Coherence in trade policy: 
the case of Economic Partnership Agreements (EPAs)

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No Government ever has complete uniformity in its policies in the sense that each and every policy aims to achieve the same broad goals. Governments have multiple objectives and so complete policy coherence in any field is almost impossible. Even achieving a more modest but desirable goal of policies that are complementary rather than contradictory; the impacts of policies are in tandem; and actions are consistent with stated objectives. A country is more likely to achieve its goals if it has clear, realistic and prioritised objectives for the role of trade in its national development strategy and associated trade and trade-related policies and strategies. Objectives that are clearly defined through a set of coherent policies can be more easily transferred into actions maximising developmental outcomes. These include actionable points in international negotiations. In practice, though, even where a set of policies with complementary objectives exists, actual actions and impacts may be contradictory/inconsistent with the original objectives. Consequently policies are often “incoherent”, in the sense that trade-related objectives across policies may contradict one another, government actions may be inconsistent with policy objectives and the combined impact of policies may reflect a policy environment where policies and associated measures contradict one another. It is important to identify and unravel such incoherences and assess their magnitude and pervasiveness. The goal is a prioritised plan of action to reduce incoherence and develop a comprehensive set of development, trade and trade-related policies that coherently and effectively supports a country’s capacity to trade.

Box 1. The importance of policy coherence

The Commonwealth Secretariat and ODI are producing a Handbook on trade policy coherence that builds on five country case studies. Policy coherence is a relational concept and is present when: policies are complementary rather than contradictory; the impacts of policies are in tandem; and actions are consistent with stated objectives. A country is more likely to achieve its goals if it has clear, realistic and prioritised objectives for the role of trade in its national development strategy and associated trade and trade-related policies and strategies. Objectives that are clearly defined through a set of coherent policies can be more easily transferred into actions maximising developmental outcomes. These include actionable points in international negotiations. In practice, though, even where a set of policies with complementary objectives exists, actual actions and impacts may be contradictory/inconsistent with the original objectives. Consequently policies are often “incoherent”, in the sense that trade-related objectives across policies may contradict one another, government actions may be inconsistent with policy objectives and the combined impact of policies may reflect a policy environment where policies and associated measures contradict one another. It is important to identify and unravel such incoherences and assess their magnitude and pervasiveness. The goal is a prioritised plan of action to reduce incoherence and develop a comprehensive set of development, trade and trade-related policies that coherently and effectively supports a country’s capacity to trade.

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Policy coherence needs to be achieved horizontally (between domestic policies) and vertically (at the international, regional, bilateral and national levels), with the two dimensions overlapping in many cases. Hence, national governments should ensure their national trade policies/measures reflect externally agreed policies/measures (e.g. common external tariff in a regional agreement) while also attempting to influence the external policies to the extent possible to reflect domestic interests. In addition, governments must adjust to the resulting outcomes 'particularly where they cannot influence external policies' which will often involve changes to domestic policy beyond trade policies and may require governments to initiate dialogue in other arenas (e.g. with donors to solicit aid for trade).

The first part of this Briefing Paper examines how far horizontal coherence has been achieved in the five countries studied under the Commonwealth Secretariat-ODI project.1 The second part examines vertical coherence in the EPA context.

Creating a coherent trade policy

Policy making on trade faces a dual overload: tracking the complex effects of changes to trade policy and participating in multiple negotiations. This makes it difficult to ensure that what is proposed (and agreed) in different fora is mutually consistent and, even more importantly, is founded in a country's broader economic and social development strategy.

There is no single trade policy framework that can be advocated universally because country circumstances are so heterogeneous. Moreover, 'trade policy' overlaps frequently with 'tax policy' (especially on tariff revenue, tax exemptions, rebates or duty drawbacks). But certain elements are widely seen to be important. One key element, endorsed by the Organisation for Economic Cooperation and Development (OECD), is that a trade strategy is 'closely integrated with a country's overall development strategy'. Others include: consultation mechanisms that involve a wide range of relevant stakeholders (namely, government, private sector and civil society); active intra-governmental policy co-ordination; a network of trade support institutions (e.g. on standards) that are involved in taking forward the necessary actions and measures to improve a country's capacity to trade; and, a commitment to outward-orientation by key stakeholders.

Prioritising trade policy arenas

Trade policy may be defined in terms of a set of national policies and government actions that have their main aim as influencing the quantity, type and value of a nation's imports and exports of goods and services. Trade policy may be domestically determined or externally negotiated. Policies are framed in different arenas and the capacity of a developing country to influence the outcome varies. This is illustrated under the following four broad policy arenas with decreasing level of influence:

1. **Wholly domestic** Some policies fall wholly within a government's competence, such as those on domestic markets that determine how far any change in import or export prices are passed on to consumers and producers.

2. **Largely domestic** Others are largely a domestic preserve but within parameters set externally; for example, domestic arrangements that are influenced by World Trade Organization (WTO) rules (e.g. allowable domestic subsidies).

3. **Externally negotiated** Policies that are negotiated externally between the developing country government and other countries or actors (e.g. changes to tariff rates agreed under regional arrangements to create a common external tariff).

4. **Externally non-negotiated** Policies in which a developing country government is not a negotiating party and hence has no direct control (e.g. EU's common agricultural policy); if it is able to influence such policies at all it is only through persuasion.

Clearly, a high priority must be to ensure that the policies set domestically are the right ones as the government has the greatest degree of control (within the bounds of existing international commitments). At the same time, if events in a wholly or partially external arena have a relatively large impact, they cannot be ignored. Priorities must therefore be established simultaneously in relation to two sets of criteria:

- the relative scale of their potential direct and indirect impact on trade; and,
- the relative influence of the country concerned to determine the outcome.
**Integrating trade into national development strategies**

National Development Strategies (NDSs) often give limited attention to trade. Even when trade is included in the document it is frequently integrated insufficiently which is also reflected in the strategies of the five case studies (Table 1). None of them make any mention of the analytical linkages between trade and economic growth, nor provide any analysis of the channels through which trade could impact on poverty reduction and an evaluation of related trade policy options.

Table 1. Main National Development Strategies of the case studies

<table>
<thead>
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<th>Country</th>
<th>Main development strategies</th>
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<tr>
<td>Ghana</td>
<td>Growth and Poverty Reduction Strategy (GPRS II) 2006-2009</td>
</tr>
<tr>
<td>Tanzania</td>
<td>National Strategy for Growth and Reduction of Poverty (MKUKUTA) 2005-2009</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>Draft National Strategic Plan 2005-2020</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>Priorities and Action Agenda (PAA) 2006-2015</td>
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Although the first generation NDSs of Ghana and Tanzania focused more on the social sectors as the drivers to poverty reduction, the second generation policies listed in the table gave more emphasis to growth and trade. In Tanzania, for example, a greater acknowledgement has been given by government to the importance of the productive sectors in reducing income poverty (alongside the importance of the social sectors for broader aspects of poverty). Despite this there is still no specific reference to the importance of trade as an engine of growth, and the vast majority of trade-related strategies fall under the macroeconomic stability target rather than the accelerated gross domestic product growth target.

In Mozambique trade is treated as a sectoral (not as a cross-cutting) issue along with others such as industry, agriculture or infrastructure issue. Since the Poverty Reduction Strategy Paper 2006-9 (PARPA II) does not link with the trade policy approved in 1999, the objectives and strategies stated in the latter are not considered as a point of reference.

The Vanuatu Priorities and Action Agenda (PAA) fails to elaborate specific trade priorities, and instead focuses more explicitly on priorities for improving the productive sectors (and thus more indirect 'trade-related' issues). 'Trade policy' as such receives little attention. Despite numerous allusions in the text to a shifting emphasis from import substitution to export orientation and the need to facilitate increased exports in a range of sectors, tariff policy and trade negotiations receive scant mention. However, the case study finds that the PAA is an improvement over its predecessor in terms of providing a more substantial 'trade-related' foundation for the national development strategy.

Trinidad and Tobago’s Draft National Strategic Plan highlights the need to transform the economy into a competitive economy which produces 'high end' or high value-added differentiated products and identifies several priority sub-sectors which the government aims to develop. However, the overall strategic plan and associated sector-specific plans lack detail on actual trade policy.

Other countries have ‘mainstreamed’ their trade policy in the sense of including it in their NDS but may not necessarily have applied it in practice. Both Uganda and Malawi, for example, have been cited as countries in which integration has taken place. And in the case of Uganda, its approach to EPAs (see below) has been consistent with its regional integration policy. However, Malawi’s EPA stance has resulted in its regional exports to Kenya being disrupted (because, being outside an EPA, its tobacco no longer meets the rules of origin for export to the EU when further processed in Kenya).

In many countries’ NDSs there is insufficient mainstreaming of trade as well as a lack of an up-to-date formal trade policy. The causality for this could be in either direction: it may be partly due to a lack of mainstreaming in NDSs, but it may also have caused the poor integration of trade issues into the NDS. In Ghana a comprehensive trade policy was launched in 2006, prior to which trade policy was not clearly articulated and was largely the result of a series of International Monetary Fund/World Bank adjustment programmes. In Mozambique the 1999 Trade Policy was superseded by trade and trade-related objectives in the PARPA II, however, it excluded any detail. In Tanzania the National Trade Policy 2003 is fairly up-to-date, yet it did not form an input into the NDS. In Trinidad and Tobago the absence of trade issues in the Draft National Strategic
Plan may have arisen because the detailed work for an overall trade policy had not been carried out prior to the national planning exercise: the 1997-2001 trade policy document is only now being updated. In Vanuatu there is no formal trade policy (although policy objectives can be inferred from isolated policy pronouncements).

Common to all these policies and strategies is a lack of attention to imports, which are generally mentioned only with respect to import-substitution. This may explain the incoherences with respect to tariff policy and value-addition. Import tariffs are seldom mentioned as a problem for producers using imported inputs, possibly due to an invalid assumption that all imported inputs are zero-rated or that a duty-drawback scheme is working effectively to refund duties paid on imported inputs used to produce goods for export. Many production processes use imports as an input to the value-addition process (e.g. packaging) which are classified as intermediate or finished goods, thus having non-zero rates which reduces the potential value-addition and effectively taxes exports. It is often assumed that the most effective way to increase value addition is to tax exports of raw or semi-processed goods in order to encourage local processing. In fact, reducing the import tariff on inputs used in processing may be the best initial strategy to increasing the value addition on a particular product.

**Vertical coherence and the EPAs**

The priority to be given to an arena in which trade policy is being created depends on the relative scale of its potential direct and indirect impact on trade and the relative influence of the country concerned to determine the outcome. The EPAs clearly register relatively highly on the second count for all five countries (e.g. by comparison to the WTO) even though the EU had greater technical skills and policy leverage. In Ghana and Trinidad and Tobago they also scored significantly high on the first count: both would have faced an increase in the tariffs imposed by the EU on a considerable proportion of their goods exports had their preferences come to an end in 2007 (see Box 2). As least developed countries (LDCs) Mozambique, Tanzania and Vanuatu did not face such a stark imperative, but their regional integration aspirations required them to monitor closely what their non-LDC neighbours planned to do. Since both Mozambique and Tanzania have initialled interim EPAs involving their neighbours, it is likely that considerations of regionalism played a part in the decision.

**Box 2. EPAs: the stark choice**

1 January 2008 witnessed a major milestone in the ten years of discussion and five years of formal negotiations between the EU and the ACP on EPAs, and it also marked what is probably the first occasion since 1957 on which the European Commission has raised import tariffs across the board. What made the event even more remarkable is that the tariff increases were on has raised import tariffs across the board. What made the event even more remarkable is that the tariff increases were on imports from a group of poor, uncompetitive countries with most of whom European Heads of Government had met less than a month before in Lisbon to launch a collaborative strategy.

The EU has had preferential trade and aid agreements with the ACP since 1975. The latest, the Cotonou Partnership Agreement of 2000, specifically provided that the trade regime would be recast and a successor implemented by 2008 (although the rest of the accord remains in force until 2020).

By early 2007 it was clear that negotiations had barely begun on the details which are at the heart of the EPAs and that insufficient time remained to complete them in the way that is normal in trade negotiations (which habitually overrun precisely because the devil is in the detail). But the European Commission held firm that Cotonou preferences would be terminated at the end of the year, and that imports from ACP states outside an EPA would be subject to the ‘next most favourable’ tariff for which they are entitled from 1 January 2008. For LDCs the ‘next most favourable’ regime is the Everything But Arms (EBA) provision which is virtually identical to Cotonou, but the exports of other states would be subject to the standard Generalised System of Preferences (GSP) or most-favoured-nation (MFN) tariff which, in some cases, is prohibitively high.

**The EPA challenge**

The principal reason for the replacement of the Cotonou preferences is that they have been the subject of an adverse ruling in the WTO. This is because they involve the EU discriminating in favour of some developing countries (the ACP) and against others in ways that cannot be justified under WTO rules. After two years of negotiations, and in the context of the Doha Ministerial summit, the EU obtained support from WTO members for a waiver that would allow this discrimination to continue - but only to the end of 2007.

The EU’s preferred option for making the preferential access for ACP exports ‘WTO legal’ has been to recast the relationship in such a way that it can be justified under the WTO provisions that allow discrimination, provided
the countries concerned are forming a free trade area (FTA) or customs union. An essential feature of any such recasting is that the ACP liberalise on imports from the EU - which has been the source of much of the contestation over EPAs. But there has also been controversy because the EU's negotiating mandate required it to seek changes to ACP policy that went much further than required for a narrow FTA on goods - which is all that was needed to deal with the WTO ruling. This raft of other trade-related policies included General Agreement on Trade in Services-compatible liberalisation of services and investment, selected service offers for public enterprises and government procurement, and binding rules on competition policies. Although the Caribbean and Pacific negotiators were keen to make major advances in the services negotiations, no other group was happy about a rapid completion on these topics. Critics have alleged that the EU's hard-line negotiating tactics with the ACP on these so-called 'Singapore Issues' can be explained as an attempt to influence the Doha negotiations through the back door.\footnote{Which came on top of similar rulings by the General Agreement on Tariffs and Trade (GATT) on the preceding Lomé Conventions}

Quite apart from the problems arising from the potential content of the EPAs, the mechanics of the negotiations posed a considerable challenge. It is conventional to refer to the EU in the singular and the ACP in the plural since this reflects the negotiating reality. Europe has a single negotiator, the European Commission, which is not subject to formal control by the member states from the point at which they have agreed a 'negotiating mandate' until the Commission requests them either to revise the mandate or approve the agreement it has negotiated. The ACP states, by contrast, have no supranational organisations with equivalent authority. The Regional Negotiating Machinery that led the talks on behalf of the Caribbean Forum (CARIFORUM)\footnote{Comprising the English-speaking Caribbean, Dominican Republic and Haiti.} came closest, but for all the other groups, regional secretariats were able (at best) only to offer technical support and some co-ordination.

In deference to the rapidly approaching deadline, the European Commission agreed in November 2007 to split the negotiations into two stages, but not to any 'stay of execution' regarding the tariff treatment of states that rejected EPAs. It was agreed that only 'interim agreements' needed to be initialled before the end of 2007, but these had to include complete provisions on goods. It also agreed autonomously to provide from 1 January 2008 duty-free and quota-free access to imports from all countries initialling interim EPAs pending the formal conclusion of the negotiations.

\textbf{Three categories of ACP}

In short, the choice before the ACP was abnormal in trade negotiations. The norm is that if the negotiations succeed, the parties will move to a regime that they agree is better than what they had before; if they fail, the parties remain with the status quo and the only cost they incur is by foregoing the gains that agreement would have unleashed. In the EPA, by contrast, negotiating success offered the ACP little more than retention of the status quo whilst failure could result in deterioration.

Effectively, ACP countries fell into one of three categories (which cut across all of the 'regions' in which they negotiated).\footnote{Formally the EPA negotiations were conducted between the EU and, until the last months, six separate sub-groups of the ACP - CARIFORUM, West Africa, Central Africa, Eastern and Southern Africa (ESA), Southern Africa (SADC-minus) and the Pacific. At the end of 2007 the five countries of the East African Community (EAC - Burundi, Kenya, Rwanda, Tanzania and Uganda) created a seventh group (taking members from ESA and SADC-minus).} They reflected the extent to which failure to agree the EPA would result in identifiable costs. The first category comprised countries that stood to lose in a very tangible way if the pre-existing regime for their exports were not continued; that is if they were downgraded to the Generalised System of Preferences (GSP). Kenya, for example, faced the imposition of significant tariffs on its exports of horticulture and processed tropical fruit. Extreme cases were provided by sugar and bananas as well as by Botswana and Namibia, whose beef exports to the EU are totally dependent on a continuation of a strong preferential regime. Had preferences ended for Botswana in 2008, the EU's import taxes on its beef exports would have been equivalent to 80 per cent of their value, obviously making the trade commercially unviable.\footnote{ODI, \textit{Analysis of the Economic and Social Effects of Botswana's Loss of Preferential Market Access for Beef Exports to the European Union}, study compiled for Botswana Institute of Development Policy Analysis (BIDPA), Overseas Development Institute, London, August 2007.}

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Neither of the other two groups of countries faced the danger of an immediate, significant increase of barriers to their exports if Cotonou came to an end and was not replaced by an equivalent new regime. Hence, they could face this prospect with equanimity, but for differing reasons. The larger of the two groups consisted primarily of LDCs that could fall back on EBA. Whilst this group was primarily LDCs, it also included several additional members. One was South Africa which under the EU-South Africa Trade, Development and Cooperation Agreement has access to the EU market that is preferential although not as good as that available to other ACP states. Others were small Pacific islands with significant fish exports (for which the negotiation of Fisheries Partnership Agreements are probably more important).

The reason the third group did not fear the end of Cotonou is that its main exports are all in non-sensitive products on which the EU’s standard tariffs are either zero or very low. This applies to the oil exporters Nigeria, Gabon and Congo (which have faced some tariffs on exports to the EU since January 2008, but at relatively low levels) as well as to several non-signatory Pacific states which also face zero or low tariffs on their exports to the EU.

Thus, category 1 states had a strong incentive to initial EPAs whilst the other two did not. Did states behave in the way that might have been predicted? Most, but not all, did so. Figure 1 demonstrates the number of ACP falling into each of the three categories and the number that behaved in the way that might have been predicted. Only one (small, Pacific) state in category 1 failed to sign, however, 14 of the 56 states in categories 2 and 3 did sign, despite the fact that their exports would not be affected (or only marginally) by remaining aloof.

The most substantial group behaving 'not as predicted' are those LDCs that initialled EPAs even though they faced no obvious, immediate problems from not doing so. Did they act incoherently? In all cases they are part of regional agreements that 'have the feel of life' about them, even though only one is complete (EAC). It would appear that, rather then being incoherent, their commitment to the regional integration scheme has taken precedence over their apparent short-term interest with respect to the EU.

**How much coherence?**

**Regional coherence**

When one looks more closely, the picture of coherence is not so rosy. Four of the five case study countries have initialled EPAs. Ghana and Trinidad and Tobago fall into category 1 and behaved as might have been predicted - almost one-fifth of their exports to the EU would have faced increased tariffs had they not done so (Figure 2). Mozambique and Tanzania faced no such risk as LDCs but they initialled EPAs. Since the neighbours of both countries initialled EPAs, it is likely that a desire to retain regional unity was among the factors leading to the Mozambique and Tanzania decisions.

Were these well considered positions, developed over the seven years of negotiation on an issue of immediate trade importance to two of the five countries and regional importance to another two? The evidence suggests otherwise. Tanzania's eleventh hour departure from the SADC-minus group, demonstrates a strong commitment to the EAC region. Yet, according to the case study report ‘SADC has become [Tanzania's] most important regional grouping, increasing from 5.3 percent of... total exports in 2000 to 18.9 percent in 2006 (11.2 percent on average between 2000 and 2006)’.

Mozambique and four of the members of the Southern Africa Customs Union (SACU) are the only SADC states to have initialled the same EPA - however, their liberalisation schedules are very different. Just one-fifth of the items that are being excluded by Mozambique or by SACU are also being excluded by the other. In other

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7 There could be problems for some over differences in the rules of origin but in most cases, once the administrative changeover has been made, there need be no disruption to trade.
words, the two groups are not only liberalising according to different schedules but they are also, to a certain extent, liberalising on different goods. This will require them to maintain controls on intra-regional trade to ensure that unliberalised goods from the EU are not imported indirectly via their neighbour.

Ghana is one of only two Economic Community of West African States (ECOWAS) states to have initialled an agreement. The case study points out that critics claim this 'goes against the decision of the ECOWAS Ministerial Monitoring Committee, and is thereby not coherent with the regional negotiation strategy adopted' and, furthermore, that 'no adequate trade impact assessment had been made before Ghana initialled an agreement with the EU.'

**Figure 2: Share of exports for which EU tariffs would increase outside an EPA**

In all the case study countries agriculture plays an important role in development strategy, and the same is true for much of Africa. Given the standard approach to imports as a 'threat' noted above, one would expect a sectorally coherent approach to EPAs to reflect this importance in the choice of goods to be excluded from liberalisation. Each country has been able to exclude from any liberalisation a group of products: which goods did they choose to exclude? What we find is that in almost two-thirds of the 18 African countries which initialled EPAs, 25 percent or fewer of the items excluded from liberalisation are agricultural (Figure 3).8

**Figure 3: African exclusion lists: the share of agricultural goods**

8 This is defined as goods covered by the WTO Agreement on Agriculture.

9 All of the other EPAs are 'interim' accords covering only goods (as accepted by the European Commission in 2007 when it agreed to a two-phase approach in the light of the rapidly approaching deadline.

One of the OECD's broad lessons on how to facilitate coherence is that here are consultation mechanisms involving a wide range of relevant stakeholders (namely, government, private sector and civil society). Yet in all of the ACP regions the 'national debate' is only starting in earnest after the EPAs have been initialled 'even in Cariforum, the only one to have agreed a 'full EPA' covering the whole menu of goods, service and trade-related issues. Given that the interim EPAs are all about trade, which is an activity carried out by the private sector, the danger is that firms will not adjust sufficiently quickly either to new export opportunities or to new import opportunities (in cases where imported inputs will be cheaper) or challenges (when the imports compete with domestic production). Trade policy needs to be informed by the detailed knowledge of exporters and importers to help determine the impacts of proposed trade policies, while minimising the risk that government policy will be 'captured' by the interests of individual industries.

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The lessons

The EPA episode demonstrates how difficult it is to achieve a coherent trade policy in practice. The EPAs posed a tough challenge. They offered few obvious benefits for the ACP other than the avoidance of higher tariffs on exports from most non-LDCs. The EU was able to use the end 2007 deadline as leverage to force the pace of negotiation in the final weeks. And the task of framing a common position in disparate regions without any analogue to the European Commission (with its juridical authority to negotiate on behalf of the member states) was extremely demanding. It should not be overlooked that the EU has never before successfully conducted trade negotiations on a single agreement covering several countries.

Another problem is that the pressure of the EPA negotiations has opened up pre-existing regional incoherencies that were previously airbrushed. In some cases the most serious problems with the EPA provisions has been that they remove restrictions not on imports from the EU but on imports from regional partners. The EPA process has exacerbated an underlying absence of horizontal coherence among regional partners, even in cases where deep integration had been agreed at a policy level.

Nevertheless, the EPAs also had features that made the task of creating a coherent policy simpler than is often the case. The nature of the issues and the deadline have been increasingly clear since 2000 (when the Cotonou Agreement ushered in two years of 'reflection' before the start of the formal negotiations) or even earlier (since EPAs had figured during the Cotonou negotiations). Countries with much to lose from 'the wrong outcome' appear to have relegated the issue to the trade ministry (or even to a small department therein). Although the details of any trade agreement are technical, their relevance is far from technical; they influence the distribution of income between social groups and sectors.

Fortunately, now that the 2007 deadline has passed the negotiations are still continuing in many regions. The risk of a major hiatus in exports has been lifted since the EU can only remove duty-free, quota-free access from countries that have initialled following a qualified majority vote in the European Council. There may still be time to amend details to make the agreements more coherent with development and regional priorities.