

ESA-EC Business Forum for the Signing of the Interim EPA
Mauritius, 27-28 August 2009

*The I-EPA and the Services Sector: opportunities and challenges for trade
and investment for business people from the ESA region and Europe*

Opening Ceremony

Remarks

Peter Thompson
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Thank you for the opportunity to speak in this important gathering of trade and investment business people from the ESA region and Europe.

I have spent a considerable part of the last three years of my professional life coordinating with Member states of the EU, consulting the European Parliament and civil society and above all negotiating face to face with ACP regions and sub-regions on the so-called Economic Partnership Agreements (EPAs).

While EPAs are no panacea nor can they resolve all developmental challenges, I happen to believe, somewhat firmly, that, if EPAs contain the right ingredients (ie subjects covered and level of ambition) and if they are monitored and implemented properly they can contribute significantly to the trade/economic governance of ACP countries and the region within which they operate, thus providing a basis for sustainable private investment – and through that, generate jobs and income that countries can develop and thus reduce poverty.

Ultimately, therefore, in many ways, it is the private sector that will contribute most to economic development and the reduction of poverty.

That is why I'm grateful to have the opportunity of speaking to this gathering of businessmen and government officials.

While the EU is the ACP's main development partner, it is also happens to be the grand-daddy of "regional integration" and is increasingly the "government" of EU states with respect to rules governing EU business and much affecting economic governance. We think the EU has something to offer in EPAs.

Just to recap - Economic Partnership Agreements (EPAs) are trade and development agreements between the EU and regional clusters of the 77 African, Caribbean and Pacific countries. The negotiation of EPAs with ACP regions was agreed between the ACP and the EU in the overarching EU/ACP Cotonou Agreement in 2000.

The idea was to replace the old trade regime of EU unilateral preferences by a comprehensive new partnership that would better deliver development. It was also agreed that discrimination of other developing countries should end and trade preferences with the ACP should be brought into line with World Trade Organisation (WTO) rules.

What is the **rationale behind EPAs**? The statistics send a clear although perhaps also unsettling message: in 2007, excluding South Africa, total EU imports from and exports to 76 ACP countries (population around 700 mio) represented less than 3% of total EU imports and slightly more than 3% of total EU exports.

On the other hand, in 2007, the total EU imports from and exports to Switzerland (population 7 mio) amounted to more than 5% of total EU imports, and almost 8% of total EU exports.

Over the period 1975 to 2000, ACP countries have found that they were increasingly marginalised in world trade.

The ACP share of EU imports declined from 7% to 3% and their small and segmented markets have become less and less attractive for trade and investment operations when compared to other developing countries.

EPAs are an attempt to stop and reverse this ongoing marginalisation by placing trade in the context of a longer term development agenda.

One of the key experiences ACP and EU made was that, *with limited exceptions*, unilateral EU tariff preferences failed to deliver on trade or development.

Appropriate regulations that would provide security to economic operators are lacking or insufficiently transparent, credible or enforceable enough. Outside the commodities sector, neither local nor foreign investors find most African economies attractive – this is where EPA can make its contribution.

EPAs were born out of the recognition that gradual, managed liberalisation in goods and services combined with transparent rules, credible institutions and aid, can promote development.

But of course, EPAs go beyond the EU-ACP trade dimension to other policy objectives: first and foremost, **regional integration**.

Regional integration will help build regional markets and attract foreign investment in sectors other than energy and natural resources. And of course, the associated political integration engenders peace and stability – an end in itself, but also a crucial ingredient toward sustainable investment.

In the Cotonou Agreement; the EU and ACP called for **other important issues** to be tackled to boost trade and its contribution to development: services and investment, transparency of government procurement, intellectual property rights, competition law, sanitary and phytosanitary issues social standards, environment issues to name but a few.

To deliver their full development potential, the negotiations toward more comprehensive arrangements should include these important issues.

This conference is rightly putting the emphasis on services and investment. EPAs call for gradual and **controlled liberalisation in the service sector**, backed up by good regulation. The telecom, transport, banking and insurance sectors are both the backbone and lifeblood of any economy. They are essential as inputs for the development to so many other sectors.

Opening them up to liberalisation in a measured and sensible way can improve their effectiveness and performance and serve the region, as a whole.

It is fully understood that while these sectors are opened up to foreign competition, the ACP governments fully retain their rights to regulate; so EPAs do not interfere with the capacity of governments to formulate policies to shape the conditions, under which all companies in their markets operate.

Asymmetry and flexibility are also used to protect weaker service sectors in ACP countries, while basic services such as health care, education, water etc. are outside the scope of EPAs and would not be liberalised.

Legal certainty and stability are also a key dimension to EPAs. To grow, you need investment. But investors, African or foreign, will only put their money where they feel that there is a fair, transparent and predictable legal environment. Even greater benefits can be reaped if such a stable legal environment is set up at regional level. Clear rules for intellectual, industrial, commercial and other property rights foster investment, jobs and growth.

All EPAs include **development cooperation** provisions tailored to the needs and specificities of the region. These provisions further reinforce the integrated nature of EPAs as trade agreements for development.

The EU and ACP states have agreed the six regional strategies and indicative programmes of the 10th European Development Fund (EDF) focusing on trade and regional integration with an amount of over €1.3 billion for the period 2008-2013. In addition, many country assistance strategies include Aid for Trade components to support the regional integration strategies and economic development drive of the EPAs.

In total, the European Commission and Member States' spending on the wider **Aid for Trade** agenda, including trade-related infrastructure and productive capacity building, was € 7.2 billion in 2007, of which the ACP region was also the largest beneficiary. The resources made available will help countries prepare new structural reforms and trade policies, adjust to the changes EPAs bring and enhance infrastructure and competitiveness to seize trade opportunities.

In brief, investment in people and infrastructure, diversification of exports, and the creation of good legal environments for small and medium sized businesses to operate fairly is at the forefront of our partnership. EPAs can go a long way towards creating the necessary climate and beginning the long overdue changes that will help achieve economic prosperity.

With EPAs, **trade meets development**. The EU's goal is to make signatory ACP states better off as a result of the EPAs they have agreed to. Ambitious, regionally integrating EPAs offer a precious opportunity to permanently alter the vicious cycle of poverty and turn into a virtuous cycle of growth.

But in the end, it is for the ESA region and its member states to decide on EPAs and the next steps. This includes, amongst other topics, the all-important question of services and investment. The EU insists that whatever elements and ambitions are set, the provisions must be compatible with WTO rules.

Examples in other regions of the world indicate that, when countries are willing to innovate and to accept the challenges of change, they can succeed. In the ACP area, this is what the Caribbean region is already choosing to do. They see that by boldly taking on new subjects, they can promote tax reform, improve economic management and initiate a sustainable cycle of growth, and ultimately to accelerate the exit from dependence.

But only the countries concerned can take the strategic decision to embrace change and make the most of the opportunities presented. Once that decision has been taken, and negotiations have been successfully concluded, we shall start real work: turning EPAs into reality.

Africa's potential – as we all know – is great. Part of unlocking it rests in changing perceptions. But a very significant part lies also in encouraging and fostering the entrepreneurship by changing the conditions under which those businesses and jobs can be created.

I repeat my earlier message. The private sector has a huge role in this. It bodes well for governments to listen to their voices.

Thank you.

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