and their potential impacts on:

- economic development;
- social sustainability (including gender);
- environmental sustainability; and,
- governance and institutional issues.

This analysis should provide important baseline information that can be used in future stages of the development of the SIA, on issues related to trade, development, environment and governance. It will also help the Project Team identify key indicators to use as benchmarks of change in terms of impacts supporting or detracting from efforts to promote sustainability through the EPAs. This information can further allow the Project Team to develop hypotheses, as appropriate, to use in the in-depth SIA. Finally, a thorough scoping of potential impacts associated with the operation of a particular trade rule, or within an economic sector, might identify important issues related to the environment and development that should be highlighted in the in-depth SIA.

⁹ Article 1 (2) of the *Cotonou Agreement*.

¹⁰ European Commission, "*Explanatory Memorandum, Commission Draft Mandate*"; 9 April 2002.

¹¹ ACP (2002), *ACP Guidelines for the negotiations of Economic Partnership Agreements*, 21 June 2002, Brussels.

¹² *idem*.

¹³ ECDPM-ODI (2002), "*ACP-UE Informal Brainstorming session on preparing future trade negotiations – Summary report*", Eurovillage, Brussels, 23 May 2002.

Key steps for the scoping stage are as follows:

- Identifying the sustainability (economic, social, environmental and governance) impacts associated with the issues identified in the screening exercise.
- Develop criteria by which the significance of potential sustainability impacts will be assessed.
- Create baseline information.
- Determine country groupings.
- Determine time frame(s) for the assessment.
- Select specific indicators, methods and data sources.

These steps will be developed in further detail in the mid-term report.

i. Country Groupings

This SIA is of EU EPAs with the ACP countries. Given the diversity among countries and regions, in an effort to make the SIA manageable and reflective of key sustainability impacts in these regions, the Preliminary SIA will focus broadly on the three regional groupings of countries: the Caribbean, Africa and the Pacific. Within these broad groupings, smaller sub-groups may be identified during the Preliminary SIA for further in-depth analysis at a later stage in the project. In particular these sub-groupings will take into account existing areas of regional economic integration. Concurrent with the development of the overall, preliminary SIA, initial, in-depth SIAs will be commenced as “pilot projects” that focus on sub-components of two of the three regions: ECOWAS (plus Mauritania) in Africa and CARIFORUM in the Caribbean.

ii. Introduction to indicators for sustainability and the EU-ACP SIA

A cursory initial analysis of general trade flows under the present trading regime (see [Annex C](#) further details) indicates that in 2000, South Africa’s market share (33 per cent) was over twice that of its closest ACP rival, Nigeria (15 per cent) followed by Ivory Coast (five per cent) and Cameroon (four per cent). Apart from South Africa and Nigeria, important destinations for EU goods in 2000 were the Ivory Coast and Ghana. In the EU, the United Kingdom imported the largest share in merchandise originating from ACP countries and destined for the EU market. Roughly one fifth of all ACP imports in 2000 were destined for the United Kingdom followed by France (16 per cent), Spain (14 per cent), Germany (13 per cent) and Italy (12 per cent).

In addition, almost 70 per cent of exports from ACP countries to the EU are concentrated in only ten products including fruit, cocoa, seafood, coffee and tea. Around three-quarters of ACP imports into the EU originated from only ten countries in 2001. Forty five per cent of imports into the EU were made up of oil, diamonds, and gold, wood and ore, primary non-processed commodities, while half of the exports from the EU were made up of machinery, ships and vehicles. This indicates that export industries of the countries in question are still not very well diversified (with the exception of South Africa). Furthermore, goods exported tend to be primary commodities with little if any value-added. In addition to limiting the economic gain from manufacturing, this also makes exporting countries vulnerable to fluctuations in world market prices, which can undermine development goals.

An initial examination of issues related to environmental sustainability indicate the varied nature of issues of most relevance to ACP countries. Issues range from air, water quality and quantity, land (such as erosion, desertification and deforestation) and biodiversity (such as the erosion of genetic diversity in agro-ecosystems and habitat). To the extent that unsustainable

activity encouraged by domestic or international practices or policies related to trade, SIA can contribute by developing both trade and non-trade related policies to mitigate any damage. Similarly, in critical sectors such as services, where liberalisation might encourage resource over-consumption, investment in state-of-the-art technologies for basic services have the potential to contribute to sustainability.

Given the widespread poverty affecting ACP populations, social aspects of ACP sustainability cover a wide range of complex issues including, *inter alia*, access to basic services and safety nets, employment and labour rights, development of coping and mitigation of risk strategies.

The populations of the ACP countries rely heavily on rural and agricultural economic activities and small producer-based organisations rather than formal manufacturing sectors and organised salaried employees (including trade unions). Moreover, in many sectors in ACP countries, the informal sector is very important. In the informal sector, conventional approaches to labour rights and social benefits do not necessarily apply and alternative models such as coping strategies should be taken into account.

This is not to minimise the importance of labour rights issues in ACP countries, especially in the context of Export Processing Zone (EPZ). EPZs have developed dramatically in many ACP countries in the past decade as a direct consequence of trade liberalisation and foreign direct investment trends.

Social aspects in ACP countries should be considered primarily as a question of access to human capital (i.e., access to livelihood assets) by households, especially in the poorest segments of the population. Access to human capital includes access to basic services (such as education and health services), access to economic opportunities, access to productive assets (market integration targeted towards the poor). For the access to basic public services, a key issue to be considered is the degree to which macro-economic and budgetary priorities support general and unrestricted access to these services. For the access to economic opportunities, the government capacity to ensure pro-poor economic growth strategies (as favoured by the PRSP agenda led by the World Bank and the IMF) will be a key issue to consider.

In the absence of the effective delivery of basic services, social safety-nets targeted at the poorest segments of the population play a crucial role in the ACP countries. Indeed, they may be necessary to reverse the long-term impact of poor household short-term coping strategies (such as de-capitalisation of long-term productive assets or increased unsustainable indebtedness to meet immediate food requirements). Safety nets include government and donor sponsored food/cash for work programmes, community support initiatives and other poverty related programmes. The economic viability of these activities targeting the poorest members of society and the overall impact of the safety nets remain important issues that need to be addressed.

A variety of cross-cutting issues should be integrated in the assessment of social impacts, including HIV/AIDS and gender equality. In South Africa, for example, the HIV/AIDS issues goes beyond the humanitarian and health sectors as they have a direct impact on the size of the economically active population. The proportion of infected population may reach 30-40 per cent at the national level and up to 70 per cent at regional and local levels. Gender equality is also a key issue related to poverty in ACP countries. For example female-headed households and deprived women often represent a disproportionate number of the poorest in the population.

The analysis should also go beyond the present situation to assess the mitigation of risk capacity of the population, especially the poorest segment. It is clear that poor people have less capacity to resist to economic and social shocks. Therefore, any change arising from the negotiations, even if it has temporary negative impacts, may have dramatic impact on the most vulnerable populations.

The ACP countries represent a range of states from small island states in the Caribbean and the Pacific, to landlocked countries, to countries in sub-Saharan Africa. The issues related to sustainability and the priorities accorded to these issues in the various countries and regions will vary. In addition, there will be challenges with respect to data availability. For these reasons, the Project Team believes that given the broad range of issues associated with sustainability across the diverse regions and countries of the ACP, it is prudent to select indicators on a case-by-case basis. For example, issues related to sub-Saharan Africa that might include deforestation and desertification might not be relevant for small island states where the health of coral reefs might be of more immediate concern. Similarly, land-locked states may face sustainability challenges that differ from small island states.

The availability of a broad range of indicators is also important at this stage to allow the Project Team some flexibility in identifying areas where data might be available and adapting indicators of sustainability as necessary to respond to data challenges. The indicators that will be chosen will not only attempt to cover the range of sustainability issues associated with any given issue, but also to respond to the priorities of the political, geographical, social and environmental priorities associated with the issue under examination. To guide the overall selection of indicators, the Project Team will take note of the observations that emerged from the OECD workshop on environmental assessment or trade agreements [OECD (2000)]:

- Environmental data are most credible when they relate to the local or micro-level;
- There is a general lack of environmental methodologies available to specifically measure certain kinds of impacts. In particular, there is a dearth of biodiversity and land-use-related data and indicators, thereby hampering assessment in these areas;
- There is a need to optimise precautionary and preventative approaches so as to make them applicable to the purposes of assessments.

The Project Team will rely on a number of sources in the selection of indicators. First and foremost, priority issues for inclusion will be guided by the range of issues highlighted by the Parties in the Cotonou Agreement itself. Issues that receive privileged treatment in the Agreement include elements that could form key components of development strategies related to EPAs and as such policy measures emerging from this SIA. This report will also draw on various sources of indicators for sustainable development including, *inter alia*, WWF's Environmental Footprint [WWF (2002)], the Environmental Sustainability Index [CIESIN/YCELP (2002)], the World Bank's World Development Indicators [World Bank (2002)] and the UN's Indicators of Sustainable Development [UN(2001)].

To guide the selection of appropriate indicators for issues within this SIA, the Project Team will begin with the criteria for selecting relevant indicators developed by the University of Manchester. The Manchester methodology (Phase III) recommends the use of first Tier and Second Tier indicators to assess changes in sustainability. It presents the following criteria to assist in selecting relevant indicators:

- They should be limited in total number, but in aggregate they should be comprehensive in their coverage of sustainable development;
- They should be balanced in their coverage of economic development, social development and environmental quality/resource conservation;
- They should reflect concerns relating to intergenerational and intra-generational equity;
- They should focus on key components of concern to decision-makers and stakeholders.

The Project Team has developed an initial "long list" of indicators as a preliminary guide for the selection of further, more detailed indicators. It has been developed in an effort to point to important issues for the EU and the ACP regions in the context of the Cotonou Agreement.

From these, core indicators can be selected, based on the criteria above, to apply generally to a preliminary SIA and to the regional in-depth SIAs. In addition, there may be instances when addressing specific regions or issues where additional indicators should be considered. Where, during the course of the SIA, it becomes apparent that additional indicators should be considered, they will be added as appropriate.

For the purposes of this analysis, to assist in selecting specific indicators that focus on social and environmental impacts and to provide an operational focus for tracking those impacts, the indicators and their characteristics are divided into three groups: activity based indicators, results based indicators and impact indicators.¹⁴

- **Activity based indicators.** These are indicators of the means of production, activities and policies (led by public/government or private bodies) that may be affected by the EPAs (for example, level of resources spent on building schools).
- **Result based indicators.** These indicators are direct outcomes of the activities and policies identified by the activity based indicators. In that sense, result based indicators are meant to evaluate the immediate impact of any EPA trade agreement (for example, proportion of pupils/students attending school).
- **Impact indicators.** These are long term global indicators to which result-based indicators do contribute, but which may be affected by other variables than trade related indicators (for example, literacy rate of 15-24 year olds).

The following long list is not intended to include a full and exhaustive indication of indicators for all ACP countries covering all issues. More work remains to be done in this respect as the Project Team develops the Preliminary SIA and the in-dept regional analyses during Phase One. Furthermore, this list is not limited to quantitative indicators but also includes qualitative characteristics. This combination reflects the very complex nature of any social, environmental or governance analyses and the difficulty of reducing a number of the variables to baseline quantitative indicators. Further research is needed to select the core indicators with the right balance between relevance and availability.

¹⁴ This approach is consistent with the OECD's "Pressure-State-Response" model of indicator identification [OECD (1994)], as well as the UN CSD's "Driving Force-State-Response" model [UN (2001)]

Table 5: Examples of indicators related to the “Social and human development”

Access to:	Conditioning factors	Result based indicators / characteristics	Impact indicators / characteristics
Safety nets and food security			
	<p>Number of beneficiaries of Poverty related projects/sector programme (food/cash for work, food aid canteen, other social funds)</p> <p>Price ration: price of basic food / price of products produced by vulnerable groups (e.g., . Rice price/Cattle price)</p> <p>Food availability (national production + commercial imports + food aid) & food consumption needs of the population</p> <p>Regional disparities</p>	<p>Food consumption/habitant</p> <p>Nutritional status (anthropometrics, micronutrient deficiency)</p>	<p>Proportion of population living on less that \$1/day</p> <p>Characteristics of this population: ratio women/men, urban/rural</p> <p>Share of poorest quintile in national consumption</p> <p>Prevalence of underweight children and/or malnutrition (under 5 years of age)</p> <p>Proportion of population below minimum level of dietary energy consumption</p> <p>Number of children orphaned by HIV / AIDS</p> <p>Number of refugees</p>
Basic services			
Education	<p>Number of schools & teachers.</p> <p>Wages & turnover of teachers and education personnel</p> <p>Teaching materials, equipment & upgrading of programmes</p>	<p>Net enrolment in primary education & proportion of pupils starting grade 1 who reach grade 5</p> <p>Ratio of girls to boys in primary, secondary and tertiary education</p> <p>Proportion of students (bachelor level)</p> <p>‘Brain drain’ indicator</p>	<p>Literacy rate of 15-24 year olds (gender differentiation)</p> <p>Proportion of qualified & high qualified professionals</p> <p>HIV/AIDS awareness</p>
Water & sanitation	<p>Number of water sanitation centres and potable water equipment</p>	<p>Proportion of population with access to improved sanitation and/or water source</p>	

Access to:	Conditioning factors	Result based indicators / characteristics	Impact indicators / characteristics
Health	<p>Number of health care centres</p> <p>Wages & turnover of doctors and health personnel</p> <p>Health care materials & equipment</p>	<p>Proportion of population in malaria-risk areas using effective malaria prevention and treatment measures</p> <p>Proportion of tuberculosis causes detected and cured under directly observed treatment, short-course (DOTS)</p> <p>Proportion of one-year-old children immunised against measles</p> <p>Contraceptive prevalence rate</p>	<p>Maternal mortality rates (maternal deaths per 100,000 live births)</p> <p>Prevalence and death rate associated with malaria and/or tuberculosis</p> <p>Under five mortality and/or infant mortality rate</p> <p>HIV/AIDS prevalence</p> <p>Prevalence of HIV/AIDS among young women (age 15-24)</p>
Economic opportunities			
Productive assets	<p>Rural land property registrations</p> <p>Rural credit and micro-credit</p> <p>Government supported / subsidised agricultural/non-agricultural input distribution / sales</p> <p>Vocational training & technical assistance programmes</p>	<p>Proportion of population with access to secure tenure (number of private property land registered)</p> <p>Employment in the non-agricultural sector (rural/urban & gender differentiation)</p> <p>Number of SMEs & micro enterprises</p>	<p>% of irrigated land</p> <p>Number of landless</p> <p>Size of cultivated area/farmer</p> <p>Overexploitation of soil</p>
Market Integration (targeted on the poor)	<p>Food storage & strategic food reserves (for official or non-official market regulation purpose)</p> <p>Agricultural/input price volatility on local markets</p> <p>Road & transport infrastructure, cost efficiency & average cost per km</p> <p>Reduction of market failure & oligopoly/monopoly practices</p> <p>Trader registrations on national, regional local markets enterprise</p>	<p>Access to local/regional markets indicator for SMEs and micro-enterprises</p> <p>Unemployment rate</p> <p>Commercial food imports</p> <p>Production & services diversification indicator</p> <p>Scope of the informal economy in urban areas</p>	<p>Production prices/consumption prices</p> <p>Diversification of the rural/urban population</p>

Table 6: Examples of indicators related to the “Environment”

Access to:	Conditioning factors	Result based indicators / characteristics	Impact indicators / characteristics
Environment and natural resources			
Forests	Existence of appropriate regulation, ownership dissemination of standards & good practices, FSC Number of industrial concessions Commercial timber production Fuelwood production Existence of bioprospecting contracts Existence of appropriate law on access and benefit sharing	Intensity of use of forest resources (annual harvest, annual growth) Rates of forest clearance (original and natural forests, plantations)	Biodiversity loss (number of threatened tree species (mammals, birds, vascular plants, fish, reptiles, amphibians))
Freshwater	Existence of appropriate regulation, ownership dissemination of standards & good practices Public expenditure on waste water treatment	Intensity of use – annual groundwater withdrawals Intensity of use by major uses (e.g., irrigation) Levels of waste water treatment (% of population connected to public waste water treatment plants)	Oxygen/ Nitrate content in surface waters content in surface waters Biodiversity loss (number of threatened species : fish, reptiles, amphibians)
Coastal and marine ecosystems	Trade in fish Trade in coral Existence of bioprospecting contracts	Fish catches in marine and inland waters Fish consumption per capita	Coastal biodiversity loss Destruction of mangroves and coral reefs Loss of fisheries
Agro-ecosystem	Agricultural production - For national production/ export - For self-consumption Existence of bioprospecting contracts Existence of appropriate law on access and benefit sharing	Changes in land areas covered by crop land Average annual fertiliser use (kg per hectare of cropland) Pesticide use (kg per hectare of cropland)	Soil Degradation (desertification/ erosion/ salinisation) Agro-biodiversity loss
Energy and Resources Use	Existence of renewable energy sources Trade in energy (imports/exports)	Energy supply from non renewable energy sources Energy consumption from non renewable energy sources	
Climate and atmosphere	Signatory to the Kyoto and Montreal Protocols	Emissions from fossil fuel (CO ₂ emissions intensities per capita and sources) Common anthropogenic pollutants (sulphur oxide, nitrogen oxide) Greenhouse and ozone depleting gases (methane, nitrous oxide)	Degradation of air quality Atmospheric pollution and associated health effects Extreme weather (water raise, floods...)

Access to:	Conditioning factors	Result based indicators / characteristics	Impact indicators / characteristics
Waste Generation		Municipal waste generated per capita Household waste generated per capita Levels of industrial waste produced Levels of hazardous waste produced Rates of recycling	
Mining sector	Existence of appropriate regulation Number of mining sites Trade in mining		Biodiversity loss Pollution

Table 7: Examples of indicators related to the “Governance”

Access to:	Conditioning factors	Result based indicators / characteristics	Impact indicators / characteristics
Institutional Development and Capacity Building			
	<p>Experience in implementing an IMF sponsored Medium Term Expenditure Framework (MTEF)</p> <p>UNCTAD / International Labour Organisation (ILO) / Multilateral Environmental Agreements (MEAs) technical support program</p> <p>Anti-corruption policies</p> <p>Implementation of trade negotiation training sessions</p>	<p>Effective budget control by the government</p> <p>Effective government owned policies with social, poverty related and/or environmental components</p> <p>Number of officials trained and sectoral coverage of the training sessions</p>	<p>Secure and predictable political environment</p> <p>Effective participation in trade negotiations (i.e., number of declarations in WTO, number of other trade agreements)</p> <p>Number of environmental agreements signed</p>
Development of community-based institutions & participatory processes			
	<p>Existence of community support regulation (law on indigenous people’s rights, local government regulation)</p> <p>Politicisation of trade unions</p>	<p>Number of local NGOs / co-operatives / small producers organisations</p> <p>Participation of parliamentary institutions in government policy making and implementing</p> <p>Proportion of seats held by women / minority groups in national parliament</p> <p>Participation of women / minority groups in local politics</p>	<p>Broad-based economic development</p>
Social and environmental dialogue and respect for basic rights			
	<p>Number of international ILO basic / non-basic conventions ratified</p> <p>Public expenditure on social and/or environmental concerns</p> <p>Importance of trade-unions in public and private sectors</p> <p>Number of environmental / poverty related NGOs</p> <p>NGO-trade union dialogue on poverty and informal economy issues</p> <p>Ratification of MEAs including, <i>inter alia</i>, Biodiversity Convention, Kyoto Protocol on Climate Change, Montreal Protocol on Ozone Layer, Biosafety Protocol.</p>	<p>Proportion of unionised workers in the formal economy</p> <p>Number of man day / strikes per year</p> <p>Representation initiatives of workers in the informal economy</p> <p>Number of cases against foreign direct investment in CSR and international regulations (OECD guidelines, ILO conventions, GRI, UN Global Compact, various codes of conduct, etc)</p>	<p>Pro-poor, environment friendly and equitable development</p>

Table 8: Examples of indicators related the “Economic Impact”

Preliminary Economic Indicators	
Gross Domestic Product	Real GDP growth GDP per capita (level and changes) Changes in the sectoral composition of GDP (agriculture, manufacturing, services, more details if data is available) in terms of value-added or production.
Investment	Domestic investment (level and changes) Foreign Direct Investment (level and changes) National savings and its composition (level and changes)
Exports/imports	Total exports (level and changes) Exports by large product groups (level and changes) Exports by destination (level and changes) Total Imports (level and changes) Imports by large product groups (level and changes) Imports by origin (level and changes) Foreign capital movements (level and changes)
Inflation	Sectoral price changes Exchange rates Terms of trade changes Export price changes Import price changes
Employment levels	(Un-)/Employment (level and changes) (Un-)/Employment by sector (level and changes) (Un-)/Employment by gender (level and changes) (Un-)/Employment by skill (level and changes)
Consumption	Private consumption and its composition (food and clothing, rent and furniture, health, transport, recreation, other)
Income	Income (level and changes) Wages (level and changes)
Government expenditure/revenues	Government expenditure (level and changes) Composition of government expenditure (public consumption, public wages, public investment, debt service, transfers, etc.) (level and changes) Government revenues (level and changes) Composition of government revenues (tariff revenues, income taxes, indirect taxes, etc) (level and changes) Government deficits (level and changes)
Population	Population growth Population density
Transport	Road Traffic (total volume, intensity per unit of GDP) Road Infrastructure Densities (Road network, motorways)
Debt	Government domestic debt (level and changes) Foreign debt (level and changes) Debt relief Debt service as a percentage of exports of goods and services Proportion of ODA provided as debt relief

(c) Conducting in-depth SIAs

There is a general agreement in the literature that there is no “one size fits all” approach to assessment.¹⁵ This is reiterated in the IDPM Phase III SIA methodology. A number of organisations have pointed to the benefits of incorporating a mix of qualitative and quantitative approaches when undertaking SIA or environmental reviews of trade liberalisation agreements. This is the approach that will be adopted in the in-depth SIA of the EU-ACP EPAs. Clear definition of the options/scenarios to be considered and a clear analysis of the mechanisms through which the different options will affect variables related to social, economic, environmental and governance areas will be included. In some cases modelling can be used, such as in efforts to identify loss of revenue generated by tariffs. Causal chain analysis, including tracing linkages to direct and indirect impacts of trade and other policies through economic or regulatory means, will also be employed. A preliminary survey of some existing methodologies for assessment confirms the relevance of this approach.¹⁶

The approach developed by the Organisation for Economic Co-operation and Development (OECD) acknowledges that environmental reviews of trade measures or trade agreements require a mix of methodologies, and in general the approach adopted should be flexible and practical.¹⁷ Methodological techniques suggested by the OECD include:

- *Base line environmental conditions* could be established using existing data.
- *Models and other forecasting techniques* could be used to predict broad changes in resource use, pollution or environmental quality resulting directly or indirectly from the trade measure or agreement.
- *Scenarios* could be used to test certain hypotheses or predictions of environmental impacts.
- *Case studies* of particular types of environmental impacts, economic sectors or geographical regions could be conducted.
- *Assessment of regulatory effects* could be undertaken to determine the legal and policy implication of using different environmental policy approaches or regulations with reference to the trade agreement concerned.

In examining the diversity of approaches, the OECD notes that that computable general equilibrium (CGE) models, including the Global Trade Analysis Project (GTAP), with an environment sub-mode, partial equilibrium models and extended domestic resource cost approach—are comprehensive models for policy assessment. Nevertheless, it points to the need to consider incorporating additional variables such as costs of abatement, technology transfer, feedback, transition costs, regulatory policy impacts (technology and pricing) and

¹⁵ See, for example, UNEP (2001) *Reference Manual on the Integrated Assessment of Trade Related Policies* for a compilation of the many approaches and methodologies available for assessment. A Handbook that focuses on the agricultural sector is currently being developed and will be consulted as appropriate.

¹⁶ This brief survey is based in part on analysis undertaken by the author, some of which appears in the WWF’s Background Report for the International Experts Meeting on Sustainability Assessment of Trade Agreements held in Quito, Ecuador in March 2000. The background report contains a comprehensive, comparative analysis of the major methodologies for undertaking sustainability assessment of trade agreements. It should be noted that among the institutional and government-led approaches to assessment, only the efforts of the EU, and the WWF adopt approaches that include indicators of sustainability in the measurement of impacts of trade liberalisation. Unlike the EU and WWF methodologies, the OECD methodology is designed for conducting environmental review of trade policies and agreements. The CEC framework is also ultimately concerned with environmental change associated with trade liberalisation. Similarly, the two national governments with formal approaches to environmental review and assessment, the United States and Canada, respectively, focus exclusively on environmental impacts.

¹⁷ OECD (1994) *Methodologies for Environmental and Trade Reviews*. OCDE/GD(94)103. Paris: OECD. In addition to considering the OECD methodologies, attention will be paid in developing the approach and the workplan, to the OECD’s *Checklist for Issues for Ex Ante Environmental Assessments of Trade Liberalisation*. COM/TD/ENV (2001) 42/Final. Paris: OECD.

public sector's potential to raise revenue. It suggests that models that allow for a bottom-up approach (focusing on domestic circumstances and firm level data) are particularly valuable.¹⁸ The OECD's more recent methodology to assess the environmental impacts of services trade adopts a similar approach.¹⁹

A similar approach is also taken by NAFTA's Commission for Environmental Co-operation (CEC).²⁰ The CEC framework to assess the effects of NAFTA on the environment can be applied using qualitative or quantitative evidence, through case studies or formal economic and/or ecological modelling techniques. Major variables in the framework include legal, economic, institutional, social (as related to the environment), political and environmental factors. The framework is most readily applied using qualitative and selected quantitative methods. The former, based largely on specialised interviewing techniques and even anecdotal data, are considered particularly useful for examining legal, institutional, technological and social factors, as well as components relating to management, production, and policy. A reliance on existing quantitative material is considered most useful to identify trade and investment flows, physical infrastructure and environmental change.

The framework concedes that partial or general equilibrium models of the economy, based only on quantitative methods, are still of limited use for assessing NAFTA's environmental effects—that is, relating economic change to environmental factors. While some work is available correlating sectoral changes in trade and investment with the pollution intensities of those sectors, such analyses do not incorporate important differences in production and technology among the three NAFTA countries. Nevertheless, the CEC notes that some partial equilibrium (PE) models show promise in their application to specific variables in the analysis. For example, PE models have been successful in showing ways in which changing agricultural trade is affected by macroeconomic forces. The assessment of trade flows can be ascertained by using quantitative data where it is available. Combined with other variables in the framework, these models can trace and produce a relatively accurate account of NAFTA-induced changes in trade flows to begin to generate the economic effects of the trade agreement from which the remaining analytical elements of the framework follow.

The 1999 methodology developed by the World Wide Fund for Nature [WWF (1999)] relies principally on a qualitative evaluation of impacts based on questions and checklists.²¹ For each trade-related impact, the methodology suggests the following variables be assessed at both the product and the sectoral level: (i) export/import patterns, (ii) production/consumption patterns, and (iii) technological patterns. The methodology also acknowledges that economic modelling is one of a number of tools available to assess likely economic impacts of trade liberalisation. However, WWF warns that greater research is needed to improve the applicability and relevance of models in terms of providing decision-makers at the national and international levels with early and clear indications of possible environment and social effects. In particular, the framework suggests caution for the following reasons:

- Methodological uncertainty surrounding efforts to isolate the impacts of trade on the environment from other variables.

¹⁸ OECD (2000) *Methodologies for Environmental Assessment of Trade Liberalisation Agreements*, Report of the OECD Workshop on Methodologies for Environmental Assessment of Trade Liberalisation Agreements, 26-27 October. Paris: OECD.

¹⁹ OECD (2002) *Assessing the Environmental Effects of Services Trade Liberalisation: A Methodology*. Joint Working Party on Trade and Environment. Paris: OECD.

²⁰ Commission for Environmental Co-operation (1999) *Assessing Environmental Effects of the North American Free Trade Agreement (NAFTA): An Analytic Framework (Phase II and Issue Studies)*, Montreal: CEC.

²¹ World Wide Fund for Nature (1999). *Initiating and Environmental Assessment of Trade Liberalisation in the WTO (Vol. II)*. A WWF International Discussion Paper. Gland: WWF International (March).

- Models are constructed on the basis of a number of macro-economic assumptions such as perfect competition, substitutability of productive factors and commodities, production based on constant returns to scale technology, which do not necessarily reflect present day economic realities.
- Models remain “macro-economic” models and they are, therefore, insufficient to capture more specific/local environmental impacts, which may be less obvious than standard pollution effects.
- Lack of data on developing countries renders the modelling exercise difficult and incomplete.

The most recent work on sustainability assessment of trade liberalisation undertaken by WWF International, in conjunction with WWF-US, emphasises the utility of undertaking analysis based in the first instance on sustainability priorities. It also emphasises public participation as a key component of a sustainability assessment.²²

Consistent with the approaches of other major institutions, the approach that has been adopted by the EU suggests the use of a number of qualitative and quantitative tools, including case studies. The EU’s *Further Development of the Methodology for a Sustainability Assessment of Proposed WTO Negotiations* focuses on the application of a causal chain analysis (CCA), in conjunction with other analytic methods including modelling methods data-based (statistical estimation) methods, descriptive (case study) methods and expert opinion. A comprehensive discussion of the approaches taken in EU SIA’s including the recent EU-Chile SIA, as well as ongoing work surrounding the WTO negotiations, will be developed in the Mid-Term Report. This will provide the basis for further work on this project. The Mid-Term Report will indicate how and why the approach to assessment appropriate for ACP countries may (or may not) diverge from these established assessments. Given the breadth of the Cotonou Agreement, and the potentially numerous dimensions of prospective EPAs reflecting the diversity in issues and priorities among the various countries and regions represented in the ACP, the methodologies employed in this SIA will endeavour to be flexible and adaptable.

It is expected that, consistent with much of the work in this field, the methodology adopted for the Preliminary SIA of the ACP-EU EPAs will involve forms of causal chain analysis (CCA). This analysis, incorporating relevant techniques, will identify and, where possible, correlate changes in trading rules and flows with potentially significant economic, environment, social and governance impacts. The analysis will be undertaken for scenarios (to be determined) related to the individual trade measures.

In the first instance, an effort will be made to determine the economic impacts of trade-related issues that will be included in the negotiations. This can be done using a range of qualitative and quantitative techniques. The Project Team has established the availability of modelling for the Preliminary SIA and the Regional SIAs to determine the economic impacts of phasing out the agricultural protocols, moving to zero tariffs, and examining different negotiating scenarios in the WTO. Modelling can also be useful with respect to policy related issues including the impact of changes in the composition of the EU on the ACP EPAs as well as prospective reform of the CAP. Further efforts to model key economic impacts or socio-economic impacts (such as demographics) will be identified as the study progresses.

Where modelling is not feasible, the economic impact analysis will rely on a comprehensive qualitative assessment based on available data on trade flows and trends, investment stocks and flows, detailed assessments of the economic impacts of rules changes, the relevance of conditioning macroeconomic and microeconomic factors and other issues that are deemed relevant.

²²WWF. “Balanced Process, Balanced Results: How to Get There. Critical Elements for Sustainability Assessment.” WWF Position Statement. September 2002; WWF. “An Effective Multistakeholder Process for Sustainability Assessment: Critical Elements.” WWF Position Statement, September 2002.

The analysis of environmental, social and governance impacts will rely primarily on qualitative analysis, given the difficulty of modelling linkages between economic change and environmental, social or institutional change, and taking into account the regions under investigation where data, and particularly good time-series data, might not be readily available. Where there are direct social or environmental impacts that result from the EU-ACP EPAs these will be described thoroughly identifying the process by which the social impacts are felt (i.e., through aid and development assistance etc.).

Where there are indirect social or environmental impacts that result from the EU-ACP EPAs these will be identified through a detailed causal chain analysis that attempts to correlate trade-induced economic change with environmental, social or institutional impacts. This will build on efforts undertaken by the many organisations working on these issues (such as the OECD) as well as existing EC SIAs. A number of processes have been identified to facilitate such an analysis. These include impacts of structural changes in the economy, the impacts of changes in trade flows with respect to specific products, technology effects, and scale effects. The analysis will also consider regulatory effects and the impact of trade on countries' ability to regulate for environmental and social protection, as well as the independent capacity of countries to regulate to these ends.

(d) Conditioning Factors

There are a number of conditioning factors that need to be taken into account based on the specific nature of the issues, countries and regions involved. Where necessary, the analysis will endeavour to take into account and control for, independent effects that are generated by these and other conditioning factors that could influence the findings of an SIA.

i. International Trade and Co-operation Context

The ACP-EU trade negotiations will not take place in isolation. Not only are there provisions related to the prior regime governed by the Lomé Conventions that remain in place and need to be taken into account, but a number of ACP countries, and the EU are actively involved in other for a governing regional and international trade ranging from the World Trade Organisation (WTO) and the Free Trade Area of the Americas (FTAA).

Within the existing EU-ACP relationship, there are issues that should be taken into account in an analysis that looks at changes in trade such as the phase out of the commodity protocols. The Lomé Conventions introduced separate trading protocols on sugar, beef and veal, bananas, and rum. Although the Protocol on Rum is now terminated, the other three will exist until 2008. During the summer of 2002 Australia and Brazil initiated a complaint to the WTO alleging that this EU sugar regime was incompatible with the Agreement on Agriculture, GATT 1994, and the Agreement on Subsidies and Countervailing Measures. Actions such as these could subject the EU to an accelerated time frame for phasing out the Sugar Protocol than now exists and could impact upon EU-ACP trade in sugar.

At the WTO comprehensive negotiations are underway on Agriculture and Services, both issues that will be the subject of discussions in the context of the EU-ACP EPAs. The Doha mandate also included provisions related to regional trade agreements (RTAs) and issues of "WTO compatibility" might be relevant in an examination of EU-ACP EPAs.

These negotiations are expected to conclude by 2005 and depending on their outcome, could impact RTAs such as those developed or implemented by the West-African Economic and Monetary Union (UEMOA²³) or the Southern African Development Community (SADC). The EPA negotiation process should also be cognisant of other RTAs including both ACP and

²³ L'Union Economique et Monétaire Ouest Africaine.

non-ACP countries such as the *Free Trade Area of the Americas* (FTAA), which includes the countries of the Caribbean, and the *Common Market for Eastern and Southern Africa* (COMESA). In Africa alone there are ten distinct regional and sub-regional economic co-operation groupings (see also diagram in **Annex D**).

There are particular elements associated with specific trading arrangements that might be necessary to take into account in an SIA of specific issues for inclusion in an EPA. For example, any discussions related to fibres and textiles should consider the impact of the phasing out of the Multi-fibre Agreement (MFA, **Box 2** below) that was negotiated under the General Agreement on Tariffs and Trade (GATT).

Box 2: Phasing out the MFA

The Multi-fibre Agreement is an internationally agreed derogation from GATT rules that allows an importing signatory country to apply quantitative restrictions on textile imports when it considers them necessary to prevent market disruption, even when such restrictions would otherwise be contrary to GATT rules. The objective of the MFA is to reconcile the interests of textiles-exporting and textiles-importing countries by permitting an orderly expansion of trade while avoiding market disruption. This global system of bilateral textile and apparel quotas that comprise the MFA is scheduled to come to an end. Under the Uruguay Round agreement, countries agreed to eliminate the MFA quotas in phases beginning on 1 July 1995 and ending on 1 July 2005. Following this 10-year transition period rules on textile trade will be fully integrated into those of the WTO.

ii. Macroeconomic and Microeconomic Context

In considering the sustainability impacts of the prospective EPAs, it is important to take into account the other macroeconomic and microeconomic conditions that affect trade and flows of foreign direct investment (FDI). Among the most important variables to consider are: domestic macroeconomic forces (such as inflation and interest rates, government debts and deficits, for example); microeconomic changes in each economy (such as processes of deregulation and privatisation, for example); and major fluctuations from international forces (such as exchange rates and balance of payments deficits, for example).

In particular, an important conditioning factor related to a number of ACP countries is the major role of the “informal sector” in their economies. This central role of the informal sector has diverse consequences, the most important one probably being the net loss of fiscal revenue for the national states. One of the objectives followed by the European Union through the EPA negotiations is to contribute to the creation of the conditions for substituting the informal economy by a rules-based economic system.²⁴ This will require transparent state revenue to develop the necessary regulatory framework and might be helped by the regional integration of ACP countries. As far as the SIA process is concerned, the existence of such a large informal sector in the economy limits the potential benefits of economical modeling studies, as, by definition, the impact of the informal sector and its potential incorporation into the rules-based economy cannot be modeled.

Furthermore, corruption is perceived as playing an important role in several ACP economies²⁵ and its potential impact on investment and trade - although very difficult to model²⁶ - should be taken into account, as far as possible, as an important conditioning factor for the SIA.

²⁴ EU, *Orientations on the qualifications of ACP regions for the negotiation of economic partnership agreements*, <http://europa.eu.int/comm/trade/pdf/acp2.pdf>

²⁵ According to Transparency international's corruption perception index Transparency International (2002).

iii. Data Availability

There may be additional limits placed on the ability of researchers in this instance to undertake sophisticated modelling of proposed scenarios that might occur under the EPAs. Where data is available, attempts will be made to provide quantitative information to illustrate trade flows, changes in trade flows, investment levels and other issues related to the economic impacts of trade liberalisation. In many cases, identifying sustainability impacts associated with those changes may well rely on standard qualitative methods based on social science methods including research, interviews and other techniques.

iv. Domestic Policy Initiatives

In addition to domestic macroeconomic policies and the international trade context, issues such as domestic policy reforms unrelated to the negotiations of ACP trading arrangements should be considered as important contextual elements in an SIA. For example, in the EU at present there are important ongoing issues of policy that include the likely reform of the Common Agricultural Policy (CAP) between 2002 and 2006 and the ongoing process of EU enlargement. On 12 and 13 December 2002, the Copenhagen European Council concluded accession negotiations with Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia. The objective is that the first group of new members should join the EU in time for the elections to the European Parliament scheduled for June 2004. Therefore, before the end of the EPA negotiations, the EU will probably represent 25 member countries instead of 15 as today.

v. Role of Least Developed Countries (LDCs) in the ACP

The ACP includes 39 countries that fall within the United Nations' definition of least developed countries (LDCs, **Box 3**). This status is reflected in the content of the Cotonou Agreement including through its emphasis on capacity building and poverty alleviation. It also impacts existing trading regimes. For example, given their characterisation as LDCs, these countries have, independently of their membership in ACP or special association with Europe, benefited recently from an EU resolution putting in place a Generalised System of Preferences (GSP) applicable to all LDCs. Under this GSP quotas and duties on all products except arms from the world's 48 poorest countries.²⁷ As of 5 March 2001 European duties and quotas were eliminated from most products. However, a transition period is put in place with respect to sugar, rice, and bananas.

²⁶ An attempt to quantify the impact of corruption on the cost of capital has been made in: PwC (2001) *The Opacity Index*

²⁷ Council Resolution (EC) No. 4165/2001 of 28 February 2001. There are 48 LDCs on the UN list of which the following 39 are ACP countries: Sudan, Mauritania, Mali, Burkina Faso, Niger, Chad, Cape Verde, Gambia, Guinea-Bissau, Guinea, Sierra Leone, Liberia, Togo, Benin, Central African Republic, Equatorial Guinea, Sao Tome and Principe, Democratic Republic of Congo, Rwanda, Burundi, Angola, Ethiopia, Eritrea, Djibouti, Somalia, Uganda, Tanzania, Mozambique, Madagascar, Comoros, Zambia, Malawi, Lesotho, Haiti, Solomon Islands, Tuvulu, Kiribati, Vanuatu and Samoa.

Box 3: LDCs in ACP

- Over 50 per cent of the ACP Group countries are least developed countries
- Over 60 per cent of the ACP Group population live in least developed countries.
- Of 46 sub-Saharan African countries only 13 are non-least developed

Even after 2008 not all ACP countries will have to open their own markets to EU products. The least developed (LDCs) will not have to reciprocate and will continue to enjoy a Generalised System of Preferences (GSP) introduced by EBA, which is non-reciprocal and less generous than Lomé. Non-LDCs who “decide they are not in a position” to enter into EPAs could also be transferred into the GSP, or may benefit from as yet undefined “alternative arrangements” (ECDPM, 2000). Any analysis considering changes in trade rules should take into account those areas where ACP countries might be subject to different rules vis-a-vis the EU based on their status as a LDC.

(e) Identifying Mitigation and Enhancement Measures

The Preliminary SIA will also endeavour to provide a limited analysis of mitigation and enhancement measures (M&E) that might be appraised later in the SIA process. The EU has recognised that trade policies or agreements can have potentially wide ranging effects on the economy, social development and the environment and that these impacts can be positive and negative for sustainability. The purpose of the in-depth SIA is to assess the sustainability impacts of trade agreements, with the active participation of civil society, to contribute to the integration of sustainability into trade policy. One mechanism for doing this is contributing to the research and policy efforts of the EU and its negotiations to encourage the development and pursuit of negotiating positions that will promote sustainability in the EU and the countries of the ACP. This includes defining and elaborating trade-related measures. It also includes defining and elaborating non-trade-related measures or non-trade related mitigation and enhancement measures to accompany EPAs to ensure that the outcomes of the negotiations contribute to sustainable development. Mitigation and enhancement measures should be designed to prevent, or mitigate, any potential negative impacts of the EPAs on sustainability, or promote positive impacts.

The range of M&E measures for inclusion in this SIA will therefore be trade related in some cases, and in some cases may not be so closely related to trade. In selecting M&E measures a degree of flexibility is also required to allow for the identification of policies to be implemented in the short, medium and longer terms. In some instances M&E measures might be implemented over the medium and longer term, particularly those designed to maximise the potential benefits brought about by the EPAs. In other cases, particularly in situations where significant adverse impact is identified, swift remedial action might be required. Additional variables that should be considered when identifying appropriate M&E measures might also include the range of instruments available including command and control, market based instruments or voluntary action.

The SIA Methodology for the WTO Negotiations (Phase III) includes the following criteria for the selection of M&E measures:

- Impact on sustainable development;
- Cost-effectiveness; and,
- Feasibility.²⁸

²⁸ Kirkpatrick, C. and Lee, N. 2002 (2002).

Additional criteria that may be considered in the context of an in-depth SIA include: flexibility, enforceability (closely linked to feasibility), transparency/fairness and equity, policy compatibility and political acceptability. The range of, and criteria for, identifying, appropriate M&E measures will be developed in a preliminary way during Phase One of the EU-ACP EPA SIA.

4. Preliminary SIA: Toward the Mid-Term and Final Reports

Following the approach described in the previous sections, and based on the long-list of trade issues presented in **Table 4**, the developments described below will occur in this SIA between January and July 2003.

(a) Work to be performed towards the mid-term report (January-March 2003)

- **Detailed screening for the preliminary SIA of EU-ACP EPAs.** This involves finalising the range of trade-related items for inclusion in the SIA, in conjunction with the EU, and using the results of any stakeholder input.
- **Preliminary scoping.** Begin scoping each negotiation issue for inclusion in the SIA. This involves undertaking a detailed analysis of key economic²⁹, environmental and social impacts that are related to that issue, selecting relevant indicators and selecting methodological approaches for undertaking the SIA with respect to each issue that is identified in the screening process. In the mid-term report, a description will be included with respect to the state of play underway and main outcomes regarding this process.
- **Further elaboration of the methodology (Draft).** This involves developing a detailed outline of the ways in which the methodology outlined in Phase One and Two of the SIA of the proposed WTO negotiations will be adapted and for the purposes of the EPA SIA. It will include, as key background material, a close examination of the methodology employed in the context of the Chile/Mercosur and GCC SIAs and in the context of the WTO SIA Phase III.

For the screening and preliminary scoping exercise, our analysis will focus on the three major regional groupings of countries: the Caribbean, Africa and the Pacific. Within these broad groupings, smaller sub-groups may be identified during the preliminary SIA, as appropriate, for further in-depth analysis at a later stage in the project.

²⁹ The possibilities to use economic modelling and their potential role in this process are described in a dedicated section (see section 4e).

(b) Outline of content of mid-term report

As required by the terms of reference for this project, the mid-term report will summarize the work that has been undertaken in the course of the preliminary SIA for the ACP region and its principal outcomes.

Moreover, it will outline the approach to be taken for the regional in-depth assessments for the two pilot regions: West Africa (covered by ECOWAS plus Mauritania) and the Caribbean (covered by CARIFORUM), based on the findings of the overall preliminary assessment for the ACP region.

In particular, our **mid-term report** will contain the following elements:

- **Implementation of the methodological approach:** a summary of the process by which the methodology described in the inception report has been implemented. In particular, this will include a comprehensive discussion of the approaches taken in EU SIA's including the recent EU-Chile SIA, as well as ongoing work surrounding the WTO negotiations. This will include an assessment of how and why the approach to assessment appropriate for ACP countries may (or may no) diverge from these established assessments.
- **A critical review of existing economic modelling studies available to date.** Our review will focus on the following: (a) results and conclusions of existing studies (b) assumptions and working hypothesis (c) shortcomings due to lack appropriate data and will provide recommendations how the authors conclusions may guide the Consortium's approach to economic impact assessment in the context of this SIA. In the light of these conclusions, decisions on further economic modelling to be undertaken for this SIA will be made³⁰.
- **A description of the main trade features** of the EU-ACP relationship (as a scene setting for the SIA) for all trade fields (market access, agriculture, FDI...) with quantitative references.
- State of play of study underway, main outcomes regarding the tasks as described under A1 in the terms of reference (see **Annex A**), and in particular, for each of the **trade issues for negotiation**, a description of the results of our analysis of key economic, environmental and social impacts that are related to that issue and relevant indicators.
- Information on communication and consultation activities:
 - ✓ Update of the web site and links to other web sites. Number of hits.
 - ✓ Consultations and dialogue with the stakeholders as described under B: summary of comments and suggestions received (via e-mail, web site comment function, ordinary mail, meetings etc.) and the uses made of these.
 - ✓ Development of a network of ACP-SIA experts: contacts undertaken, information supplied and comments received.
- The way ahead to complete the study, questions, methodological issues

The mid-term report will also provide an indication of steps that will be taken to develop the final report.

³⁰ A dedicated section below provides further information about economic modelling activities within this project.

(c) Work to be performed towards the final report (April 2003-July 2003)

Our aim is to provide a qualified preliminary assessment of the negotiations of EU-ACP EPAs. This will include an examination and overview of the potential economic, environmental and social impacts of these negotiations.

- **Detailed Scoping for the Preliminary SIA of EU-ACP EPAs.** This involves providing a preliminary overview of the potential impacts on sustainability (in ACP countries, the EU and third countries) of the proposed policy measures. This analysis will integrate the results of studies on the potential impact of EPAs carried out by ACP countries and regions, of research and analysis on economic integration by the respective ACP Regional International Organisation and of the research by international organisations, such as WWF and UNEP.
- **Detailed Elaboration of the Methodology (Final).** This involves refining and adapting for the purposes of the EPA SIA, the methodology which has been outlined in Phase One and Two of the SIA of the proposed round of WTO negotiations and in a recent methodological study. Building in the draft report, the work will focus on the adaptation of the methodology to the requirements of the ACP countries and regions and notably the development context of the EPA negotiations. It will include the characterization of tools for assessment, a description of the methodological framework of the causal chain analysis, and the definition of additional indicators to measures sustainability. A description of the overall methodological framework which will be used for the sectoral and regional assessments that follow will be set out.
- **Identification of Key Issues for Further Assessment.** This involves the identification of those economic sectors, regions and sub-regions, countries, areas of trade policy and key sustainability issues, which should be submitted to detailed assessment at the next stage of the process. In particular, this assessment will include:
 - ✓ The regions, sub-regions or countries for which the sustainability impacts should be assessed;
 - ✓ The economic sectors which should be assessed;
 - ✓ The areas of trade policy (e.g. competition, investment, SPS and TBT policies);
 - ✓ The criteria by which the significance of the sustainability impacts are to be assessed;
 - ✓ The time horizons over which the impacts should be assessed.

(d) Outline of content of final report

As required in the terms of references for this project (see [Annex A](#)), our final report will cover the following elements:

- An executive summary intended for use by non-specialists (e.g., negotiators and policy makers) and a technical summary intended to experts and all other interested stakeholders;
- The methodology used for the assessments;
- The outcomes and results of the assessments of both the preliminary and the regional SIAs;
- Communication actions, Consultation activities;
- Conclusions;
- References and key sources.

(e) The role of economic modeling in our approach

(i) *A critical review of existing modelling studies*

Due to several conditioning factors outlined in previous sections of this report (i.e., data availability, importance of the informal sector, lack of information about likely scenarios, etc.) and which are specific to this SIA and the ACP group of countries, the Consortium's ability to provide relevant economic modelling within this SIA is severely restricted within Phase 1. However, the Project Team is currently in the process of thoroughly reviewing what type of modelling activities can, and should be undertaken in the course of this SIA.

At this stage, we have decided to concentrate our efforts on a thorough critical review of existing economic modelling studies on ACP countries. This critical review will not only look at results and conclusions of these studies but also include an analysis of the various working hypotheses and underlying assumptions used, the types of data sources used and the potential linkages between assumptions, data and results.

We expect this analysis to yield insights on the use of economic modelling going forward, which will guide our approach to further economic modelling within this SIA, and in particular the regional SIAs³¹. This review will be included in the project's mid-term report.

(ii) *Further options for economic modelling in the preliminary SIA*

Furthermore, we have identified a short list of options for consideration, which could be explored further using modelling techniques. However, most of the options presented below are still under discussion within the consortium and we would like to seek input from the Commission and other stakeholders on these options.

For the preliminary SIA, five optional issues and related scenarios at the "all ACP" level have been identified. It should be noted that these scenarios have not been chosen for their likelihood nor because the consortium considers them as options for the negotiations. The following three criteria have guided our choice:

- Available data and modelling techniques will allow relevant simulations to be performed;
- The issues are "inspired by the context of the negotiation";
- These issues might have a considerable impact on the economic and development partnership between EU and ACP countries.

Examples of scenarios that could be simulated with the Consortium's modelling capabilities for the preliminary SIA are the following:

- Scenario (a): Impact of phasing out of the Protocols [the banana case to be confirmed]
- Scenario (b): Impact of lowering all tariffs down to 0% in all EU and ACP countries
- Scenario (c): Impact of the EU enlargement on the EU and ACP countries
- Scenario (d): Impact of the CAP reform on EU and ACP countries
- Scenario (e): Impact of the WTO new round of negotiation [still under discussion]

We are aware of the fact that these scenarios represent "extreme situations" that caricature the reality of the negotiation process. However, we expect that their simulation will provide global trends associated with the hypotheses that might also provide relevant insights for the in-depth SIA, and in particular on variables such as: production by sector, bilateral trade-flows by sector, investment, prices changes, wages, income, public finance outcomes, welfare and GDP.

³¹ This literature review and might also be submitted for comment to a peer reviewer (i.e., an independent specialist on modelling).

For most of these scenarios (excluding scenario (e) which hasn't been finalised yet), the model will use three major geographic areas as aggregated variables: EU15, ACP, and Rest of the World. Desegregation of data by activity will vary depending on the scenario and a maximum of 10-15 industry sectors can be simulated in order to keep the results intelligible and relevant for use in the SIA. Furthermore, detailed description of these scenarios (including the hypothesis used for the simulation, the data availability, the causal chains simulated by the model, etc.) can be provided. These detailed scenarios will be discussed with the Commission might also be made available for stakeholder input and comments on the Consortium's website.

If some of the proposed options were to be considered for further analysis, a detailed presentation of modelling and some preliminary results for all these scenarios can already be made available for inclusion in the mid-term report.

(iii) Further options for economic modelling in the regional SIAs

For the two regional in-depth SIAs, the consortium has reviewed the data availability in West Africa and the Caribbean region and it appears that available data we have identified at this stage is not compatible with the focus of the regional SIAs. Only aggregated data is available and the level of aggregation is broader than the selected target regions for pilot studies:

- In the case of West Africa, only aggregated data for sub-Saharan Africa is available³². Country data is available for selected countries (see **Box 4** below).
- In the case of the CARIFORUM, only aggregated data for Caribbean and Latin America³³ is available. Not all CARIFORUM members are included in the aggregate and inclusion of Latin American countries would distort the results to a large extent.

Given these data limitation, we are not yet convinced of the relevance of economic modelling for the regional SIAs. Until new data become available, the Consortium thus decided not to develop its own simulation for the two selected regions (unless the Commission explicitly requests us to do so).

However, we hope that stakeholder consultation and expert networking might provide us further information about available data and existing economic modelling studies for consideration, which might lead us to revise the proposed approach.

³² Aggregate data includes the following countries: Benin, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Congo/Zaire, Cote d'Ivoire, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Liberia, Madagascar, Mali, Mauritania, Mayetta, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, Sudan, Togo

³³ Aggregate data includes the following countries: Anguila, Antigua & Barbuda, Aruba, Bahamas, Barbados, Belize, Cayman Islands, Costa Rica, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Haiti, Honduras, Jamaica, Netherlands Antilles, Nicaragua, Panama, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago, British Virgin Islands

Box 4: Sub-Saharan African countries for which economic modelling data (at country level) is available to the Consortium for the following countries:

- Botswana
- Rest of South African Customs Union
- Malawi
- Mozambique
- Tanzania
- Zimbabwe
- Zambia
- Other Southern Africa
- Uganda
- Rest of Sub Saharan Africa

NOTE: We can also have access to some detailed household surveys and food security data for some of these countries such as Malawi, South Africa.

Annexes

Annex A: Terms of reference

SPECIFIC AGREEMENT NO 1 UNDER FRAMEWORK CONTRACT TRADE 02-F3-02

October 2002

Preamble

This annex specifies the tasks, activities and reporting which will be carried out during this specific agreement.

The precise management of each specific project, work orientations, and the allocation of agreed expert time between the various tasks will be set out in the inception report to be agreed by the Commission (see deliverables below).

Requirements and timetables defined by the Commission must be strictly respected by the contractor.

The aim of this specific agreement is

- to provide a qualified preliminary assessment of the negotiations of ACP-EC Economic Partnership Agreements (EPA negotiations). This should include an examination and overview of the potential major economic, environmental and social impacts of these negotiations.
- to provide an in-depth sustainability impact assessment of the EPA negotiations on two ACP regions, West Africa and the Caribbean.

A. Main tasks and services

A.1 The preliminary SIA

This SIA will cover both the all-ACP level and the regional level of the EPA negotiations. In this context the main task will be

- to provide an overview of the potential impacts on sustainability (notably in the ACP countries but also in the EU and third countries) of the proposed policy measures, based on the approach decided by both parties in the preparation phase for EPA negotiations (EC negotiating mandate, ACP negotiating guidelines, information on which will be provided by the Commission). This analysis will integrate the results of studies on the potential impact of EPAs carried out by ACP countries and regions, of research and analysis on economic integration by the respective ACP Regional Integration Organisations and of the research by international organisations, such as WWF and UNEP.

- to refine and adapt for the purpose of the EPA SIA the methodology which has been outlined in Phase One and Two of the SIA of a proposed round of WTO negotiations and in a recent methodological study. Similarly, the methodology of comparable, ongoing SIAs initiated by the Commission, for example in the context of the Chile, the Mercosur the GCC negotiations and in the context of the WTO SIA phase III should be analysed carefully. This work should focus on the adaptation of the methodology to the requirements of ACP countries and regions and notably the development context of EPA negotiations. This will include the definition of additional indicators to measure sustainability. A description of the overall methodological framework which will be used for the following sectoral and regional assessments will be set out.
- to identify those economic sectors, regions, sub-regions, countries and areas of trade policy which should be submitted to detailed assessment at the next stage in the process. In particular, this assessment will include:
 - the regions, sub-regions or countries for which the sustainability impacts should be assessed
 - the economic sectors which should be assessed
 - the areas of trade policy, (e.g. competition, investment, SPS and TBT policies, etc.)
 - the scenarios to be analysed in the detailed assessment.
 - the criteria by which the significance of the sustainability impacts are to be assessed.
 - the time horizons over which the impacts should be assessed.

A.2 The regional assessment of West Africa and the Caribbean

This SIA will comprise W-Africa (covered by ECOWAS plus Mauritania) and the Caribbean region (covered by CARIFORUM). In this context the main task will be

- to assess in depth the potential impact of EPA negotiations in these two regions. The quantitative and qualitative assessments will be based on and linked to the work done under the Preliminary SIA (task A.1). The regional SIAs will in particular include a comprehensive consultation process with the major stakeholders in the regions and case studies on specific sensitive sectors, policy areas, sub-regions and countries.
- to suggest trade policy and flanking measures which might be integrated into the regional negotiations to best maximise the positive impact of further economic integration / liberalisation / changes in rule-making and/or to minimise negative impacts. This will include an assessment of the various options for mitigating and enhancing measures, including those which could be introduced on a national, regional level and in the multilateral context. One purpose of this exercise is essentially to help Commission experts and stakeholders to identify an optimum policy mix towards the two regions with a view to a sustainable implementation of a future regional EPA.

B. Development of the consultation process

The work of the consultant will include a comprehensive consultation process by which all stakeholders, including regional organisations, ACP representatives, civil society and business representatives, can provide inputs into the SIA process. The organisation of this consultation process will be outlined in the inception report.

Proposals could include:

- interest/use of networks with constituencies/SIA experts
- organisation of meetings
- use of electronic means
- feedback process and quality control of the consultations.

For each issue the consultant will make practical proposals, taking into account comments made by the stakeholders.

C. Working meetings

The Contractor will attend meetings in Brussels with Commission officials. These will include: presentations and explanations by the Contractor of work completed, further information from the Commission on negotiating developments and discussion of future work and the specific sectors to be assessed.

D. Public meetings:

The contractor will participate in public meetings organised by the Commission (involving representatives of Member States, the European Parliament and Civil Society). It will present and explain work completed and provide the opportunity for interested stakeholders to provide direct input.

E. Electronic documentation

The contractor will maintain a web-site dedicated to the above project, with a link to the DG Trade web-site. All reports and outputs presented to and approved by the Commission will be published by the contractor on this web-site. The web-site should incorporate a feedback function allowing all interested parties to provide input. Number of visiting hits and e-mail inputs must be recorded and mentioned in the final report.

Annex B: List of the ACP countries and maps of the three main regions

List of ACP countries

Angola	Antigua and Barbuda	Bahamas (The)	Barbados
Belize	Benin	Botswana	<u>Burkina Faso</u>
<u>Burundi</u>	Cameroun	Cape Verde	<u>Central African Republic</u>
<u>Chad</u>	Comoros	Congo (Brazzaville)	Congo (Kinshasa)
Cook Islands	Côte d'Ivoire	Cuba	Djibouti
Dominica	Dominican republic	Equatorial Guinea	Eritrea
<u>Ethiopia</u>	Fiji	Gabon	Gambia
Ghana	Grenada	Guinea	Guinea-Bissau
Guyana	Haiti	Jamaica	Kenya
Kiribati	Lesotho	Liberia	Madagascar
Malawi	Mali	Marshall Islands	Mauritania
Mauritius	Micronesia, Federal States of	Mozambique	Namibia
Nauru	Niger	Nigeria	Niue
Palau	Papua New Guinea	Rwanda	Saint Kitts and Nevis
Saint Lucia	Saint Vincent and the Grenadines	Samoa	Sao Tome and Principe
Senegal	Seychelles	Sierra Leone	Solomon Islands
Somalia	South Africa	Sudan	Suriname
Swaziland	Tanzania	Togo	Tonga
Trinidad and Tobago	Tuvalu	Uganda	Vanuatu
Zambia	Zimbabwe		

Table 9 - Member countries of the ACP group. **Bold-Italic** correspond to Least Developed Countries. Undeligned correspond to landlocked ACP states.

Detailed maps of the ACP regions



Figure 3 – Map of African countries from the ACP group



Figure 4 – Map of Caribbean countries from the ACP group

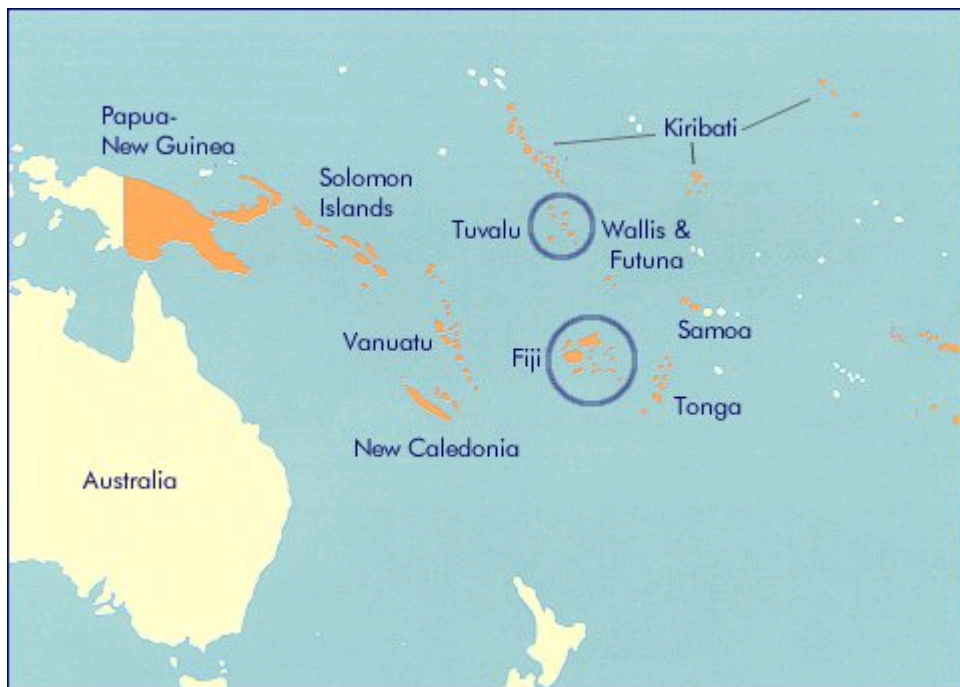


Figure 4 –Map of Pacific countries from the ACP group

Annex C: Key EU-ACP trade figures

EU import from ACP countries / EU exports to ACP countries

Imports					
Partners	1995	1999	2000	Share in extra EU-15 imports	
	(Mio ECU/EUR)			(%)	
Total	19 893	32 566	43 277	4.2	
<i>of which</i>				Share in total EU-ACP	Cumul of shares
South Africa	-	10 700	14 446	33.4	33.4
Nigeria	3 443	2 795	6 411	14.8	48.2
Ivory Coast	2 068	2 080	1 960	4.5	52.7
Cameroon	1 175	1 320	1 711	4.0	56.7
Angola	561	769	1 530	3.5	60.2
Mauritius	1 020	1 157	1 204	2.8	63.0
Ghana	839	1 186	1 159	2.7	65.7
Gabon	799	1 023	1 034	2.4	68.1
Congo (Dem. Rep.)	842	876	1 026	2.4	70.4
Kenya	647	840	822	1.9	72.3

Exports					
Partners	1995	1999	2000	Share in extra EU-15 exports	
	(Mio ECU/EUR)			(%)	
Total	17 573	31 514	38 238	4.1	
<i>of which</i>				Share in total EU-ACP	Cumul of shares
South Africa	-	9 731	11 687	30.6	30.6
Nigeria	2 054	3 004	3 853	10.1	40.6
Liberia	1 240	734	2 076	5.4	46.1
Ivory Coast	1 187	1 400	1 423	3.7	49.8
Ghana	744	1 110	1 252	3.3	53.1
Dominican R.	341	672	1 163	3.0	56.1
Gabon	719	1 127	1 111	2.9	59.0
Senegal	715	999	1 025	2.7	61.7
Angola	800	841	1 012	2.6	64.3
Bahamas	523	878	985	2.6	66.9

Table 10 - Main EU trading partners (EUROSTAT, *Statistics in focus*, Theme 6 - 3/2002)

Imports from ACP to EU countries / Exports from EU countries to ACP

	Imports				Exports				Balance		
	1998	1999	2000	Share in total 2000	1998	1999	2000	Share in total 2000	1998	1999	2000
	(Mio EUR)			(%)	(Mio EUR)			(%)	(Mio EUR)		
EU-15	31 153	32 566	43 307	100.0	32 681	31 514	38 312	100.0	1 528	-1 052	-4 995
UEBL	3 448	-	-	-	2 005	-	-	-	-1 443	-	-
B	-	3 647	4 387	10.1	-	1 913	2 423	5.6	-	-1 733	-1 964
DK	232	152	185	0.4	427	387	481	1.1	195	235	296
D	4 190	4 353	5 623	13.0	5 583	6 411	6 839	15.8	1 393	2 058	1 216
EL	227	262	347	0.8	160	167	238	0.5	-67	-95	-109
E	3 118	3 282	5 973	13.8	1 583	1 637	1 855	4.3	-1 535	-1 844	-4 118
F	5 571	5 552	7 052	16.3	8 226	7 935	10 508	24.3	2 655	2 384	3 456
IRL	246	229	290	0.7	573	634	689	1.6	328	405	400
I	4 415	4 225	5 041	11.6	3 963	2 838	3 992	9.2	-452	-1 387	-1 049
L	-	21	14	0.0	-	64	53	0.1	-	43	39
NL	2 526	2 807	3 126	7.2	2 399	2 178	2 671	6.2	-127	-629	-455
P	981	957	1 626	3.8	738	648	838	1.9	-243	-309	-788
A	299	280	477	1.1	320	341	537	1.2	21	60	60
FIN	175	182	197	0.5	441	460	579	1.3	266	277	383
S	213	148	211	0.5	730	581	746	1.7	517	432	535
UK	5 513	6 469	8 759	20.2	5 533	5 321	5 862	13.5	20	-1 148	-2 897

Source: Eurostat (Comext).

Table 11 - EU countries' balance for their trading with ACP countries (EUROSTAT, *Statistics in focus*, Theme 6 - 3/2002)

Main EU imports by products

HS chapter	1995	1999	2000	Share in total extra-EU trade of this chapter			Share in total imports from ACP's	Cumul of shares
				1995	1999	2000	2000	
	(Mio ECU/EUR)			(%)			(%)	
27 Mineral fuels	4 088	4 651	10 198	6.3	5.9	6.9	23.6	23.6
71 Precious stones and metals	2 520	6 121	8 646	12.1	23.1	24.2	20.0	43.5
44 Wood, articles of wood	1 277	1 372	1 584	13.3	11.4	11.2	3.7	47.2
26 Ores, slag, ashes	634	1 243	1 524	9.7	17.8	17.2	3.5	50.7
08 Edible fruits and nuts	616	1 381	1 495	9.0	17.6	18.5	3.5	54.2
18 Cocoa, cocoa preparations	1 276	1 791	1 400	73.2	80.5	74.1	3.2	57.4
03 Fish, crustaceans	630	1 138	1 369	10.4	13.7	14.4	3.2	60.8
09 Coffee, tea, mate, spices	1 888	1 287	1 236	31.3	23.7	23.2	2.9	63.4
72 Iron, steel	181	741	1 134	1.9	7.9	8.1	2.6	68.1
89 Ships, boats, floating structures	201	353	1 104	9.9	7.7	17.1	2.6	68.6

Source: Eurostat (Comext).

Table 12 - Main EU's imports by products (EUROSTAT, *Statistics in focus*, Theme 6 - 3/2002)

Main EU exports by products

HS chapter	Value			Share in total extra-EU trade of this chapter			Share in total EU's exports to ACP's	Cumul of shares
	1995	1999	2000	1995	1999	2000	2000	
	(Mio ECUEUR)			(%)			(%)	
84 Machinery, mechanical appliances	2 623	5 658	6 320	2.3	3.9	3.6	16.5	16.5
85 Electrical machinery, equipments	1 165	3 474	4 097	2.0	3.7	3.3	10.7	27.2
89 Ships, boats, floating structure	1 886	1 948	3 866	29.6	23.4	37.7	10.1	37.4
87 Road vehicles	1 442	2 834	3 653	2.7	4.0	4.1	9.6	46.9
88 Aircraft, parts	1 138	1 843	2 014	5.4	5.9	6.4	5.3	52.2
30 Pharmaceutical products	570	1 202	1 418	4.0	4.5	4.4	3.7	55.9
27 Mineral fuels	513	664	1 305	3.8	3.9	4.3	3.4	59.3
90 Optical, photographic instruments.	371	849	1 016	1.9	2.9	2.7	2.7	62.0
39 Plastics, plastics products	473	873	1 012	2.7	3.8	3.6	2.6	64.6
73 Articles of iron or steel	608	700	766	5.1	5.1	4.9	2.0	66.6

Source: Eurostat (Comext).

Table 13 - Main EU's exports to ACP by products (EUROSTAT, *Statistics in focus*, Theme 6 - 3/2002) (EUROSTAT, *op. cit.*)

Top three products for top four exporting ACP countries

Partner country / HS chapter	1995	1999	2000	2000		Variation 00/99
				Share in total	Cumul	
	(Mio ECUEUR)			(%)		(%)
South Africa						
Total	7 752	10 700	14 446	100.0		35.0
71 Precious stones and metals	2 610	3 136	5 297	36.7	36.7	68.9
27 Mineral fuels	1 049	1 047	1 435	9.9	46.6	37.0
84 Machinery, mechanical appliances	200	623	953	6.6	53.2	53.0
Nigeria						
Total	3 443	2 796	6 411	100.0		129.4
27 Mineral fuels	2 885	2 258	5 902	92.1	92.1	161.4
18 Cocoa, cocoa preparations	128	194	122	1.9	94.0	-37.2
41 Hides, skin, leather	94	82	88	1.4	95.3	7.9
Ivory Coast						
Total	2 068	2 080	1 960	100.0		-5.8
18 Cocoa, cocoa preparations	732	1 057	860	43.9	43.9	-18.7
44 Wood, articles of wood	333	276	277	14.1	58.0	0.3
08 Edible fruits and nuts	174	213	233	11.9	69.9	9.3
Cameroon						
Total	1 175	1 320	1 711	100.0		-5.8
27 Mineral fuels	272	403	648	37.9	37.9	-18.7
44 Wood, articles of wood	355	402	481	28.1	66.0	0.3
08 Edible fruits and nuts	92	101	150	8.7	74.7	9.3

Source: Eurostat (Comext).

Table 14 - Top three products for top four exporting ACP countries (EUROSTAT, *op. cit.*)

Annex D: ACP Regional Groupings in Africa

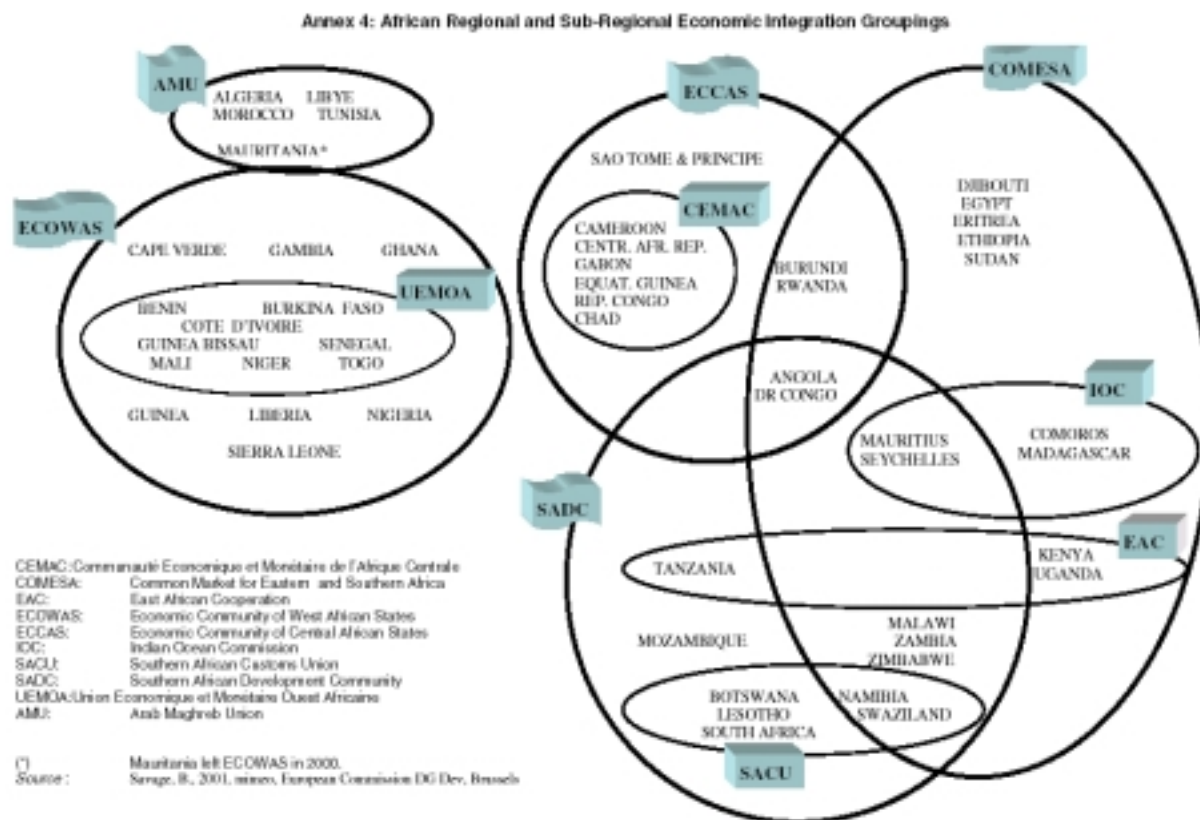


Figure 6 - African Regional and sub-regional Economic Integration groupings³⁴

³⁴ From Solignac Lecompte (2001), *Effectiveness of developing country participation in ACP-EU Negotiations*, 2001

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