Oxfam Briefing Note

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EU Hypocrisy Unmasked: Why EU Trade Policy Hurts Development

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At the opening of the fourth ministerial meeting of the World Trade Organisation (WTO) in Doha in November 2001, European Union Trade Commissioner Pascal Lamy pledged that 'Europe has listened, Europe has moved, and Europe is willing to go the extra mile [to make this a development round]'. Such a promise was enough to convince many developing countries of the sincerity of the EU's commitment to a new WTO round – the so-called Doha Development Round.

Eighteen months on, however, it is business as usual for EU trade negotiators. The gulf between the principles enshrined in the Doha Ministerial Declaration and current practice is as wide as ever, and closing that gulf will require more than fine words. Tactics such as overloading the WTO agenda and denying developing countries the very tools and policy options upon which European governments relied during decades of national development do not offer much hope for a new and lasting consensus on equitable and sustainable development.

After all the rich countries' rhetoric about development being central to the WTO negotiating programme, we still live in an upside-down world, where ironies and hypocrisy abound.

- EU Member States preach the gospel of free trade, while maintaining their own spending on agricultural subsidies to the tune of €115 million per day.

- EU Member States deny developing countries the right to protect their vulnerable agricultural markets from competition from unfair subsidised European agricultural exports.

- The EU pushes for developing countries to negotiate new issues at the WTO that will primarily benefit the rich economies and trans-national corporations – in return for progress that the EU promised ten years ago.

We need a radical new approach to trade policy, one that puts sustainable development at the heart of negotiations, and an end to the double standards of rich countries as they continue to rig the rules of international trade to suit themselves.

In five months' time, Trade Ministers will reassemble in Cancun, Mexico to assess progress in the WTO Round. This paper examines the EU's rhetoric on trade and development, unmasks the hypocrisy behind the EU's current negotiating position, and sets out a series of modest, achievable steps which, if enacted, will ensure that trade starts to work more effectively for poor countries.

Agriculture

Agriculture is the issue in which developing countries have the biggest stake, which they the greatest gains in the Doha Round. The EU consistently emphasises the critical role of trade in reducing poverty in the developing world. The problem is that the EU continues to spend the bulk of its annual €41.5 billion agricultural budget on trade-distorting subsidies. Agricultural subsidies, which result in export dumping (exporting at prices below the costs of production), cause farmers in developing countries to suffer low prices, lost market shares, and unfair competition. For all the tortured language of the Doha Declaration, there was a clear commitment to initiate negotiations aimed at "reductions of, with a view to phasing out, all forms of export subsidies" and substantial reductions in other 'trade distorting' agricultural subsidies. This was a welcome commitment to tackle head-on the most damaging forms of subsidies.

In December 2002, the EU unveiled its much anticipated negotiating proposal on agriculture to the WTO. However, despite the Commission's opening hype, the proposal offers little to satisfy the concerns of developing countries, and fails to fulfil the commitments made at Doha with regard to the elimination of subsidies.

The EU trumpeted a '45 per cent cut in export subsidies'. However, closer inspection proves this to be a dishonest offer. The Commission has in fact proposed a reduction of export subsidies by an average of 45 per cent, and from previously defined maximum levels (bound levels) rather than actual amounts paid. This commits the EU only to a minimal reduction in export subsidies on beef, sugar, and dairy products – the sectors in which export dumping is most prevalent. This commitment also includes existing cuts made by previous reforms since the Uruguay Round base period, 1986-90. The EU also stated that it was 'ready to eliminate export subsidies for key products, such as wheat'. In fact, traditional export subsidies for wheat have already virtually disappeared.

The EU has proposed a six-year grace period for developed countries to implement changes following an agriculture agreement at the WTO, a period which will not conclude until 2005 – at the very earliest. Moreover, in a further tactic to delay reform at the Brussels Summit in October 2002, the French President, Jacques Chirac, and the German Chancellor, Gerhard Schroeder, brokered a deal to maintain a ceiling on agricultural spending until 2013. The deal in effect blocks the prospect of introducing any substantive change in the Common Agricultural Policy (CAP) until 2006, and delays any meaningful concessions until at least 2012. Without radical reform of the CAP in the immediate term, the EU will not be able to go that promised 'extra mile'.

The Mid-Term Review of the CAP offers an opportunity to set a new course. Intransigence on the part of governments such as the French and the Irish makes this difficult. While there are signs of positive elements in the proposals put forward by the Commission, their approach to decoupling (de-linking subsidies from production) raises serious problems. With decoupled payments, the traditional export subsidy will disappear, only to be recreated in another guise – the hidden export subsidy.

Decoupling on the current model, as supported by the UK and Sweden, is a cosmetic exercise, designed to bring the EU into compliance with the letter of WTO law, while violating the spirit of fair trade. In a cynical move, the Commission is proposing to shift the bulk of domestic support for agricultural production into the so-called 'Green Box' – a mechanism devised by the USA and EU during the Uruguay Round of trade talks. Free of tight disciplines, the Green Box allows farm-income aids such as direct payments that rise with the size of farm and level of past production, and compensation to producers for low prices. These payments may perpetuate surplus production and export dumping – and so are clearly trade-distorting – but they are currently exempt from any cuts agreed in the agriculture negotiations at the WTO.

Bringing greater benefits to large corporate agriculture at the expense of smaller family farms, decoupled direct payments would also reinforce the inequitable nature of CAP spending. Domestic support to European farmers should be targeted towards rural and environmental development, rather than increasing the profits of corporate agriculture.

President Chirac's proposals on trade in agriculture at his meeting with African Heads of State in February 2003 represent, however, an important recognition of the damage caused to poor Africans by rich countries' food dumping. The proposals are all the more welcome as they come from the leader of a major agricultural nation which is widely seen as a supporter of the current EU policies on agricultural dumping. Mr Chirac proposed a moratorium on destabilising supports for exports to Africa, such as subsidies, export credits, and certain forms of food aid, for the duration of the Doha Round of negotiations at the World Trade Organisation.

Oxfam wants to see a comprehensive ban on agricultural export dumping. As a start, the French proposal for a moratorium on export subsidies should be adopted, extended to all developing countries, and immediately implemented.

All domestic support which acts as a disguised subsidy for exports should be eliminated. As a rule, subsidised products should not be exported, unless subsidies are minimally trade-distorting.

Some developing countries have asked for a rebalancing of WTO rules on agriculture. At the moment, the EU and other rich countries use the so-called 'Peace Clause' – negotiated by the EU and USA during the Uruguay Round – to deny developing countries any effective protection against cheap imports.

Oxfam believes that developing countries should have the right to protect markets against subsidised imports. The Peace Clause should not be renewed when it expires later this year, and developing countries should be given access to a simplified mechanism to apply countervailing duties.

Developing countries should have the flexibility to protect markets against import surges, subsidised or unsubsidised. The EU includes a welcome recognition of the food-security needs of developing countries in its proposal to the WTO, and proposes that developing countries request the use of special safeguards to protect their domestic markets. The EU should forcefully defend this initiative in the negotiations.

Oxfam urges also that developing countries should be entitled to self-declare special products which should not be subject to any further tariff reduction, and moreover that the implementation of further tariff reductions should be based on development indicators.

Market access

Trade barriers in rich countries inflict real costs on vulnerable communities in developing countries that are being denied an opportunity to enjoy the potential benefits of integration into global markets. The EU provides more generous trade preferences than other OECD countries, but it continues to delay the implementation of Doha commitments on the further opening of markets to developing countries.

The EU's 2001 initiative 'Everything but Arms' (EBA), originally intended to provide immediate free-market access for all non-military exports from Least Developed Countries (LDCs), was a step in the right direction. However, the main sectors in which LDCs might have benefited were sugar and rice, and, following intensive lobbying from powerful vested interests in the agricultural sector, Member States deferred liberalisation in these sectors to 2009. Despite utterances of promises to expand the EBA to a wider group of developing countries after it was launched at the UN Conference for Least Developed Countries in May 2001, two years later EU Member States have made little effort to expand the initiative, often using the excuse of the EU's complex rules or origin as a barrier to further opening of markets.

The EU makes much of its position of being to be the world's largest importer of farm products from developing countries, but this does not tell the whole story. Many of these imports are tropical or temperate products not grown in Europe, and in any case the value of imported products like sugar, cereals, dairy, and rice is more than offset by European subsidised exports of the same products.

Agriculture is not the only example that demonstrates EU protectionism. Like the USA, the EU has eliminated only one-quarter of the import-quota restrictions that they are committed to remove under the WTO Agreement on Textiles and Clothing.

Protectionist barriers should be dismantled by providing comprehensive duty-free and quota-free access, not just for Least Developed Countries, but for allow-income countries by 2005. Immediate action should be taken to provide duty-free and quota-free access for all products exported by LDCs. Immediate action should be taken to accelerate implementation of Multi-Fibre Agreement obligations under the Uruguay Round agreement on textiles and clothing.

Patents and access to medicines

Owing to growing public concern, patents on and access to medicines are prominent in the current public debate on trade and poverty. As a consequence, meaningful change to WTO rules on TRIPs (Trade-related Aspects of Intellectual Property Rights) is widely regarded as the litmus test of the so-called 'development round'.

As the self-styled 'honest broker' in the TRIPs negotiations at Doha between the USA and developing countries, the EU has not been as ungenerous in this matter as that the USA has been. At Doha, ministers promised, by the end of 2002, to find a solution to a major flaw in the TRIPS Agreement which prevents developing countries that cannot manufacture their own medicines from importing affordable generic versions of vital new medicines.

However, the EU, and other rich countries, have put enormous pressure on developing countries to accept a diluted and restricted solution. The solution proposed by the EU would be very difficult for developing countries and generic companies to use, and would fail to put developing countries on an equal footing with the rich countries, as intended.

Oxfam wants to see a meaningful change to the TRIPS Agreement. We believe that the current deadlock could offer the opportunity for a fresh start to develop a fair and workable solution, one which honours the Doha Declaration but also addresses the legitimate concerns of pharmaceutical companies.

If the EU and other rich countries do not accept the idea of a fresh start, they will present developing countries with a cruel choice: either accept a bad deal with unacceptable restrictions and burdensome conditions, or be content with no deal at all. Neither option could be considered in keeping with rich countries' claimed commitments to a Development Round. Such a solution will only discredit the Round and intensify the demands for more substantive reforms to TRIPS, which are so urgently required.

New issues

The EU hailed the launch of the Doha negotiating agenda as a breakthrough for multilateralism, and an EU victory in the quest to expand the negotiating agenda to include new agreements on investment, competition policy, and government procurement.

For developing countries, the immediate problem in expanding the WTO agenda is that it is already overloaded, and most developing countries simply do not have the capacity to participate meaningfully in negotiations about new global rules on the vast and complex policy areas of investment, competition, and government procurement – even though these will have a huge impact on developing countries' future development. Moreover, negotiations are over-due on many other issues , on which progress is vital for developing countries, but on which rich countries are making few concessions, despite promises made at Doha. Under such circumstances, it is perverse to insist on pushing for negotiations on investment, competition policy, and government procurement at the WTO.

In the area of investment, the EU is the main driver for an international agreement at the WTO. Foreign direct investment (FDI) can bring valuable benefits to developing countries, but Oxfam believes that the WTO is the wrong forum in which to negotiate an international agreement on investment. Its narrow liberalising mandate would result in an unbalanced agreement that focused on investors' rights and stripped, albeit gradually, governments of their ability to regulate their own investors.

Following the failure of the discredited Multilateral Agreement on Investment (MAI) at the OECD, the EU has attempted to elaborate a development rationale. The Commission proposes a bottom-up approach, as used in the negotiations on the agreement on services (GATS), whereby countries can choose which sectors to liberalise, a concession which would protect governments' right to regulate sensitive sectors. While this would be an improvement on the MAI, the prime aim remains a general presumption in favour of non-discrimination – requiring governments to treat transnational corporations no less favourably than domestic ones – and therefore the gradual removal of government controls over foreign investment.

The new rules sought by the EU will, in practice, lead to the accelerated monopolisation of developing country markets by transnational corporations and the destruction of local industries. They will also rob local governments of the power to ensure that foreign investments work for sustainable development. The experience of GATS shows that, even in the case of a bottom-up approach, countries come under heavy pressure to open up sectors of interest to rich-country transnational corporations, rather than being free to follow a liberalisation schedule based on their own development needs. This seems to be a hard lesson for the EU to learn. The latest proposal from the Commission, entitled 'Investment for Development', is designed to do little more than increase the freedoms and rights of TNCs. Despite the portentous title, it fails to offer proposals to enhance the quantity and quality of FDI.

Oxfam believes that developing countries should ensure the right national-level regulatory framework for foreign investment, to ensure that FDI contributes to national development. Rich countries should regulate their companies to that end. There are aspects of the operation of foreign firms in developing countries that must be addressed internationally: these include price fixing, collusive tendering, tax avoidance, environmental damage, violation of labour rights, and corruption. These agreements should not be negotiated in the WTO, because of the current power imbalances that prevail in that forum, and its institutional bias towards liberalisation and deregulation.

Services

The commercial service sector is the EU's largest and fastest-expanding export sector. The EU arguably has a greater stake in the outcome of the negotiations of the WTO General Agreement on Trade in Services (GATS) negotiations than any other sector. Developing countries are not persuaded of the positive benefits it is claimed that they will gain in the negotiations, and they have continued to approach these talks with caution.

Last year, the EU made requests to 109 countries to open up specific services to them under GATS. In comparison, it should be noted that only thirty countries made similar requests to other countries. The EU's requests were not made fully public, even during a 'consultation' exercise organised by the Commission in early 2003. When they were finally leaked to the public, they revealed that the EU is including the world's poorest countries in its requests for liberalisation commitments in basic service sectors such as water delivery and energy distribution, and in key infrastructural services such as transport and telecommunications. The EU has made requests to 14 of the 41 'low-income' countries to open up their 'environmental services', including public water supplies, to EU transnational corporations. The EU is also asking countries to remove specific investor-regulation requirements which WTO Members listed as exempt from GATS in previous negotiations. However, the great majority of countries have yet to respond to the requests that the EU made of them at that time.

When it was launched in 1995, the development impact of GATS was planned for review before any renegotiation started. This did not happen. Oxfam joins other Southern and Northern NGOs in calling for a moratorium on the current negotiations until such a review takes place.

Conclusion

The EU raised the expectations of developing countries in Doha. For a development round to be meaningful, EU negotiators must abandon the mercantilist principle of securing as much as they can from the other side, while giving away as little as possible.

The EU has to take a leap forward before the ministerial meeting at Cancun, and during the negotiations there, if it is to be at all credible as a force for development. We have heard the rhetoric – what we now need is genuine action.

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