The Impact of the EU's 'Everything but Arms' Proposal: A Report to Oxfam

Final Report

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Preface

Oxfam supports the European Commission's proposal to improve access to the EU market for all products, except armaments, exported from the world's 48 poorest countries as a small but welcome step towards fairer trade in the world. The so-called 'Everything But Arms' (EBA) proposal will bring economic benefits to the world's poorest countries and people. It also represents an important political gesture indicating the EU's commitment to promote a more equitable distribution of the benefits of international trade.

Unfortunately, the EBA proposal has attracted extremely strong resistance from some EU Member States, European farmers, and parts of the multinational sugar industry. Many of their arguments are ill-informed, however, and appear to be based on over-stated and implausible claims about the likely impact of the EBA.

This study, commissioned from the Institute of Development Studies, provides rigorous analysis that counters the arguments of the anti-EBA lobby. It shows that the costs to the EU of implementing the EBA are very small, in comparison to the positive benefits it will bring for the least-developed countries. Some developing countries that already benefit from preferential access to the EU market have legitimate concerns about the impact of the EBA on their trade with the EU. But these concerns can and should be addressed through positive measures, rather than an EU retreat from the EBA proposal.

Oxfam hopes that this study will encourage a more constructive and informed debate about the impact of the EBA proposal. Within the context of continuing high levels of northern protectionism against developing country exports, the EBA proposal is extremely modest. We would like to see the proposal accepted by the EU Member States and implemented as soon possible as an important step towards achieving internationally-agreed targets to reduce poverty.

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Contents

1. Summary

The positive impact of EBA

If adopted, the 'Everything but Arms' (EBA) proposal will make an important contribution to development, although its greatest impact may be indirect. The direct effects on the least developed states (LLDCs) will be positive, although the absolute impact will be modest given these countries' limited supply capacity.

From a development perspective, the principal immediate effects of EBA will be:

- to improve access to the EU market for the exports of African, Caribbean and Pacific (ACP) LLDCs and, to a much smaller extent, non-ACP LLDCs;
- to increase competition for industrialised countries, other ACP states and the Standard GSP beneficiaries of South Asia, Mercosur,[1] South East Asia, Eastern Europe and the Mediterranean.

In both cases the absolute change will be limited to a handful of commodities, notably beef, rice and sugar.

EBA is also likely to have an indirect impact on the stalled WTO multilateral trade negotiations as a gesture of EU good faith. By contrast, a failure to adopt EBA is likely to have a disproportionately large *adverse* impact in the WTO. The 'cost' to the EU of EBA is so small that its derailment by vocal lobbies would be seen by the broader group of developing countries as clear evidence that the EU is unable to enter into meaningful negotiations on further multilateral liberalisation.

The implausibility of massively increased exports

Modest though EBA is it has provoked vociferous opposition, notably from the European sugar industry. Yet claims that EBA will result in a substantial increase in imports, to the detriment of other developing countries and EU producers, are counter-intuitive and not supported by the available data. The supply capacity of LLDCs is very limited. Moreover, many of their exports already receive duty-free access to the EU, and so only a very small number will be affected by EBA.

For example, it has been alleged that LLDC sugar exports to the EU could rise to 4.5 million tonnes over five years. Food and Agriculture Organization of the United Nations (FAO) figures on LLDC production and trade suggest that this is fanciful. The *total* raw sugar production of all LLDCs that have any significant exports is only 1.8 million tonnes (1993–7 average). In the short term FAO figures indicate a potential maximum increase in LLDC sugar exports to the EU of only 100,000 tonnes.

Since statistics for LLDCs are poor, the critics of EBA *may* be able to produce contrary evidence. The ball is in their court, however, to explain why the figures they have presented (so far without explanation or an indication of the source) are compatible with the publicly available data from FAO, which is the most authoritative source of world agricultural statistics.

Further doubt on the feasibility of substantial increases in LLDC exports arises from the Safeguard Clause in EBA. This allows the EU to withdraw preferences whenever LLDC exports rise much above 'usual' levels.

Genuine developing country concerns

At the same time, non-LLDC developing countries do have legitimate concerns that wild, implausible talk about a flood of LLDC exports is obscuring. The ACP in particular have plausible grounds to fear that *any* increase in LLDC sugar exports will be at their expense. This is because the EU is already in surplus supply. Even if the imports initially displace domestic EU production rather than ACP exports (which is unlikely, given the high cost of Caribbean cane sugar), the result will be an increase in EU dumped exports onto the world market where they will lower prices still further for ACP states.

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1 Argentina, Brazil, Paraguay and Uruguay.

The legitimate concerns of non-LLDC developing countries are sufficiently limited that it ought to be possible to deal with them through positive measures rather than by an EU retreat from the EBA proposal. This should be the focus for any further research.

2. Background

The EU has proposed to remove all restrictions on imports from the 48 LLDCs of all products apart from armaments. This has been dubbed the 'everything-but-arms' proposal, and for brevity is referred to in this report as EBA.

The Commission's initiative (see Box 1) is a *proposal*: the EU Council of Ministers must decide whether or not to accept the proposal as it stands, seek amendments, or reject it. Oxfam commissioned this report to provide rigorous analysis of the impact of the EBA proposal in order to encourage a constructive debate. The aim of this report is to inform such advocacy by providing the basic information on the potential effects of the proposal as it stands.

The radical initiative could have an impact on many developing countries. This report provides information on the potential scale of any such impact in the short to medium term.

For the LLDC countries, of course, the removal of restrictions on their exports to the EU is a wholly positive change, and the only task is to assess the scale of the potential impact. But improved conditions for exports from the LLDCs could mean greater competition for the exports from other developing countries (as well as for European producers). Such potential losses need to be taken into account too in any balanced assessment of the overall impact of the proposal. This report identifies the countries most likely to be affected, as well as the scale of the impact.

3. How Will Countries Be Affected?

The impact of the proposal on LLDCs (and competitors) will depend upon two factors:

- the extent to which the initiative represents an improvement on their current terms of access to the EU market;
- their capacity to increase their exports of the newly favoured products.

Changes to market access

The EBA initiative will have a direct effect on LLDCs only in cases where there currently exist restrictions on their access to the European market. The items for which there will be a change are identified in Section 4.

Since the LLDCs already receive relatively favourable access to the European market (see Box 1), many of their exports are already free of restrictions and so will not be affected by EBA. The extent to which the EBA proposal improves upon the *status quo* will vary between states, since some LLDCs are parties to the Cotonou

Box 1. The Commission proposal

The Commission proposes to remove all tariffs and quotas on all imports from LLDCs other than those classified as armaments (those falling in Chapter 93 of the Harmonised System of trade classification). This will be achieved by amending the current Generalised System of Preferences (GSP). It will come into effect for most products from 1 January 2001 except for sugar, rice and bananas — for which the removal of restrictions will be undertaken in three annual tranches, leading to full elimination by 1 January 2004.

At present the LLDCs already receive highly preferential access to the EU market. The 39 that are part of the African, Caribbean and Pacific (ACP) group obtain access under the Cotonou Agreement, which has succeeded the Lomé Convention. The remaining nine LLDCs have benefited for some years from a special tranche of the GSP which provides them with additional preferences over those available to most developing countries.

The main limitations of the proposal are that:

- it suffers from the institutional shortcomings of the GSP compared with, say, the Cotonou Convention (mainly that it is non-contractual, and therefore can be changed at the EU's whim);
- the initiative is subject to a new, special safeguard clause that allows the Commission to withdraw the preferences following 'massive increases in imports … in relation to … usual levels of production and export capacity [of LLDCs]'.

Convention whilst others receive only the GSP.[2]

How great will be the gain resulting from the simple fact that the EU will no longer impose an import tax on LLDC exports, and to whom will it accrue? The Commission estimates that in 1998 these import taxes totalled €7 million. Henceforth, the loss to the European treasuries of this €7 million will be the gain of the suppliers.

But who in the supply chain will receive this €7 million? Unfortunately it is not possible to determine this across the board. It will depend upon relative negotiating power, which will vary between products and countries. Hence, for example, the removal of customs duties could simply mean that importers or retailers make a larger profit (or reduce retail prices). Or it could mean that the supplying countries (or the producers therein) receive higher prices. Or, most likely, it could be some combination of these two.

But, in any event, it is likely to result in *some* improvement for LLDCs. Obviously if LLDC suppliers gain the full benefit of the tax relief they will earn more. But even if the entire windfall gain were to be absorbed by importers or retailers, this would increase their incentive to buy from LLDCs (rather than from other suppliers on whom import taxes are still levied), and so would result in some (diminished) gain for LLDCs in the form of an increase in their export volume.

At this stage of analysis this is about as far as it is possible to go. It might well make sense, given the conclusions in this report that the gains will be concentrated on a very small number of items, to undertake more detailed studies of the market structures concerned in order to predict (and monitor) how much of the gain filters back to the producers of the goods and how much is absorbed by intermediaries.

Box 2. Measuring supply response

How likely is it that LLDC exports will rise? This is a difficult question to answer, partly because LLDC statistics are poor — see Box 4 — but also because EBA is radical. It is offering free access to products like sugar and rice that fall under the Common Agricultural Policy (CAP).

As the Commission proposal itself notes, the very high level of protection that the EU affords to European farmers through the CAP may well have suffocated past exports from LLDCs in those products facing the highest import barriers. Hence the record of past LLDC exports to the EU will provide an incomplete picture of their supply capacity. By removing all barriers on imports, EBA would open up, for the first time, the possibility of LLDCs starting to export such products on a significant scale. But how can one establish if this is likely, and how great the exports might be? This report provides a first estimate.

Supply capacity

If LLDC producers earn more they may be able to afford to increase the volume of their exports. If so, the ultimate impact of EBA could be much greater. If, for example, Bangladesh were able to divert some of its existing exports from lower-priced markets to the EU, or even to increase production so that it could export more *in toto*, the additional export revenue would be a dynamic gain from the EBA change.

Whilst it is unrealistic to expect the EBA to have a major *absolute* impact on the volume of imports into the EU market — most LLDCs do not have a large exportable surplus — there could be some export growth. And since, as explained in Section 6, it is difficult to predict the scale of such growth, some EU producers and developing countries have been alarmed by EBA. The impact of EBA could be significant for competitors for one or both of two reasons. First, even an absolutely small increase in exports could be important in *relative terms.* The costs to competing developing countries could be relatively high if exports were concentrated in products of particular sensitivity or in intricately regulated EU markets. This may be the case with sugar.

Second, LLDCs may increase their exports to the EU above current levels by:

- diverting sales from other markets;
- increasing imports for domestic consumption to allow a higher proportion of production to be exported;
- or, in the longer term, by increasing total production.

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2 The Cotonou Convention, finalised in 2000, is the successor to the Lomé Conventions that have provided countries in sub-Saharan Africa, the Caribbean and the Pacific (the ACP) with preferential access to the EU market since 1975.

All three ways, but especially the first two, are more likely to occur if EU prices are significantly higher than those elsewhere. And this is more likely to be the case for products in which EU protectionism (from which LLDCs will be relieved) is high. The extreme case is provided by sugar, with EU prices 3–4 times higher than world market prices.

This report examines three features of LLDCs that, between them, provide a broad guide to potential supply capacity. These are:

- present exports to the EU;
- exports to the rest of the world: if an LLDC is able to export to other countries products that do not feature in its basket of exports to the EU, and if such products face heavy EU import restrictions, it is reasonable to suppose that the EBA *might* result in the emergence of new LLDC exports to the EU. If, by contrast, an LLDC is not exporting the product on any scale to anywhere in the world, it is probably unrealistic to expect substantial exports to the EU to emerge in the short to medium term, even if the country produces the product for domestic consumption.
- domestic production levels.

Illegitimate effects

This approach provides a broad guide to the potential scale of legitimate exports, but what if non-LLDC states attempted to pass off their production as if it were of LLDC origin? The EU proposal contains provisions outlawing fraud, such as the re-labelling of produce from non-LLDCs in order to obtain EBA treatment, but there are legitimate reasons why other exporters might consider these to be inadequate. The first is that policing the system depends upon the EU's anti-fraud personnel and/or interested parties. The Commission needs to take steps to provide reassurances that the former will be as assiduous as competing exporters would wish. This is because if domestic public and private actors in the EU choose not to stamp out fraud, there is little that competing exporters can do; their interests are not under their own control. Moreover, fraud negates the objective of assisting LLDCs. If fraud is identified and action taken, it must have a quick effect. Otherwise by the time the fraud is stamped out much damage may have been done to legitimate trade.

4. Changes to Market Access

The EBA will affect LLDC trade only for products on which:

- they currently pay an import tax in the EU;
- they have a supply capacity.

This section of the report identifies the items on which the EU currently levies an import tax and in which LLDCs are known to have a supply capacity — because they already export them to the EU. The methodology used to identify this core group of affected commodities is described in Box 3. Essentially, it involves identifying all the most important EU imports from LLDCs and the current import restrictions on these items faced by ACP LLDCs and non-ACP LLDCs.

The sifting process described in Box 3 results in a very small number of items that are current LLDC exports to the EU and for which EBA will result in a change in import regime. The detailed list of items concerned is provided in Table 1). The broader product groups into which these fall, half of which face delayed implementation, are:

- beef;
- cheese;
- maize;
- bananas;
- rice;

Box 3. Methodology

The analysis of current LLDC exports has involved a review of 1997 EU trade statistics to identify some 2,939 items currently imported from at least one LLDC. These are often narrowly defined varieties or types of broader products (e.g. there are many sub-categories of rice, of which two are significant LLDC exports). Of these, 502 items are exported to a value from the whole LLDC group of €500,000 or more, and only these most important items have been considered further. And of these, only 11 do not currently have duty- and quota-free access. These are the items for which EBA will make an immediate difference.

♦ sugar.

The small number of products affected directly is not surprising. All LLDCs currently receive duty-free access to the EU for all of their industrial exports and for most of their primary product exports other than those covered by the Common Agricultural or Fisheries Policies. Hence, the EBA will result in a change in access only for the limited number of temperate agricultural products that are currently restricted.

Table 1. The LLDCs' current exports to the EU that will be affected by EBA

CN_1997	Description	Current import restrictions (1999 [a])	
		non-ACP LLDCs	*ACP LLDCs*
02023090	frozen bovine boned meat	9.8%+€332.6/100kg	0%+€332.6/100kg; Protocol K0%+€28.8/100kg
04069021	cheddar (excl. grated or powdered and for processing)	No preference	K€63.9/100kg
07099060	fresh or chilled sweetcorn	No preference	€10.1/100kg
08030019	bananas, fresh (excl. plantains)	No preference	€508/1000kg (K0)
10059000	maize (excl. seed)	No preference	€75.19/T [b]
10062017	long grain husked –brown- rice, length/width ratio >=3, parboiled	Bangladesh K€109.82/1000kg; no preference	P€75.57/1000kg
10063098	wholly milled long grain rice, length/width ratio >= 3, (excl. parboiled)	Bangladesh K€232.09/1000kg; no preference	P€160.51/1000kg
17011110	raw cane sugar, for refining (excl. added flavouring or colouring)	No preference	K0; Protocol 0
17011190	raw cane sugar (excl. for refining and added flavouring or colouring)	No preference	K0; Protocol 0
17019910	white sugar, containing in dry state>= 99.5 % sucrose (excl. flavoured or coloured)	No preference	K0; Protocol 0 (for 1 item out of 2)
17031000	cane molasses resulting from the extraction or refining of sugar	No preference	K0

Note:
(a) 'K' denotes rate within quota; 'P' denotes ceiling.
Sources: Eurostat 1998; Taric 1999.

On the other hand, the potential competitive advantage that EBA would confer on LLDCs could be substantial. The restrictions currently facing LLDC exports, which will be removed by EBA, are substantial: in all cases, the import regime facing LLDCs and other suppliers is highly protectionist.

Which LLDCs will see the greatest improvement in market access? The answer is that the gains from the EBA are greatest for the non-ACP LLDCs because the *status quo* is less favourable for them than it is for the ACP states. For eight out of the 11 items, non-ACP LLDCs currently receive no preference over the standard tariff payable by industrialised countries (the EU's most-favoured-nation (MFN) tariff), and for two items only one non-ACP LLDC — Bangladesh — obtains a preference.

In broad terms, the ACP LLDCs (or some of them) already receive preferences on all 11 items. But these preferences are in most cases less favourable than the Commission is now proposing for LLDCs. Hence even the ACP LLDCs will gain from EBA.

The detailed picture for the ACP least developed is a little more complicated, but tends to reinforce the conclusion that the group will gain from EBA. First, not all ACP currently receive a preference on all items. In the case of sugar and beef, only those countries that are parties to the Cotonou Sugar and Beef Protocols benefit.[3]

Second, the comparison between relative benefits of the current regime for sugar and bananas with EBA is complicated. ACP Sugar Protocol beneficiaries obtain duty-free access. This benefit is quota limited, whereas EBA is not. On the other hand, the Sugar Protocol provides that ACP beneficiaries will receive prices related to

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3 All the ACP LLDC exporters of the sugar items identified (Madagascar, Malawi, Tanzania and Zambia) are Sugar Protocol beneficiaries. Of the beef item exporters, only Madagascar benefits from the Beef Protocol: Burkina Faso, Chad, Liberia and Uganda do not.

those applying within the EU. Under EBA the price received by LLDCs would be subject to negotiation with importers, and is likely to be much lower (since the world price is one-quarter to one-third of the EU level). In other words, EBA allows LLDCs to export unlimited quantities of sugar to the EU (subject to the safeguard clause), but at lower prices, probably much lower, than apply to the quota-restricted preferences of the Sugar Protocol.

The case of bananas is nominally the same — the Cotonou regime provides duty-free entry, but only for a quota. In practice, however, for all of the ACP banana suppliers save Cameroon and Côte d'Ivoire, the quota matches or exceeds their supply capacity. So, in practice, they have duty-free access for all they can supply. EBA would represent an improvement only for ACP LLDCs that might emerge in future as significant exporters.

5. Which Countries Will Be Affected?

Two groups of countries will be affected by EBA:

- the LLDCs, for which access terms will be improved; and
- other suppliers to the EU market, whose competitive position will be adversely affected.

Some of the competitors already benefit from preferential access of their own, but in most cases their access is less favourable than is proposed under EBA. The ACP states that are not least developed receive the same benefits as ACP LLDCs, as described in Table 1 (with the caveats on Protocol membership). For five of the items (beef, cheddar, maize and both kinds of rice) some non-ACP states also receive preferences.

In all cases other than long-grain rice (for which India and Pakistan receive duty-free access for some sub-items), all importers face *some* import restrictions. Hence they will be at a competitive disadvantage to the LLDCs following implementation of EBA.

The extent of this disadvantage can be gauged from Table 2, which shows the tariff regime applying to non-LLDC suppliers. From this one can identify four broad groups of supplier:

- non-ACP LLDCs, for which the relative improvement in access terms will be greatest;
- ACP LLDCs, which will also benefit from improved access but to a lesser extent because their current regime is more favourable;
- other preference receivers, including both non-least developed ACP states and the countries of the Mediterranean, Eastern Europe and, in some cases, South Asia; they will be at a competitive disadvantage to the LLDCs but this will be partly mitigated by their preferential access;
- other suppliers facing full MFN tariffs (including Mercosur, non-LLDC members of the Association of South East Asian Nations (ASEAN)[4] and, for most items, India and Pakistan); they will face the greatest competitive disadvantage *vis-à-vis* LLDCs.

[4] Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.

Table 2. Import restrictions faced by non-LLDC states

CN_1997	Description	Current import restrictions (1999 [a])		
		MFN	*Preferential regimes*	
			ACP	Non-ACP
02023090	frozen bovine boned meat	14%+€332.6/100 kg	0%+€332.6/100kg	Turkey 0%+€332.6/100kg; Poland, Hungary, Czech/Slovak Reps, Romania, Bulgaria K2.8%+€66.5/100kg
04069021	cheddar (excl. grated or powdered and for processing)	€182.8/100kg (K€13.75 to 21/100kg)	K€63.9/100kg	Within quota, Poland, Hungary, Czech/Slovak Reps, Romania, Bulgaria Estonia, Lithuania, Latvia, Slovenia all better than ACP — c. €36.5/100kg
07099060	fresh or chilled sweetcorn	€10.3/100kg	€10.1/100kg	None
08030019	bananas, fresh (excl. plantains)	€708/1000kg (K€75/1000kg)	€508/1000kg (K0)	None
10059000	maize (excl. seed)	€94/T [b]	€75.19/T [b]	Hungary K€110/1000kg
10062017	long grain husked –brown- rice, length/width ratio >=3, parboiled	€228.31/1000kg (K€88/1000kg)	P€75.57/1000kg	India 0 for 2 out of 3 items; Pakistan 0 for 1 out of 3 items; Egypt K€171.23/1000kg for all.
10063098	wholly milled long grain rice, length/width ratio >= 3, (excl. parboiled)	€494/1000kg (K0)	P€160.51/1000kg	Egypt K€370.5/1000kg
17011110	raw cane sugar, for refining (excl. added flavouring or colouring)	€35.3/100kg	K0	None
17011190	raw cane sugar (excl. for refining and added flavouring or colouring)	€43.7/100kg	K0	None
17019910	white sugar, containing in dry state>= 99.5 % sucrose (excl. flavoured or coloured)	€43.7/100kg	K0	None
17031000	cane molasses resulting from the extraction or refining of sugar	€0.37/100kg	K0	None

Note:
(a) ‘K’ denotes rate within quota; ‘P’ denotes ceiling.
(b) It is exceptionally difficult to establish the MFN or ACP tariff rate for this item from Taric. These rates are those given in the Commission’s list ‘Annex 2. Products to be liberalized for LDC countries’, dated 20 September 2000. The rate shown for Hungary does come from Taric, and is for 1999.
Sources: Eurostat 1998; Taric 1999.

Which of these groups exports most to the EU? The relative scale of each as a source of EU imports is set out in Table 3, from which it is possible to judge in very broad terms the countries that are likely to be affected most (for good or ill).

Table 3. EU imports of important items by tariff regime (1997, €000)

CN_1997	Description	Value of EU imports (1997, €000) from:				
		LLDCs		***ACP non-LLDCs***	***Other preference beneficiaries*** [a]	***MFN*** [b]
		non-ACP	*ACP*			
02023090	frozen bovine boned meat	0	1,407	17,675	0	251,357
04069021	cheddar (excl. grated or powdered and for processing)	0	4,536	40	0	71,510
07099060	fresh or chilled sweetcorn	0	2,253	2,082	0	12,994
08030019	bananas, fresh (excl. plantains)	0	12,010	416,200	0	1,214,881
10059000	maize (excl. seed)	0	2,045	313	872	130,580
10062017	long grain husked –brown- rice, length/width ratio >=3, parboiled	0	574	450	3,725	67,915
10063098	wholly milled long grain rice, length/width ratio >= 3, (excl. parboiled)	47	551	1,694	0	33,401
17011110	raw cane sugar, for refining (excl. added flavouring or colouring)	0	37,227	758,259	0	0
17011190	raw cane sugar (excl. for refining and added flavouring or colouring)	0	12,444	45,670	0	4,989

CN_1997	Description	Value of EU imports (1997, €000) from:				
		LLDCs		*ACP non-LLDCs*	*Other preference beneficiaries*[a]	*MFN*[b]
		non-ACP	*ACP*			
17019910	white sugar, containing in dry state>= 99.5 % sucrose (excl. flavoured or coloured)	306	11,206	12,343	12,829	5,055
17031000	cane molasses resulting from the extraction or refining of sugar	8	11,360	9,441	0	110,803
	Total these items	**361**	**95,613**	**1,264,167**	**17,426**	**1,903,485**

Notes:
(a) Includes the export values of only those countries for which the item in question accounted for 5% or more of total EU imports from Extra in 1999.
(b) As (a); also includes the value of exports from Standard GSP beneficiaries (as none of the items is covered by the Standard GSP).
Sources: Eurostat 1998.

Potential beneficiaries

The ACP LLDCs are currently far more important suppliers of the affected items than are non-ACP LLDCs. EU imports from the ACP LLDCs totalled €95 million in 1997; from non-ACP LLDCs they totalled only €361,000. Indeed, the only non-ACP LLDC suppliers of the items covered in Table 3 are Bangladesh (rice, sugar and molasses), Myanmar (rice and sugar) and Cambodia (rice). And Myanmar is currently suspended from the GSP for human rights abuses, and so will not be eligible for EBA unless it is reinstated at some time in the future.

Potential casualties

Of the countries that will face a competitive challenge, the MFN suppliers currently supply over half of total EU imports. For most items these include, in addition to the OECD states, many developing countries, including those in South Asia (apart from Bangladesh), Mercosur and South East Asia. These states receive preferences for some of their exports, but these do not cover most of the items for which EBA will favour LLDCs. The second-largest group of suppliers is the non-least developed ACP states.

The countries most involved, for all products except the problematic ones of bananas and sugar (dealt with in Section 6), are set out in Table 4. This notes all countries supplying 3% or more of EU imports of the 11 items in 1999. The countries that will face increased competition on the greatest number of items are:

- USA — five items;
- Argentina — two items;
- India — two items;
- Pakistan — two items;
- Thailand — two items.

As a double-check, in case the thresholds in Table 4 are set unrealistically high and cloak potential competition for poor or very small developing countries, they have been lowered to 1999 exports of €1 million or more just for ACP states. This adds the following countries as potential casualties:

- Zimbabwe in relation to beef; and
- Mauritius, Senegal, Belize and Guyana in relation to molasses.

Table 4. Competitor countries with significant market share, 1999

Product	Competitors (in order of share of EU imports 1999)
Beef	Brazil, Argentina, Uruguay, New Zealand, Botswana
Cheddar	New Zealand, Canada, Australia
Sweetcorn	Thailand, USA, Zimbabwe, Israel, South Africa
Maize	Argentina, Hungary, USA
Long-grain husked brown rice	USA, India, Pakistan
Wholly milled long grain rice	Thailand, USA, India, Surinam
Cane molasses	Pakistan, USA, Egypt, Guatemala
Source: Eurostat 2000.	

6. Potential Dynamic Effects

The hope with any trade liberalisation such as EBA is that it will provoke a dynamic response, leading to increased trade of a mutually beneficial kind. The Commission's proposal for EBA specifically expresses the expectation that there will be a dynamic response. This would increase the potential gains for LLDCs — and costs for their competitors. How likely is it to occur?

The scope for a dynamic increase in trade is always a speculative affair, and this is particularly the case with LLDCs because of the scarcity of data (see Box 4). But at least a flavour of the potential for trade growth can be obtained by examining in turn each of the main areas in which evidence is available. These are:

- the trend on LLDCs exports to the EU;
- the scale of LLDC exports to the world;
- the level of LLDC production.

Trend in exports to the EU

What does the history of LLDC exports to the EU tell us about their apparent capacity to supply European consumers? Do we observe a generally upward trend in the value and volume of exports to which EBA could provide a fillip? Or are exports static, leaving open the possibility that EBA could jump-start a more favourable move? Finally, is the trend downwards, so that the initial expectation of EBA is that it helps to slow down or halt the adverse trend?

The overall picture painted by information on the trend in the value of EU imports from LLDC and non-LLDC suppliers of the 11 most likely affected commodities is pretty bleak (see Table 5). In just over half of the items the ACP least developed states have seen a substantial decline in the value of their exports to the EU over the period 1995–9. If sugar is excluded (given that it is a special case, as explained above), there have been declines in five out of the seven remaining items. Only maize/sweetcorn have achieved growth, and this is from extremely low initial levels (€2,000 and €0.5 million respectively).

Box 4. LLDC statistics

When estimating the static gains from EBA it is necessary only to look at EU import statistics: what products does Europe import from LLDCs, and how large are import taxes at present? But to gauge the potential dynamic effects we need to look at LLDC exports to the world. And here we have a problem of statistics.

A number of bodies collect statistics on world trade, including the United Nations Statistics Division (UNSD) and, in the case of agriculture, FAO. For larger countries these data are compiled from their export statistics. But many LLDCs do not supply export statistics to the UNSD or FAO. For those states not supplying statistics, exports have to be estimated using the import statistics of their main trade partners. This is obviously an imprecise measure.

As is clear in Section 6 of this report, where we compare the FAO's figures on the LLDCs' global exports with those from the EU Statistical Office on their trade with Europe, there are huge discrepancies. This makes it impossible to provide anything more than a very general analysis of the potential dynamic gains.

Table 5. Average annual change in value of EU imports of important items by tariff regime, 1995–9

CN 1997	Description	Average annual change (1995–9 [a]) in EU imports from [b]:				
		LLDCs		*ACP non-LLDCs*	*Other preference beneficiaries*	*MFN*
		non-ACP	*ACP*			
02023090	frozen bovine boned meat	26% [c]	-55.6%	-13.6%	---	10.6%

<table>
<tr><th rowspan="3">CN 1997</th><th rowspan="3">Description</th><th colspan="5">Average annual change (1995–9 [a]) in EU imports from [b]:</th></tr>
<tr><th colspan="2">LLDCs</th><th rowspan="2">ACP non-LLDCs</th><th rowspan="2">Other preference beneficiaries</th><th rowspan="2">MFN</th></tr>
<tr><th>non-ACP</th><th>ACP</th></tr>
<tr><td>04069021</td><td>cheddar (excl. grated or powdered and for processing)</td><td>---</td><td>-24.4% [d]</td><td>-51.0%</td><td>---</td><td>30.0%</td></tr>
<tr><td>07099060</td><td>fresh or chilled sweetcorn</td><td>---</td><td>28.7%</td><td>30.0%</td><td>---</td><td>4.1%</td></tr>
<tr><td>08030019</td><td>bananas, fresh (excl. plantains)</td><td>---</td><td>-62.3%</td><td>1.0%</td><td>---</td><td>3.6%</td></tr>
<tr><td>10059000</td><td>maize (excl. seed)</td><td>---</td><td>243.1%</td><td>-14.9%</td><td>128.6%</td><td>36.3%</td></tr>
<tr><td>10062017</td><td>long grain husked -brown- rice, length/width ratio >=3, parboiled</td><td>---</td><td>-79.6% [e]</td><td>-1.7% [e]</td><td>102.5%</td><td>5.6%</td></tr>
<tr><td>10063098</td><td>wholly milled long grain rice, length/width ratio >= 3, (excl. parboiled)</td><td>1075.0% [f]</td><td>-18.6% [e]</td><td>120.1%</td><td>---</td><td>19.2%</td></tr>
<tr><td>17011110</td><td>raw cane sugar, for refining (excl. added flavouring or colouring)</td><td>---</td><td>20.7%</td><td>3.1%</td><td>---</td><td>---</td></tr>
<tr><td>17011190</td><td>raw cane sugar (excl. for refining and added flavouring or colouring)</td><td>1.6% [g]</td><td>-3.2%</td><td>-3.0%</td><td>---</td><td>8.4%</td></tr>
<tr><td>17019910</td><td>white sugar, containing in dry state>= 99.5 % sucrose (excl. flavoured or coloured)</td><td>529.9%</td><td>8.6%</td><td>-2.4%</td><td>50%</td><td>-3.7%</td></tr>
<tr><td>17031000</td><td>cane molasses resulting from the extraction or refining of sugar</td><td>300% [h]</td><td>0.5%</td><td>-5.9%</td><td>---</td><td>-8.9%</td></tr>
</table>

Notes:
(a) Unless otherwise stated.
(b) The allocation of countries' export values to tariff regime is the same as in Table 4.
(c) 1995–8 only.
(d) 1996–8 only.
(e) 1997–9 only.
(f) 1996-7 only.
(g) 1998-9 only.
(h) 1997–8 only.
Sources: Eurostat 1998, 1999, 2000.

The situation for non-ACP LLDCs is even worse. In only two of the five items in which they exported to the EU in 1997 were there still sales in 1999. So, although all of the growth rates recorded in Table 5 are positive, the fact that exports did not occur in every year underlines the fragile supply capacity of these states.

Table 5 also covers the LLDCs' competitors. It shows that imports from states paying MFN tariffs (which include developing countries benefiting only from the Standard GSP) and other preference beneficiaries (Hungary and India) have mainly increased in value over the period.

But for ACP states other than the least developed there is a similar picture of decline: if sugar is excluded, the value of exports declined for four of the seven remaining items.

Global exports

The broad picture

What evidence is there on the extent to which least developed countries are exporting to the rest of the world products that will be affected by EBA? We can answer this question only in general terms because the statistics on the global exports of LLDCs are poor (see Box 5), and those available from FAO specifically on agriculture are for much broader product categories than those in which the EBA offer is couched. This means, for example, that it is not possible to compare each and every LLDC global export with its current and EBA treatment. If this had been possible, we could have picked up products which are not exported at all to the EU (perhaps because of very high protectionist barriers) to provide a detailed list of potential new exports.

Instead, all that is feasible is to identify broad product categories in which the LLDCs' global exports are substantially greater than their exports to the EU. This can be taken as *prima facie* evidence that it *might* be possible to divert sales to the EU following EBA.

The products for which such *prima facie* evidence exists are set out in Table 6. Some degree of judgement has been exercised in compiling this table, which contains most products for which:

- FAO and EU data are sufficiently comparable;
- in which exports to the world are substantial (over $1 million per country);
- and which exceed by a significant margin those to the EU.

These are the products where there is the greatest objective evidence of a supply capacity that exceeds the current level of exports to the EU.

Box 5. LLDC global exports

There are so many differences between the FAO figures on the global exports of LLDCs for the products most likely to be affected by EBA and those from the European Statistical Office on their exports to the EU that considerable caution must be exercised. For example, the EU statistics show sweetcorn imports from Zambia and Gambia of €2 million in 1997; according to FAO, no LLDC exports this product! And the EU's figure for imports of molasses from Tanzania are over six times larger than FAO's figures for Tanzania's total exports to the world of this product.

In the circumstances, the global statistics are probably a useful guide only in cases where they suggest there exists a large export capacity which is not reflected in EU import figures.

Table 6. Substantial LLDC global exports, 1997

Product	Exporter	Exports (1997, $ million) to:	
		World	*EU*
Beef	Sudan	4.1	0
Maize	Uganda Myanmar Sudan	17.8 12.5 1.4	0 0 0
Rice [a]	Myanmar Malawi	20.0 1.5	0.01 0
Cane sugar [b]	Zambia Malawi Mozambique Tanzania Madagascar Myanmar	25.0 23.0 14.8 8.0 5.0 4.8	26.4 20.1 0 7.9 3.4 0
Refined sugar	Sudan Malawi	26.4 1.6	0 3.5

Notes:
(a) FAO figures are for milled paddy rice; EU figures are for milled long-grain rice.
(b) FAO figures are for 'sugar (centrifugal, raw)'; EU figures are for 'cane sugar for refining' plus 'cane sugar excl. for refining'.
Sources: Eurostat 1998; FAO 1998.

Undoubtedly there are some cases in which the product in question is not suitable for export to the EU. But it is not possible to determine without product-by-product market analysis the 'genuine cases' of potential increased supply. Table 6 represents, therefore, a *long-list* of potential 'exports' that needs to be slimmed down through more detailed research.

For the products other than sugar, the long-list in Table 6 suggests that the principal potential beneficiaries of the dynamic effects of EBA would be:

- Sudan — in relation to beef, and to a marginal extent maize;
- Uganda — in relation to maize;
- Malawi — in relation (marginally) to rice.

In addition, Myanmar could benefit in relation to maize and rice if its human rights record improves and it is restored to GSP status.

Supposing that LLDCs could divert to the EU their entire global exports (which is the extreme, hardly realistic case), what impact would it have on EU imports? Table 7 shows, for each broad product group, the value of the global exports for all LLDC states in 1997 as a proportion of total EU imports from all sources of the products that might be affected by EBA. The table is based upon the broad FAO product groups (because these are the only ones for which global LLDC exports are known). This has the advantage for the present exercise that it casts the net broadly and brings in product varieties that LLDCs do not export to the EU.

Table 7. LLDC global exports in relation to EU global imports, 1997.

FAO product group	HS codes [a]	LLDC global exports as a proportion of EU imports from Extra-EU, 1997
Beef and veal	020110/20, 020210/20*	15.7%
Beef and veal, boneless	020130, 020230*	0.4%
Cheese (whole cow milk)	0406*	0.02%
Green corn (maize) [b]	070990*	no LLDC exports
Bananas	0803*	0.7%
Maize	1005	5.9%
Rice	100610/20/30/40	5.3%
Sugar (centrifugal, raw)	170111/12*	7.4%
Sugar refined	170191/99	44.0%
Molasses	1703	2.9%

Note:

(a) The HS codes included in the FAO product group, according to FAO's concordance. An asterisk denotes that the HS codes shown (and used to obtain the EU import data on which the percentages in the next column are based) are broader in coverage than the FAO product group.

(b) The HS code listed in FAO's concordance indicates that this is sweetcorn.

Sources: Eurostat 1998; FAO 1998.

The picture painted for most products is of the LLDCs as marginal suppliers. For four of the 10 products (both types of rice are included in the FAO group 'Rice'), the LLDCs' global exports are less than 1% of EU imports, and for a further four they are less than 10%. Only in the cases of beef and veal and, especially, refined sugar is it plausible to suppose that LLDCs could have a significant *absolute* impact on EU markets. And refined sugar is not heavily traded; cane sugar is normally refined in the market where it is consumed. It is very questionable whether the quality of refined sugar from Sudan is such that its sales could be transferred from the regional market to the EU.

The special case of sugar

The greatest concern about EBA has been expressed so far by EU sugar producers and the main ACP sugar exporters. Both are concerned that LLDC exports may displace their own production, but the fears of the ACP seem much more soundly based.

At present 18 ACP states are able to export cane sugar to the EU under one or both of two agreements. The Sugar Protocol attached to the Cotonou Convention guarantees that the EU will purchase 1.3 million tons from some of these states (plus India) duty free and at EU domestic prices. In addition, the EU imports a variable quantity of cane sugar from ACP states under the Special Preferential Sugar (SPS) Agreement at a reduced tariff and a price related to the EU domestic price.[5]

The total cane sugar exports in 1997 of all LLDCs (including minor suppliers not identified separately in Table 6) were 190,600 tonnes, of which about half are already directed to the EU.[6] Figures for 2000/01 suggest that the Sugar Protocol and SPS will cover exports from ACP LLDCs of some 73,477 tonnes of white sugar equivalent (or some 40% of the total). Only Mozambique among the ACP LLDCs does not benefit from either the Sugar Protocol or SPS.

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5 The SPS Agreement was made after Portugal, which has a cane refining industry that needs to be supplied, joined the EU.

6 The FAO figures on total exports and those from the EU on its imports are not necessarily directly comparable, because the descriptions are different and the underlying concordances opaque. But there is no obvious reason to suppose that they are so different as to vitiate any broad comparison of this kind.

Set against these figures, the fears expressed by the EU sugar lobby of a massive rise in LLDC exports appear to be puzzling. These are of immediate potential additional exports of LLDC states of between 300,000 and 500,000 tonnes. This could rise, it is claimed, over three years to over 3 million tonnes, and to 4.5 million tonnes over five years. In contrast to these extravagant fears, the gap between LLDC global exports and those made to the EU suggests a potential maximum immediate increase in supply of only around 100,000 tonnes.[7]

But just because LLDC exports appear (from FAO data) unlikely to rise massively, they might still cause problems. Even if the increase in LLDC sugar exports were relatively small in the short term, the effect could be damaging for the ACP. This is because of the nature of the EU sugar regime, which means that *any* increase in imports from new sources could be at the expense of existing suppliers.

Under EBA, LLDCs will have access to the EU market at zero tariff but at a price negotiated with importers; under SPS, ACP suppliers have access to the EU market at a reduced tariff but at a price related to the EU price. In other words, LLDC sugar will be cheaper for importers than ACP sugar. Even if EBA were to be accompanied by a reduction to zero of the tariff payable by ACP suppliers under SPS, LLDC sugar would still be cheaper so long as the SPS price is related to EU levels.

The underlying problem is that the EU is in surplus supply, and current reforms of the domestic sugar regime are intended to cut domestic production quotas. It is hard to see how there can be any complete resolution of the conflict between LLDCs and ACP in these circumstances. Almost by definition, any gain for the LLDCs is likely to be an offsetting loss for the ACP. Even if the imports initially displace domestic EU production rather than ACP exports (which is unlikely, given the high cost of Caribbean cane sugar), the result will be an increase in EU dumped exports onto the world market where they will lower prices still further for ACP states.

Whilst the ACP sugar exporters (especially the high-cost Caribbean ones) will face increased competition, it may be possible to identify palliatives. Unless the sugar lobby can demonstrate that the FAO figures are wrong, and that its are better, attention should be focused on ways to minimise the adverse effects of EBA on the ACP.

Production

The scope for a genuine increase in LLDC production of the commodities that will benefit from EBA is hard to determine from statistics alone. So many factors are involved. The main contribution of this report is to identify the countries/products on which to focus further research.

The countries which arguably have the greatest apparent capacity to increase exports in the medium term are those in which:

- domestic production already satisfies all or most domestic demand; any increase in production can therefore plausibly be made available for export;
- a minimum level of exports already exists; without this it is unrealistic to assume that the human and physical infrastructure is in place for substantial exports.

Relevant production data on the countries fulfilling these criteria for products on which EBA will have an immediate impact are shown in Table 8. In addition, it might be possible for countries to release more production for exports by supplying domestic consumers with imports. The feasibility of this depends critically upon the difference between the import and export prices. It is most likely to be feasible in the cases of rice and, especially, sugar, since the EU price is substantially in excess of world market levels.

Sugar

Since Myanmar is currently not covered by EBA, the potential sources of increased supplies, which require further analysis to determine the feasibility and time-scale of any such growth, are Sudan, Malawi, Madagascar and Zambia. It is far beyond the scope of this report to assess the potential for these states to increase their exports. But the figures point to an apparent implausibility of the stated concerns expressed by the European sugar lobby on the medium-term potential for increased LLDC exports.

If the feared increase in LLDC exports of up to 4.5 million tonnes over five years were to be achieved wholly by increases in production of raw sugar by the states identified in Table 8, it would require a very substantial

7 Even allowing for the differences between FAO and EU figures.

increase. Since Myanmar is suspended from the GSP, the increase would need to occur in Sudan, Malawi, Madagascar and Zambia. Their average 1993–7 production would need to increase almost four-fold to produce an extra 4.5 million tonnes! The average raw sugar production of all LLDCs (including those with no exports) is only 3.3 million tonnes.

Beef

The countries with the greatest apparent scope to increase exports are Madagascar and Sudan. But Madagascar is unable to fill its quota under the Lomé/Cotonou Beef Protocol. This stands at 7,579 tonnes but, as indicated in Table 8, its global exports over 1993–7 averaged only one-third of this level. For Sudan, transport could well be a problem.

Table 8. LLDC production growth potential (countries with production exceeding 90% of domestic supply and average exports 1993–7 of MT 1,000 or more)

Product [a] (FAO product groups)	LLDC exporter [b]	Production as percentage of domestic supply [b]	Global exports [b] (MT 000)	Production [a] (MT 000)
Bovine meat	Madagascar	102%	2.6	144.0
	Vanuatu	234%	2.2	3.8
	Sudan	100%	1.2	221.7
Cheese	None			
Bananas	Somalia	148%	16.7	51.5
	Uganda	100%	1.8	582.0
Maize	Uganda	113%	103.8	813.2
	Myanmar	134%	69.3	273.5
	Madagascar	104%	14.0	171.0
	Laos	112%	6.9	62.0
	Cambodia	107%	3.2	50.5
	Tanzania	90%	1.9	2,309.9
Rice: milled equivalent	Myanmar	108%	392.6	11,796.2
	Malawi	101%	3.4	39.7
	Cambodia	101%	2.0	1,964.9
	Madagascar	97%	1.4	1,656.2
Rice: paddy equivalent	Myanmar	108%	588.6	17,685.4
	Malawi	101%	5.1	59.5
	Cambodia	101%	3.0	2,945.9
	Madagascar	97%	2.1	2,483.0
Sugar: raw	Sudan	113%	64.6	482.8
	Malawi	123%	45.2	190.3
	Zambia	129%	40.1	159.1
	Madagascar	95%	11.8	110.4
	Myanmar	99%	9.1	550.1
Sugar: refined	Sudan	113%	594.4	4,441.8
	Malawi	123%	415.1	1,751.2
	Zambia	129%	368.9	1,463.8
	Madagascar	94%	108.3	884.7

Notes:
(a) No production data relating to sweetcorn or molasses were found.
(a) 1993–7 average.
Source: FAO 1998.

Bananas

The principal basis of developing country concerns over bananas is that the EU market organisation is currently precarious, so that even a modest change in sources of supply could provoke quite radical effects. A principal complaint must be that the EBA comes at a time when overall policy is being created (in this case, the EU's awaited new banana import regime designed to comply with WTO requirements), and it is evidently desirable for the two sets of changes to be integrated in a coherent fashion.

All that this report can add to the analysis is to provide some figures on the apparent supply capacity of LLDC banana producers. The FAO figures suggest that non-ACP LLDCs are insubstantial banana producers. They suggest that only Uganda, apart from Somalia, has a major potential in the short term. Its land-locked situation may be a constraint on early development of this potential (especially given the apparently important role of bananas in domestic consumption).

Maize

Apart from Myanmar (excluded from the GSP), most potential beneficiaries are ACP states which already receive preferences. Moreover, their production is likely to be of white maize. This aside, given what is known about the state of agriculture in most of the African states listed in Table 8, it must be highly questionable whether a substantial increase in exports is feasible.

Rice

Apart from Myanmar, any substantial increase in production/exports would seem most likely to occur in Cambodia and Madagascar. Any further research should be concentrated on the feasibility of increasing exports from these two states in the medium term and identifying offsetting measures to protect the Caribbean economies.

7. Conclusions

The EBA is a welcome initiative. From a development perspective, the principal immediate effects of EBA will be:

- to improve access to the EU market for the exports of ACP LLDCs and, to a much smaller extent, non-ACP LLDCs;
- to increase competition for industrialised countries, other ACP states and the Standard GSP beneficiaries of South Asia, Mercosur, South East Asia and the states of Eastern Europe and the Mediterranean.

Neither the scale of the potential boost to LLDC exports nor the increased competition for other developing countries is likely to be large in absolute terms. For the LLDCs, though, quite small absolute gains are likely to be *relatively* more important because their export base and their international bargaining power are so limited. The only case in which EBA has been shown, so far, to have significant adverse implications for other developing countries is over sugar. This is because the EU market is over-supplied, so that *any* increase in LLDC exports will tend to displace exports from another source, either directly or indirectly if it results in more EU sugar being dumped on the world market. The most likely casualties are the ACP suppliers of SPS sugar. Attention needs to focus on how their interests and those of, say, Mozambique (which could be a significant beneficiary of EBA) can best be accommodated.

These conclusions are based upon an analysis of FAO statistics. Because data collection in LLDCs is poor, these may not be accurate. But, at the very least, the analysis challenges the European sugar lobby to explain how its, very different, figures have been derived. Once the precise source of the forecasts is known it will be possible to assess which set of figures is the more plausible.

Although it has not been a feature of this report, there is another — multilateral — facet of EBA. A constraint on the WTO multilateral negotiations in the WTO is developing country scepticism over the *bona fides* of the EU and other OECD states. Why agree to negotiate, they argue, when the OECD is not genuinely willing to reform itself? EBA is a modest statement of good faith. By contrast, a failure by the EU to approve EBA, the impact of which will be infinitesimally small for Europe compared with multilateral liberalisation, would have a major adverse effect on WTO opinion.

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