EU Preferential Trading Arrangements with the Caribbean: A Grim Regional Economic Partnership Agreements?

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Abstract

The European Union (EU) has more preferential trading arrangements than any other trading entity. For a quarter of a century African, Caribbean and Pacific (ACP) countries have benefited from unreciprocated preferential access to the EU market under a succession of Lomé Arrangements. Sunset provisions now apply to these concessions and after 2007 unreciprocated preferences will end. The EU is proposing that a network of regional Economic Partnership Agreements (REPAs) replace Lomé. This is a new form of regional trading arrangement for both the EU and ACP countries. In this paper we develop an analytical framework for evaluating the impact effects of a REPA and apply this to estimate costs and benefits in the CARICOM region. Our results suggest that a REPA would be inferior on welfare grounds to either extended reciprocity with the EU and US, or broader multilateral liberalisation.

- JEL classification: F15
- Keywords: EU preferences, Partnership agreements

I. Introduction

The literature on preferential trading arrangements has grown dramatically over the last decade or so, stimulated by two systemic developments in the global trading environment: the ‘new regionalism’ and the realignment of a range of special and...
differential provisions attached to trade with developing countries. The former has seen exponential growth in the number of free trade areas and provoked an extensive debate on the complementarity of multilateralism and regionalism.\(^1\) In the case of special and differential treatment of developing countries, changes have been triggered by a combination of revisions to multilateral provisions under the Uruguay Round agreements and bilateral revisions following from individual countries being deemed to have ‘graduated’.\(^2\)

Since its creation, the European Union has notified the WTO of more preferential trading arrangements than any other single trading entity. One of the most extensive and long lasting of these is the Lomé Agreements, whereby over 70 African, Caribbean and Pacific (ACP) countries have benefited from preferential access to the European Union (EU).\(^3\) A key feature of the Agreements is that access has been offered on a non-reciprocal basis since the first Lomé Agreement in 1975. But that is about to change following the successful challenge by the US to the WTO that the Lomé Convention conferred an unfair trading advantage to ACP countries over other WTO Members. Lomé IV (which was signed in 1990), formally ended in February 2000, but the WTO waiver on reciprocity was extended to 2007. After that date, it is a WTO expectation that any EU arrangements which replace Lomé will incorporate a reciprocity obligation.

Since 1996 the European Commission has been in negotiations with ACP countries over the post-Lomé environment. Winters (1997) describes these as confronting ACP countries with a ‘diabolical trilemma’: maintain the status quo (which would have been unacceptable to WTO); accept a straightforward removal of preferences; or accept reciprocal trading arrangements. Discussions concluded with the Cotonou Agreement in 1998, which came into force in June 2000 and was as all encompassing as its Lomé predecessors. However, although it extended the period for unreciprocated preferences, it obliged ACP countries to begin negotiations on so called Regional Economic Partnership Agreements (REPAs) no later than 2002, for implementation in 2008. Negotiations on regional EPAs are still ongoing with a number of groups of developing countries clustered on a

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1. For a comprehensive survey of the issues see Bhagwati, Greenaway and Panagariya (1998) and a recent analysis of the potential for RTAs to undermine multilateralism see Bond, Riezman and Syropoulos (2004).

2. See Whalley, 1989 and 1999 for reviews of these issues.

3. For excellent reviews of EU preferential arrangements with developing countries more generally, see Panagariya (2002) and Francois, McQueen and Wignaraja (2005).