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Publisher: Routledge
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Review of African Political Economy

Publication details, including instructions for authors and subscription information:
<http://www.informaworld.com/smpp/title~content=t713443496>

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Online Publication Date: 01 June 2007

To cite this Article: Orbie, Jan (2007) 'The European Union & the Commodity Debate: From Trade to Aid', *Review of African Political Economy*, 34:112, 297 — 311

To link to this article: DOI: 10.1080/03056240701449695
URL: <http://dx.doi.org/10.1080/03056240701449695>

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The European Union & the Commodity Debate: From Trade to Aid

Jan Orbie

This article departs from the renewed interest in commodity market regulation and assesses the position of the European Union (EU) on supply-management in tropical commodities. After sketching the resurgence of the commodity debate on the international trade front, the second section recapitulates the thesis that Europe's trade relations shifted from innovative and interventionist arrangements in the 1970s, to a neo-liberal outlook by the end of the 1990s. Based on this historical account, we examine whether the EU's role has changed during the commodity debate since 2003-2004. The analysis makes clear that, although EU policy-makers and institutions have addressed the issue, supply-management schemes are not considered. Without challenging the mainstream approach to commodity trade, Europe's initiatives with regard to 1) export stabilisation, 2) commodity protocols and 3) market access rather show an evolution 'from trade to aid'. The article concludes with a number of explanations for this recent shift.

The commodity issue is back on the international trade agenda. This article assesses the role of the European Union (EU) – a world power in the trade and development nexus – in this evolution. What is the EU position in the renewed debate on supply-management in tropical products? In particular, what can we learn from Europe's evolving trade policy vis-à-vis the former colonies of the ACP group from Africa, the Caribbean and the Pacific? Does the EU play an innovative role in the commodity debate, or do Europe's trade policies reflect the mainstream neoliberal approach to commodity trade?¹

The 'commodity issue' is broadly defined as the (re)establishment of interventionist trade arrangements that manage the supply of tropical commodities in international trade. Their main objective is to guarantee stable and remunerative prices, for example using buffer stocks (e.g. International Cocoa Agreements) or allocating production quotas (e.g. International Sugar Agreement). Commodity regimes are usually advanced by producing countries (e.g. the OPEC oil cartel; India, Malaysia and Thailand on rubber export), possibly in cooperation with consuming countries (e.g. the International Coffee Agreement). Corporations can also engage in supply-management, as is the case in the diamond market (De Beers).

This article mainly focuses on the EU's evolving trade policy towards the former colonies of Africa. It first sketches the resurgence of the commodity debate on the international trade front. The second section then recapitulates the thesis that Europe's trade relations shifted from innovative and interventionist arrangements in the 1970s, to a neo-liberal outlook by the end of the 1990s. Based on this historical account, the third section examines whether the EU's role has changed during the

commodity debate since 2003-2004. The analysis of EU documents and discourse and of the EU-ACP trade reforms makes clear that, although EU policy-makers and institutions have addressed the issue, supply-management schemes are not considered. Without fundamentally challenging the mainstream approach to trade in commodities, Europe's initiatives with regard to 1) export stabilisation, 2) commodity protocols and 3) market access rather show an evolution 'from trade to aid' which does not challenge the pervasive neoliberalism in contemporary trade politics. The article concludes with a number of explanations for this shift.

The Rise, Decline, & Re-emergence of Interventionism Commodity Trade

Although most commodity arrangements were established in the 1970s, following third world country demands for a New International Economic Order (NIEO), their origin can be traced back to the post-war period of 'embedded liberalism'. Indeed, the architects of the ill-fated International Trade Organisation and the original proposals for the Bretton Woods institutions envisaged interventionist North-South commodity schemes. From an ideological perspective, the NIEO demands can thus be seen as the globalisation of embedded liberalism (Sneyd, 2003; Helleiner, 2006). But because of ideological shifts in the North and fading 'commodity power' in the South, NIEO proposals sank into oblivion during the 1980s. The debt crisis spurred developing countries to adopt structural adjustment programmes (SAPs) as a condition for loans by the World Bank and the International Monetary Fund. Inspired by neo-liberal thinking, these envisaged the privatisation or dismantling of state-controlled marketing boards, and emphasised the liberalisation of trade in commodities. Technical shortcomings, free rider problems among developing countries, and withdrawal of financial support from consuming countries also contributed to the effective erosion of the commodity organisations' interventionist capacity.

Today the institutions created during the NIEO period occupy themselves only with the collection, analysis and dissemination of information and statistics (e.g. the International Cocoa Agreement), and the (co)financing of development projects (e.g. the Common Fund). Although commodity agreements may be allowed under rules of the World Trade Organisation (WTO), its approach to trade in tropical products is largely inspired by neo-liberal thinking. This 'mainstream' approach emphasises liberalisation of market access, elimination of trade-distorting subsidies, compensatory finance and support for diversification, market-based price risk management instruments (e.g. futures, options and swaps), and fair trade labelling (see e.g. Gibbon, 2004:11-20; Green, 2005:97).

In recent years, however, the commodity issue has resurfaced, largely because the neoliberal trade model, dealt with in the next section, has failed to address the underlying problems with Africa's trading relations (see the Goodison & Thompson articles in this issue). Several actors want the value of the supply-management schemes for commodities to be reconsidered. In 2002, Kenya, Uganda, Tanzania and some NGOs joined forces within the WTO, which led to a 'non-paper' about the crisis of primary commodities (WTO, 2003). This document is

of great historical significance [...] because, for the first time in two decades, it puts the issue of the commodity crisis on the agenda of one of the most important trade negotiating forums and makes a clear and radical recommendation for supply management (Robbins, 2003:119-21).

The same is true for an UNCTAD study in 2003,² which noted that markets have not provided, and are unlikely to provide, the necessary solutions to instability and secular decline in commodity prices. Hence, what is required is action at the international level to mitigate the adverse effects of market failure by devising and supporting new international initiatives on commodities [...] despite criticisms advanced by some observers, many of the schemes advanced in the past to deal with the commodity problematic have some merit (UNCTAD, 2003a:55).

UNCTAD subsequently created an Eminent Person's Group on this topic. Their recommendations point to 'measures to reduce the supplies put on the market' such as producer-consumer schemes or joint measures by producers. They also call for a favourable interpretation of WTO rules in this regard (UNCTAD, 2003b:6, 13). At the UNCTAD XI summit (2004), an International Task Force on Commodities was established. The 2005 UNDP *Human Development Report* suggests – in contrast with previous issues – that supply-management may be a better solution than leaving commodity trade to the forces of the world market (UNDP, 2005:142).

Since 2003 the advantages of international commodity arrangements were also highlighted by the group of least developed countries (LDCs; see UNCTAD, 2004:3), NGOs (cf. Oxfam's Coffee Rescue Plan, 2002; Khor, 2005:31; Green, 2005), academics (cf. Sneyd, 2003; Lines, 2004) and other observers (cf. Robbins, 2003). Even the WTO Hong Kong Declaration (2005:10) hints at supply-management solutions. However, this text only mentions the commodity issue in a footnote – saying that there is no consensus in this area. This illustrates, unsurprisingly, that the idea of commodity regulation faces much resistance.³

Ever since President Reagan stopped the NIEO negotiations at the UNCTAD Conference in 1981, the US has resisted calls for interventionist commodity schemes. There are two additional obstacles that limit their political feasibility, compared with the 1970s. First, the most powerful developing countries such as Brazil, Argentina and India perceive themselves as now having more interest in trade liberalisation than in interventionism compared with net importing developing countries (cf. DFID, 2004:19). The dominance of the G-20 may well explain why, in contrast to the NIEO period, the increased assertiveness of developing countries is not accompanied by alternatives to trade liberalisation.⁴ Second, there is the increased power of oligopolistic gatekeepers such as supermarkets, which have a large capacity to influence commodity prices (UNDP, 2005:142-3; Gibbon, 2004:5-11).

The EU has been a pivotal actor in the shaping of Africa's trade regimes with the rest of the world. Since its establishment in the 1950s, it has been involved in a series of comprehensive trade and aid schemes. This is particularly the case for the preferential relationship with its former colonies of the ACP – which consists of 48 countries from sub-Saharan Africa, 16 from the Caribbean and 15 from the Pacific. Moreover, Europe tends to present itself as a leading and benevolent actor vis-à-vis the South. In the past decade, EU trade policy has shifted to a more values-based discourse, questioning the merits of the market for delivering development objectives. The EU was instrumental in calling the WTO negotiations a 'Development Round', highlighting its profile as a force for 'harnessing globalisation' – the favourite motto of former Trade Commissioner Pascal Lamy (cf. Van den Hoven, 2006).

In 2004 Oxfam congratulated the EU for being the first to address the commodity issue (Oxfam, 2004:4). But what exactly does this European involvement consist of? Does the EU promote the (re)consideration of interventionist trade schemes? And what does the evolving relationship with the ACP – the traditional ‘playground’ of Europe’s trade and development policy – tell us about the EU’s position in the commodity debate?

From Lomé to Cotonou: Abandoning the NIEO Model

The abandonment of controlled and preferential trade, which was embedded within Lomé, is also the history of the rise of liberalised trade relations. There are two tales about the Lomé regime. The first one goes back to Galtung’s work of the early 1970s (Galtung, 1973). It considers the Lomé agreements as neo-colonial instruments, or ‘old policies with new means’. Galtung distinguishes three aspects in Europe’s structural power towards Africa: exploitation (unequal gains following interaction), fragmentation (a *divide et impera* policy of the centre towards the periphery) and penetration (the influence of the centre on the periphery’s elite). The Lomé regime is functional in the exploitation of ACP countries, perpetuating African commodity dependency while continuing to protect Europe’s agricultural products.

But this is only one side of the picture. Another line of approach sees the Lomé trade and aid relationship as a model for North-South relations. In the beginning of the 1970s Lomé was indeed seen as a kind of ‘mini-NIEO’ (Hveem, 1980:88-9); as the best available and most comprehensive (but still imperfect) application of the demands for a NIEO. In recent years several scholars (e.g. Raffer, 1999; Arts and Dickson, 2004; Gibb, 2000; Hurt, 2003; Ravenhill, 2004) have reconsidered the Lomé I trade regime as a remarkable (albeit imperfect³) model, usually comparing it with the Cotonou reforms. From a regulation perspective, Gibb (2000:476-7) considers the Lomé regime as the international dimension of the Fordist regulation system. It constituted an international development model based on intervention and economic and social protection. Gibb stresses that Lomé was initially considered as a ‘radical and progressive’ agreement, a system of collective negotiation on the international scene with the intention of reducing the ‘anarchic tendencies of unregulated markets’.

Three aspects of this Lomé model deserve particular attention. In each aspect, the new Cotonou agreement (signed in 2000) has replaced the rather interventionist approach to commodities with more neo-liberally-inspired alternatives. First, the EU wanted to abolish the **export stabilisation schemes** STABEX and SYSMIN. Since ACP states wanted to maintain these instruments (European Commission, 2005:1), the compromise established a more modest ‘FLEX’ scheme. STABEX was designed to remedy the harmful effects of the instability of export earnings. It provided compensatory financing to offset short-term fluctuations in ACP earnings derived from exports of commodities. The system mostly benefited African countries such as Côte d’Ivoire, Senegal, and Cameroon. Despite its shortcomings (slow disbursement, insufficient resources, limited redistributive impact etc.), and in the absence of other adequate instruments, ‘STABEX has helped the ACP countries and their populations by paying (at least partial) compensation for losses of export earnings’ (Koehler, 1997). The abovementioned UNCTAD study also suggests that STABEX worked well under Lomé I, but that from the 1980s the EC did not provide sufficient means (UNCTAD, 2003a:37). In any case, the abolition of STABEX illustrates the paradigmatic shift in Europe’s approach to international trade and development.

Cotonou no longer has a section on commodities. However, Annex II foresees the so-called FLEX system, to compensate for 'losses of export earnings as a result of short-term fluctuations'. Compared with STABEX it is much more restricted in terms of eligibility requirements and financial resources. ACP countries have to suffer a 10 per cent loss in overall export earnings (two per cent in the case of LDCs) and a 10 per cent worsening of the programmed budget deficit. The latter criterion implies that the link with commodity prices is considerably loosened (Page and Hewitt, 2001:39). It has been criticised for hindering countries to pursue counter-cyclical fiscal policy to help sustain growth (Griffith-Jones and Gottschalk, 2005:12).

Because of the high threshold, the amount of disbursements has been low: \$12 million a year on average in 2000-03 to just six of the 51 countries that applied (UNDP, 2005:142). FLEX also has an upper limit for every ACP country, based on historical vulnerability – which may not always be a good forecaster of current vulnerability. For example, Guyana was eligible for FLEX funds in 2000 and 2001, but when it applied again in 2003, it did not receive the resources as these had already been exhausted – although it met the criteria (Griffith-Jones and Gottschalk, 2005:11-12, 18).

Second, also the **commodity protocols** are being reformed. A number of products from ACP countries (sugar, bananas, veal, rum and beef) used to get relatively stable and high prices on the European market. For many ACP states the protocols have generated foreign exchange and employment. Although they are sometimes criticised for perpetuating commodity dependence, they have also encouraged export diversification (e.g. from sugar to clothing and services in Mauritius) (Green, 2005:100). Beneficiaries of the EU-ACP protocols increasingly have to adapt to the mechanisms of the world market. Some European member states wanted to use the opportunity of the post-Lomé reform negotiations to dismantle them. Although this did not happen, these protocols have been undermined during interlinked processes of internal EU agricultural reform and external WTO trade negotiations. Dickson's analysis of the banana protocol concludes that EU preferences are decisive: 'trade liberalisation is now firmly entrenched on the European development agenda precisely because the EU has made WTO compatibility such a key factor in new negotiations' (Dickson, 2004:53-8).

Sugar is a topical example. Between 1973 and 1975 the debate on the Sugar Protocol was 'one of the most hotly debated and, in the end, cliff-hanging components of the entire negotiations leading to Lomé' (Gruhn, 1976:256). The protocol states that the Community undertakes for an indefinite period to import, at guaranteed prices, specific quantities of ACP sugar. ACP countries vainly hoped to extend this 'model' arrangement to other commodities during subsequent Lomé reforms. But just like the other plans for commodity arrangements in the 1970s, this never happened. In recent years the EU-ACP sugar arrangement came under attack from many corners. However, contrary to widespread beliefs, the WTO verdict regarding EU sugar export subsidies does not undermine the protocol; it even underlines that Europe's internal sugar reform should not undermine its commitments towards ACP countries (WTO, 2004:200). But the cut in European sugar prices and the lowering of import duties will negatively affect on the income of ACP sugar producers, in particular Mauritius and the Caribbean countries. Therefore the EU-ACP Sugar Protocol seems to meet the same fate as other International Commodity Agreements: although officially they continue to exist, their capacity to regulate commodity markets is effectively being abolished.

Third, Europe successfully insisted to end **non-reciprocal trade preferences**, so that ACP countries will have to open their markets for European exports. The idea of non-reciprocity also stemmed from the NIEO analysis about worsening terms of trade in North-South relations. Although sensitive EU products were excluded, Lomé provided relatively generous preferences, giving African exporters a competitive advantage to Latin American and Asian competitors. The Cotonou Agreement envisages the establishment of reciprocal free trade agreements (Economic Partnership Agreements or EPAs) between the EU and six ACP regions. Europe's demand for reciprocity arises from the difficulties in negotiating WTO waivers, but it also relates to export interests and ideological considerations. As part of the package to launch a new WTO round in Doha in 2001, the waiver for Lomé preferences was extended until 2008. After this date, the EU and ACP should establish WTO compatible EPAs. Apart from fears about competition from EU industry and service sectors, ACP countries are concerned about decreased tariff revenues, and they are wary about the development-friendliness of the 'WTO-plus' provisions (including services, investment, competition, labour standards etc.) which the EU wants to incorporate in EPAs.

The EU argues that EPAs will stimulate regional integration between developing countries. In Africa, EPAs would encourage regionalisation among the members of the ESA (Eastern and Southern African) countries, the SADC (Southern African Development Community), ECOWAS (Economic Community of West Africa) and a group of Central African countries. Yet, critics state that South-South integration should precede rather than coincide with North-South liberalisation. EPAs may even 'throw in disarray long-standing regional integration plans and initiatives' (Goodison, 2005a:173; see also Stevens, 2006).

At first glance, the much-discussed '**Everything But Arms**' initiative seems to contradict these three trends. Since 2001 this EU regulation grants completely free market access for all LDC products on the European market. EU trade policy discourse has continually emphasised the relevance of EBA as a sign of Europe's development-friendliness through trade. The Commission's communication on commodities (see below) also points to the generosity of EBA. Nevertheless, sensitive products (sugar, rice, and bananas) face transition periods until 2006-09. Europe's rules of origin are also remarkably restrictive, implying that only about half of the LDC products that are theoretically eligible for duty-free access actually receive this treatment. And although EBA grants non-reciprocity to the LDC group, on further consideration, this appears to be the exception that proves the rule (cf. Orbie, 2007). Non-reciprocity is henceforth effectively limited to the least developed. In order to receive substantial market access reductions to the European market, more advanced developing countries should negotiate bilateral and reciprocal free trade agreements with the EU rather than export under the 'normal' GSP system.⁶ Even African LDCs may, in the end, feel obliged to participate in reciprocal trade schemes instead of their non-reciprocal treatment under EBA (cf. Babarinde and Faber, 2004). For example, Southern African LDCs such as Lesotho, Mozambique, Angola and Tanzania will probably form part of the EU-SADC EPA, and Eastern African LDCs such as Zambia, Democratic Republic of Congo and Zimbabwe are negotiating reciprocity under the EU-ESA EPA. Pressure from the EU partly explains why these African LDCs part with their non-reciprocal treatment. Furthermore, these countries want to avoid undermining regional integration projects and prevent their own exclusion from this process. They also hope to benefit from trade-related aspects of

EPAs, such as simplified rules of origins, as well as flanking measures providing financial and technical assistance (see below on 'Aid for Trade').

Finally, EBA proved to be instrumental in the reform of the Lomé trade regime. Distinguishing between LDC ACPs and non-LDC ACPs, it facilitated the weakening of the ACP group as a distinctive political entity on the international scene. This reflects the diminished economic and political importance of the ACP – and in particular the African members – for EU trade relations since the 1990s, with the end of the Cold War and Africa's strategic importance, the emergence of trade partners in Asia and Latin America, and the EU's focus on the near abroad through enlargement and neighbourhood policies. EBA also played a catalysing role in reforming the EU-ACP Sugar Protocol: increased pressure from LDC sugar exports hampered the sustainability of Europe's relatively high and stable sugar prices. The ensuing European sugar market reform has, in turn, reduced the attractiveness of European markets for LDC sugar exporters. In recent years EBA beneficiaries have even called for an amendment of EBA: most LDCs prefer the continuation of relatively fixed and high prices – de facto joining the EU-ACP sugar commodity agreement – rather than free access to the European market at world prices. Somewhat ironically, the EU has argued that such an amendment of EBA would hurt its international credibility (Orbie, 2007).

In short, the NIEO legacy of the EU-ACP trade relationship, including an interventionist approach to commodity trade, was abandoned. The 'spirit of Lomé' had already evaporated with the Lomé II negotiations in 1978-79 (Brown, 2000:373), and by the end of the 1980s the neo-liberal doctrine of the SAPs also left its stamp on Lomé IV (Raffer, 1999:128, 134). But the neo-liberal hegemony manifested itself more radically in the second half of the 1990s. It should be noticed that the post-Lomé reforms were not simply driven by the necessity of WTO compatibility, as often claimed by EU policy-makers. As Stevens (1999:9) stated, 'the WTO is at the centre of these [post-Lomé] negotiations because the EU has placed it there'. Hurt (2003) convincingly argues that the EU's changed trade policy orientation towards the South was inspired by shifts in ideological preferences with EU political elites. Changing economic interests and geographical priorities – away from the former colonies in Africa – also played a role (see also Gibb, 2000; Ravenhill, 2004).

The European Union & the New Commodity Debate

These changes to Europe's trade regime were agreed between 1995 (Commission Green Paper on Lomé reform) and 2000 (signing of Cotonou). The evolution from interventionism to neo-liberalism is well-illustrated in the literature, and fits in with Arts and Dickson's thesis that EU development policy 'has shifted away from making substantive and innovative attempts to contribute to the North-South dialogue [...] to follow global trends much more than before' (Arts and Dickson, 2004:2-3). But this was before the re-emergence of the commodity debate. Therefore we now address two questions that have not been covered by academic research: How has the EU reacted to the renewed interest for more interventionist commodity mechanisms? And to what extent, if at all, has this led to an adjustment of the neo-liberal shift in the EU-ACP relationship in the direction of more interventionist trade policy options?

European Positions on Trade: Moderate Gestures, Little Action

European policy-makers played a stimulating role in the commodity debate. During the Africa-France Summit of February 2003, French President Chirac was the first to end what he called the 'conspiracy of silence' on commodity issues. The above-mentioned UNCTAD study on commodities was even announced as an echo of Chirac's words.⁷ European contributions to the commodity debate did not remain limited to France. In December 2003 the Council approved the Commission's suggestion to elaborate on the commodities issue and to produce an EU action plan. In 2004 the Commission issued a communication and an Action Plan entitled 'Addressing commodity dependence as a priority'. After concluding that some commodity dependent developing countries have been devastated by falling prices, the document identifies two objectives: improving income for producers and reducing vulnerability at producer and macro-levels. Then several challenges are outlined: addressing commodity chains as a strategic priority; coping with price decline; managing commodity risks and accessing finance; diversifying around traditional commodities; successfully integrating in international trade; enhancing sustainable corporate practices and investments. Each time the Commission indicates how the EU could play a role (European Commission, 2004). These initiatives were subsequently adopted by the Council of Ministers and reiterated in the EU Strategy for Africa (2005).

In addition, the Commission for Africa (2005:273), launched by UK Prime Minister Blair, advocated 'an integrated and comprehensive international approach [...] to deal with the commodities problem', including the establishment of a price 'shock' facility. However, it adds that 'past forms of cooperation involving international price stabilisation need to be avoided'. This statement by the Commission for Africa clearly witnesses the resurgence of the commodity debate, but it equally shows the reluctance to engage in more interventionist commodity schemes. This is also the tenor of the Commission and Council documents: a closer look at the EU initiatives reveals that these are, quoting Agence Europe (2004:7), 'far from revolutionary'. The action plan basically boils down to an analysis of the challenges that developing countries are facing and to an enumeration of the instruments that the EU could use. Its emphasis is on supporting diversification, using market-based risk instruments, and increasing supply capacity. At one point the document states:

Experience has taught us that it is not feasible to address structural market imbalances for agricultural commodities through international market intervention. Key conditions for success are not met, and appear unlikely to materialise in the near future. [Commodity dependent developing countries] need other ways to cope with the declining prices (European Commission, 2004:8).

Nevertheless, compared with the preceding Commission staff working paper of August 2003 (European Commission, 2003), this document is more concrete on two subjects. First, while the working paper explicitly excluded the specifics of individual commodities, the cotton issue is highlighted in the final communication. Second, whereas the first paper dwelled on the earlier STABEX mechanism and hardly contains a reference to FLEX, the final document does not mention a word about STABEX but it spends a separate section on the improvement of FLEX. These changes again reflect the increased relevance of the commodity issue in 2003-2004, partly inspired by the breakdown of the WTO summit in Cancún.

The focus on cotton (and not for example on export subsidies in sugar and dairy products, or on the coffee market) is not surprising, since the main scapegoat in this

dossier is the US. The EU is only a minor actor in the international cotton markets. Four West African cotton producing countries (Benin, Burkina Faso, Chad and Mali) managed to make the issue of US cotton export subsidies a symbolic topic within the WTO. In 2004 they won a landmark case before the dispute settlement mechanism (initiated by Brazil). Europe's cotton proposal – the *EU-Africa Partnership on Cotton* – turns out to be a call for the liberalisation of market access and for the abolition of subsidies. It also proposes to partly decouple domestic support to EU producers, reducing trade-distorting effects. In addition, the EU calls for market-based insurance schemes, and it plans to allocate more trade related technical assistance to help African cotton producers. Much of the emphasis lays on national commodity strategies.

Although these measures are certainly helpful for African cotton producers, they seem more symbolic than substantive. Oxfam castigates Europe's lack of political will in considering supply-management solutions:

If the EU wishes to be taken seriously in not just 'raising the profile' of the commodities crisis but seeking to resolve it, it should push for a full review of appropriate supply management methods for those markets ... (Oxfam, 2004:10).⁸

The Commodity Issue in Ongoing EU-ACP Trade Reforms

What about the EU-ACP trade relations after the conclusion of the Cotonou Agreement? Reverting to the three trade topics in the post-Lomé trade reform, some interesting evolutions can be noticed. First, with regard to the **compensation of short-term fluctuations in export earnings**, a modification of the FLEX system was put through. The Commission proposed a number of changes to make the eligibility criteria more flexible. It suggested including land-locked countries and island states to the LDC clause (two per cent loss export earnings instead of 10 per cent) and scrapping the public deficit criterion. The Commission calculated that, had these criteria been applied between 2000-02, ACP countries would have received €255 million through the FLEX system, or six times more than the amount actually disbursed (DFID, 2004:14). But even if this prediction proves correct, the €255 million figure still amounts to only a third of the STABEX disbursements one decade before. In addition, the modified FLEX is more restrictive than the original Commission proposal. At the insistence of member states such as the UK, the amended FLEX reintroduces the second criterion about worsening public deficit, albeit limited to a two per cent instead of a 10 per cent threshold (Gibbon, 2004:12-13). The reform increased the accessibility to FLEX for the application year 2003: out of the 17 eligible countries, seven would not have qualified under the previous system. However, four others (Guyana, Mauritius, Solomon Islands, and Vanuatu) did not receive FLEX assistance because the resources were exhausted when they became eligible (European Commission, 2005:5-6). In 2005 FLEX was further adjusted, adding the 'post-conflict and post natural disaster' ACP states to the two per cent criterion. Another review is planned to improve the speed of delivery and the anti-cyclical impact of the FLEX mechanism.

Apart from FLEX, other instruments are envisaged (European Commission, 2006). The EU is planning to launch an 'All-ACP Commodity Support Programme', financed from the EDF (European Development Fund). This international capacity building programme for agricultural commodities has a budget of €45 million, of which €15 million is set aside for the cotton sector. The EU also contributes €25 million to the new Global Index Insurance Facility under preparation by the World

Bank. This market-based insurance scheme allows insurance coverage for indexable price risks related to weather, disaster and commodities in developing countries. Under the Aid for Trade agenda of the WTO, Europe intends to increase its annual trade-related assistance by 2010 to €1 billion by the member states and €1 billion by the Community (for comparison, in 2001-04 the average annual amount was €300 million by member states and €800 million by the EC). This fits in with Europe's commitment to step up its aid figures and reach the Millennium Development Goals (MDGs).

The renewed commodity debate has not led to amendments of Europe's **commodity protocols**. The agreement to replace Europe's complex arrangements for trade in bananas with a tariff-only import-regime by January 2006 was implemented. Traditional West African (e.g. Cameroon and Côte d'Ivoire) suppliers argue that their banana exports to the EU have drastically decreased in favour of Latin American countries. Europe's sugar reform proposals were elaborated since 2003, in parallel with the commodity debate. But as explained above, this reform considerably reduces the viability of the Sugar Protocol as a commodity agreement. It also remains unclear how, if at all, the commodity protocols will feature in an EPA.⁹

However, both the banana and the sugar reform proposals include aid schemes for affected ACP countries. In 1999 a special fund for assistance to traditional ACP suppliers was established to help them to 'adjust to the new market conditions' and to improve their competitiveness. Funded projects aim at increasing productivity, improving quality, establishing producers' organisations and developing marketing strategies. More recently, a similar facility was established for the Sugar Protocol countries affected by the sugar reform.

Third, the EU continues to insist on **reciprocal market access**. In 2002-03 negotiations with a view to EPAs have started with six ACP regions. Although the ultimate objective remains to establish WTO compatible EPAs, and thus liberalisation of substantially all trade, the EU is likely to make some concessions in the direction of 'EPA Light' schemes. These would involve more flexibility (asymmetric liberalisation, longer transition periods) in the ACP tariff elimination commitments. Moreover, since 2005 the Commission has placed growing emphasis on 'flanking measures' through development aid (Goodison, 2005b:299). The Commission first claimed that it cannot grant aid additional to the EDF, because this is a member state competence, and because this is not foreseen in the Cotonou Agreement and in the Council's negotiation mandate for EPAs. In October 2006 the Council ultimately agreed that member states will provide bilateral funds on top of the EDF.

Intra-European divergences in trade dossiers also emerge. The Blair government played an important role in bringing Africa to the attention of the international donor community, e.g. at the G8 Gleneagles Summit in July 2005. The UK is also fairly critical towards reciprocal EPA liberalisation. A number of other countries support the British scepticism on this issue, but the new EU member states¹⁰ join the European Commission's (especially DG Trade's) goal of full liberalisation (Goodison, 2005b:299). However, the UK shares the Commission's opposition against supply-management in commodity trade. France has been much more proactive in this respect – although its interventionist rhetoric about commodity trade with Africa may be 'cynically opportunistic' (Krosiak, 2004:73). The French government criticised the absence of 'genuine cooperation' between the EU member states and the Commission and the lack of 'effective collaboration' with the international commodity organisations.¹¹ Together with the Commission, France launched a

comparative study on the role of the various international commodity bodies (European Commission, 2006:25).

The commodity issue is thus likely to remain on the EU agenda. But for now there is nothing to indicate that ambitious EU suggestions for regulating commodity trade are in the pipeline. The only evolution that we can distil from the above-mentioned initiatives is an increased emphasis on development aid which does nothing to challenge neoliberal trade mechanisms.

From Trade to Aid

The EU has recognised the seriousness of the commodity crisis and it has played a notable role in the renewed debate on this topic. This is most obviously illustrated by Chirac’s call to end the ‘conspiracy of silence’ during the Africa-France Summit and by the Action Plan proposed by the European Commission. The EU has also taken a number of specific initiatives since 2004, such as the improvement of FLEX, the *EU-Africa Partnership on Cotton*, compensation funds for ACP banana and sugar producers, and ‘Aid for Trade’ budgets in the reformed WTO and EPA regimes. But to date the EU has not supported suggestions to reconsider supply-management mechanisms in commodity trade. Europe’s approach to the commodity debate is largely characterised by the same spirit that spurred the neo-liberal reform of Lomé. It does not substantially derive from its commitments for a more WTO compatible and less interventionist trade regime vis-à-vis the third world, as outlined during the second half of the 1990s. Instead the EU clings to the mainstream agenda to commodities.

Should we then conclude that Europe’s initiatives are old wine in new bottles? Yes and no. One new and noticeable characteristic of the EU’s position on commodities is the increased emphasis on aid. Whereas the post-Lomé reforms showed a shift from interventionist to neo-liberal policies, Europe’s more recent trade initiatives seem to add more aid provisions to this evolution. Table 1 sketches this recent evolution from trade to aid. Nonetheless, it should be noted that the bigger emphasis on development assistance does not imply a reconsideration of arrangements that manage the supply of tropical commodities in international trade. In contrast with the Lomé regime and NIEO thinking, EU aid initiatives are uncoupled from trade mechanisms.

How might one explain this evolution ‘from trade to aid’ in EU policies? For one thing, it basically reflects the emergence of the so-called Post-Washington Consen-

Table 1: Commodities in the EU-ACP Relationship: From Trade to Aid

	Lomé ‘mini-NIEO’ 1975	Cotonou ‘WTO compatibility’ 1995-2000	New commodity debate: EU reforms? 2000+
Export stabilisation	STABEX/SYSMIN	FLEX	New FLEX; capacity building programme
Commodity agreements	Commodity protocols (e.g. sugar, bananas)	Liberalisation erosion	Compensation banana/sugar (aid funds)
Market access	Non-reciprocal market access	Reciprocal EPAs	Flexibility, flanking measures Aid for Trade

sus (PWC) at the international level. In contrast with the neo-liberal inspired recipes that took root in the 1980s, the PWC emphasises the importance of domestic institutions in fostering market-based development. On the international level it argues that developed countries should double their aid budgets in order to achieve the MDGs; and it also advocates the dismantling of high tariff barriers and export subsidies in Northern agricultural markets. However, the merits of market enhancing measures are not fundamentally questioned and interventionist trade policies are not considered a viable alternative.

Just like other developed countries, the EU has no interest in this latter option. The rationale underlying the post-Lomé reform is still valid today: the EU has aggressively constructed trade relations with developing countries within a neo-liberal trade framework. The emergence of a group of powerful export-oriented developing countries such as India, South Africa and Brazil has only reinforced this option. In the process of multilateral and bilateral trade negotiations, the EU basically opens its agricultural markets in exchange for G-20 concessions in services and non-agricultural products. From this perspective, the EU and the G-20 share a commitment to reciprocal (albeit hard-fought) market opening, as well as mutual reluctance towards interventionist supply-management mechanisms on a global scale.

In other words, the shift to development aid is complementary to – rather than a substitution for – the pursuit of neo-liberal trade mechanisms. In line with the broader evolution towards a Post-Washington Consensus, it responds to the growing contestation of neo-liberal globalisation by civil society groups in the North and developing country governments. Ambitious aid pledges increase the legitimacy of developed countries, and in recent years the EU has been particularly apt to play a leading role in the international campaign to reach the MDGs.¹² But at the same time the EU's 'Aid for Trade' concessions, the modifications of FLEX and the banana/sugar compensations can be seen as side-payments during bilateral (EU-ACP) and multilateral (WTO) trade negotiations. Similarly, the *EU-Africa European Partnership on Cotton* constitutes a symbolic but low-cost legitimacy enhancing device.

Finally, it should be noted that the European Commission has a stake in increased aid budgets. In contrast with trade policy, the EU's competence over development policy is shared with the member states. The EU claims to be the largest international aid donor, but in fact most 'European' aid disbursements stem from the 27 member states. As a 'regulatory state' (Majone, 1994), the EU largely occupies itself with market enhancing and standard-setting rather than redistributive activities. To a large extent, this is also true for EU development policy.¹³ For example, as explained above, the Commission could not give in to ACP demands for more development aid additional to EDF budgets. Side-payments in external trade negotiations, which involve increased channelling of aid funds through the EU system, provide a convenient way for the Commission to enhance its budgetary power through the backdoor.¹⁴

This is not to downplay the relevance of development aid: as part of a more comprehensive trade and aid mechanisms, more development assistance may be helpful. Neither do we disregard the importance of trade in EU policies vis-à-vis the South – quite the contrary. The point is that the EU's proposed aid mechanisms in the context of the commodity debate have served as side-payments to legitimise an essentially neo-liberal trade agenda in the WTO and in EU-ACP relations, rather

than buttressing an interventionist scheme that manages the supply of tropical commodities. It is doubtful that an approach which continues to rely on the forces of free trade will be sufficient to address the current commodity crisis.

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Endnotes

1. Throughout this article, the terms 'European Union' (EU) or 'Europe' are used interchangeably. The term 'European Community' (EC) is only used when emphasising the historical (pre-Maastricht era) or legal (article 133 of EC Treaty) dimension.
2. Over the past 20 years, the commodity issue had been gradually downgraded on the UNCTAD agenda (Murphy, 2004:3).
3. In fact, even the stance of the abovementioned UN institutions and development NGOs tends to be ambiguous, at times reflecting the mainstream agenda to commodities. On the Task Force on Commodities, see Khor (2005:31); on Oxfam, see Robbins (2003:112).
4. As explained by Narlikar (2006), developing countries are striving for longer implementation periods and more technical assistance in the WTO framework, rather than suggesting an 'epistemic alternative' à la NIEO. However, her explanation does not elaborate on different interests between G-20 versus other developing countries, but rather on institutional learning and adaptation based on developing countries' previous experiences.
5. For a critical analysis of commodity arrangements since the 1970s, including European policies such as STABEX, the Lomé protocols and preferences, see Page and Hewitt (2003).
6. Indeed, in recent years the EU has concluded such accords with Chile, Mexico, and South Africa; it is currently negotiating agreements with Mercosur, the Southern Mediterranean Countries, and the Gulf Cooperation Council; and more recently it has suggested starting free trade negotiations with Russia, India, ASEAN, and South Korea. These initiatives further increase the tariff erosion that African countries face vis-à-vis more advanced competitors in Latin America and Asia.
7. The press release stated: 'Unctad study on African development prospects echoes President Chirac's call for ending "conspiracy of silence" on commodities' (UNCTAD/PRESS/PR/2004/003, 26 February 2004).
8. A 2006 European Parliament report by F. Schmidt (Greens) advocates interventionist solutions for international commodity markets. It calls on the Commission to devise measures to attain stable, equitable and remunerative prices for primary products of developing countries (EP A6-0207/2006).
9. As stand-alone agreements annexed to the Cotonou Agreement, the protocols do not have to be explicitly integrated into an EPA. If they are 'imported' into an EPA, provisions will have to be made to accommodate the different interests of ACP countries within one region, and their differential access to the EU market, in particular for LDC ACP countries. Obviously, the future of the commodity protocols as such would be called into question, and a reviewed framework could be envisaged (Bilal, 2007).
10. In 2004 the EU-15 were joined by ten new member states: Poland, Hungary, Czech Republic, Slovakia, Slovenia, Estonia, Latvia, Lithuania, Cyprus and Malta. In 2007, Bulgaria and Romania acceded to the EU.
11. See the statement by France annexed to the minutes of the Council of Ministers, 5 April 2006.
12. These attempts to increase development aid budgets correspond with the EU's search for a distinctive 'civilian' or 'normative' role on the world scene. For a critical evaluation, see e.g. Orbie and Versluys (2007); for example, it remains to be seen whether Aid for Trade commitments amount to more than a recycling of previous EU aid pledges.

13. The EDF, in itself a side-payment during the Treaty of Rome negotiations in 1957, is a major exception to Europe's nature as a regulatory state. Other well-known exceptions are Common Agricultural Policy and the Structural Funds.

14. For instance, the Commission wants to open FLEX to additional member states contributions, on top of the current EDF funding.

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