

Brussels, 6 November 2003

DRAFT OPINION

of the
Committee of the Regions
of 9 October 2003

on the

Communication from the Commission to the Council and the European Parliament on

Trade and Development

Assisting Developing Countries to Benefit from Trade

COM(2002) 513 final

THE COMMITTEE OF THE REGIONS,

Having regard to the Communication from the Commission to the Council and the European Parliament on *Trade and development – Assisting developing countries to benefit from trade* (COM(2002) 513 final),

Having regard to the decision of the European Commission of 11 February 2003 to consult it on this subject, under the first paragraph of Article 265 of the Treaty establishing the European Community, and to the *letter of Mrs Loyola De Palacio, Vice-President of the European Commission, to Sir Albert Bore, President of the Committee of the Regions* of the same date to consult it on this subject according to the protocol of cooperation of 2001,

Having regard to the *Protocol on arrangements for cooperation between the European Commission and the Committee of the Regions*, signed by their respective Presidents on 20 September 2001 (DI CdR 81/2001 rev. 1),

Having regard to the decision of its Bureau of 9 October 2002 to instruct its Commission for External Relations to draw up an opinion on this subject (Item 7 b of the agenda,

2002/DEV/5),

Having regard to Articles 177 and 178 of the Treaty establishing the European Community,

Having regard to *The Partnership Agreement between the members of the African, Caribbean and Pacific Group of States, of the one part, and the European Community and its Member States, of the other part, signed in Cotonou on 23 June 2000,*

Having regard to the *Joint Statement of the Commission and the Council on the European Community's Development policy* of 10 November 2000,

Having regard to the *conclusions of the fourth Ministerial Meeting of WTO Ministers in Doha* in November 2001,

Having regard to the *conclusions of the International Conferences in Monterrey on the financing of development in March 2002 and in Johannesburg on sustainable development* in September 2002,

Having regard to the *Communication from the Commission to the Council and the European Parliament on the European Community's Development Policy* (COM(2000) 212 final),

Having regard to the *Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions – Towards a global partnership for sustainable development* (COM(2002) 82 final),

Having regard to the *report of the European Parliament on capacity-building in the developing countries* of 18 March 2003 (A5-0066/2003 – 2002/2157(INI)),

Having regard to the opinion of the Committee of the Regions on *Continuation of the WTO negotiations* (CdR 181/2002 fin¹),

Having regard to its draft opinion (CdR 100/2003 rev. 1) adopted on 23 May 2003 by the Commission for External Relations (rapporteur: **Sir Ron Watson**, CBE, Councillor, Sefton Metropolitan District Council (UK/EPP),

Whereas:

1) the integration of the developing countries, in particular the least developed among them, into the world economy is a precondition for their growth and sustainable economic and social development;

2) Community policy in the sphere of development cooperation shall foster the sustainable

economic and social development of the developing countries, and most particularly the most disadvantaged among them, and the smooth and gradual integration of the developing countries into the world economy;

3) regional integration and cooperation contribute to the integration of the developing countries into the world economy and play a decisive role in consolidating peace and preventing conflict,

adopted the following opinion at its 51st plenary session.

1. Introduction

1. on 1 January 1995, the World Trade Organisation (WTO) replaced the General Agreement on Tariffs and Trade (GATT) as the key forum for multilateral trade relations. The decision to establish the WTO was taken at Marrakesh in 1994, which saw the culmination of almost eight years of multilateral trade talks within the GATT "Uruguay Round";
2. following the significant accession of China to the WTO in December 2001, 144 countries are now in membership, accounting for well over 90% of international trade flows;
3. since the well-publicised failure of the WTO's Third Ministerial Conference in Seattle in November 1999, which witnessed a strong protest against 'globalisation' and the workings of the WTO, there have been a number of important conferences which have sought to establish an acceptable common framework for world trade relations which respect the principles of sustainable development and address the special needs of the 49 Least Developed Countries (LDCs):
 - the fourth Ministerial Meeting of WTO Ministers in Doha in November 2001, which launched the Doha Development Agenda, an approach based on a positive emphasis on development and the importance of capacity building to assist countries to participate effectively in trade negotiations. The Doha Round, which superseded the Uruguay Round (which itself ran from 1985 to 1997), is due to end on 1 January 2005;
 - the UN Conference on Financing for Development in Monterrey in March 2002, which stressed the need to remove supply side constraints on trade and to provide reliable financing of trade related assistance and capacity building;

- the World Summit on Sustainable Development (WSSD) at Johannesburg in August-September 2002, which agreed on the need for mutually supportive trade, development and environmental policies;
 4. the European Union has been an active participant in these WTO and UN Conferences, and in trade and development negotiations more generally;
- EU Trade Commissioner **Pascal Lamy** has strongly promoted the need for a comprehensive new round of negotiations (i.e. the Doha Development Agenda) and supported the WTO's drive to extend trade rules and their enforcement to services, through the General Agreement on Trade in Services (GATS);
- the EU is engaged in an ongoing and politically highly contentious debate about the need to reform the Common Agricultural Policy (CAP), and is in the process of developing its negotiating position within the WTO on agriculture (**Mr Bocklet**, Bavarian Minister of State for Federal and European Affairs, was rapporteur for an opinion on this matter, which was adopted in the plenary session of 9 April 2003);
- the EU has produced an initiative known as "Everything But Arms" (EBA), encouraging duty-free import by industrialised countries of all agricultural products from the poorest countries of the world (the Least Developed Countries, or the LDCs, currently numbering 49);
- the European Commission published a Communication in April 2000 on "The European Community's Development Policy" (COM(2000) 212 final), which focused on the need to help developing countries build their capacity to engage meaningfully in trade negotiations and to provide support for policy reforms which would help foster trade and inward investment (e.g. promotion of sound macroeconomic policies, support for private sector participation);
 5. whilst one strand of EU policy has emphasised the importance of economic development, trade and competition, within a clear agenda of "liberalisation", another strand has focused on the broader concept of "sustainable development", defined as the integration of the "three pillars" of economic development, social development (including issues of health, equity and labour rights), and environmental protection. In some formulations, a fourth pillar – cultural development or cultural identity – is added. Other key principles of sustainable development are "futuraity" or inter-generational equity (i.e. not advantaging the present generation at the expense of future generations, by focusing short-sightedly on short-term benefits) and "globality" (recognising the importance of looking at the consequences of actions in terms of their impact on the global environment, again in the longer term);

6. the EU has recognised the need for these two strands to be "coherent" and "synergetic", most notably in the Commission's Communication "Towards a Global Partnership for Sustainable Development" (COM(2002) 82 final). There has been an explicit attempt to ensure that key EU policies (e.g. CAP, the Common Fisheries Policy, as well as trade, energy, transport and industry policies) are made more consistent with the principles of sustainable development.

2. The Committee of the Regions views

The Committee of the Regions

1. **acknowledges** that the relationship between the expansion of trade, economic development and poverty reduction is a very complex one;
2. **believes** that, as a broad generalisation, both historically and currently, increased trade openness between nations leads to positive outcomes in terms of investment and economic development;
3. **is of the view**, however, that the link with poverty reduction is less clear, in that it depends on a combination of other domestic political and institutional factors: a "virtuous circle" of trade and economic growth may lead to a reduction at the societal level in absolute poverty, but to an increase in inequalities of wealth and income within developing societies;
4. **strongly supports** the increased emphasis on the links between trade, development, poverty reduction and capacity building represented by the Doha Development Agenda.

A positive model of trade openness

The Committee of the Regions

5. **believes** that, for trade openness to be a positive force, a number of key conditions need to be met; these conditions are generally well covered in the Commission's Communication, but some require greater emphasis;

6. **asserts** that, overall, what is required is a proper *balance* between, on the one hand, the drive towards trade, investment and economic growth, as part of an agenda based on liberalisation and globalisation – which undoubtedly has the potential for bringing about significant improvements in the welfare of less developed countries – and, on the other hand, respect for the principles of sustainable development, the need for transparently fair terms of trade, and a clear acknowledgement by the richer, industrialised countries of the acute problems faced by less developed countries in trade negotiations, caused by over-dependence on a limited range of agricultural and manufactured goods which are highly vulnerable to market fluctuations, and by lack of capacity to engage in complex negotiations on an equal footing;

7. **regrets** that this balance does not currently exist, in that:

- despite the recent World Summit on Sustainable Development (WSSD), which sought to integrate the three pillars of sustainable development (economic development, social development and environmental protection), economic development – including trade – is given greater prominence by governments and business corporations than the other two principles;
- the World Trade Organisation (WTO), which plays a key role in creating a rule-bound framework for the conduct of trade relations, pursues a vigorous agenda of economic liberalisation, paying insufficient attention to social development (health, labour conditions, equity and poverty issues), to environmental protection, and to what some consider to be the fourth pillar of sustainable development, cultural identity; this single-minded pursuit of one element of sustainable development would not be a problem if the WTO operated within an overarching institutional and normative framework capable of striking a balance between the competing pillars, but this does not exist, even at the level of the United Nations, leaving the WTO to operate in a largely autonomous realm, with a disputes resolution machinery and powers of enforcement not available to equivalent international environmental protection organisations (e.g. UNEP, Commission on Sustainable Development);
- the richer, industrialised countries have been slow in matching promises with actions in respect of tariff and export subsidy reductions: it has been estimated that, as a result, poor countries lose nearly \$2 billion every day because of unjust trade rules, some 14 times the amount they receive in aid²;
- the developed world has, so far, failed to recognise the importance of creating a more "level playing field" in trade negotiations, by first acknowledging that poorer countries lack the capacity to match the much better resourced negotiators from the

industrialised countries and second, by providing assistance to develop that capacity: some 30 WTO member countries cannot afford an office in Geneva, the headquarters of the WTO, and few developing countries can afford delegations large enough to cover the 40 to 50 important trade meetings held in Geneva in an average week³.

Increasing Market Access

The Committee of the Regions

8. **welcomes** the fact that significant progress has been made in recent years in reducing obstacles to trade in both industrialised and developing countries, and in extending multilateral disciplines to areas such as intellectual property rights, agriculture, textiles and clothing;
9. **is aware**, however, that developing countries still face considerable barriers to their exports to both industrialised and other developing countries, and that further liberalisation of trade in agriculture is essential if progress is to be made in poverty reduction: in high-income countries the average tariff rate on agriculture is almost double the tariff for manufactures, and import tariffs in developing countries remain almost double those in industrialised countries;
10. **is concerned** that, despite progress since the Uruguay Round, support to agriculture, in the form of subsidies, remain very large in industrialised countries, reaching US\$327 billion in 2000⁴;
11. **supports** the EU's Generalised System of Preferences for encouraging exports from developing countries, and other forms of concession, such as the Everything But Arms (EBA) initiative for the Least Developed Countries;
12. **recognises** that the conclusion of free-trade agreements and the consequent reduction in (or abolition of) duties can result in a significant problem of loss of government revenues in developing countries: in many countries, customs duties represent a major source of government finance (e.g. in 1999, 32% in Papua New Guinea, 77% in Guinea); transitional financial support is required to dampen the impact of such losses;
13. **acknowledges** the difficulties faced by the EU in considering the reform of the CAP in balancing the competing objectives of, on the one hand, reducing agricultural tariff barriers, and export subsidies in particular, and, on the other,

protecting the “EU agricultural model”, involving domestic support measures in the interests of maintaining biodiversity, fostering sustainable rural development, animal welfare and consumer protection (as well, of course, as the incomes of farmers);

14. **is concerned**, however, that the arguments used to support the integrity of the EU agricultural model and to reject further reductions in tariffs beyond those already agreed under the Everything But Arms initiative – as so cogently argued in **Mr Bocklet**’s opinion on the “Negotiation position on agriculture for the next WTO round” – may come to block all further progress on trade liberalisation, with the well-founded concerns expressed in **Mr Bocklet**’s opinion being used by those with an interest in the status quo as an excuse for opposing all reasonable reforms in this area.

Strengthening Institutional Capacity

The Committee of the Regions

15. **strongly welcomes** the emphasis in the Communication on strengthening institutional capacity in developing countries to assist them in maximising the benefits from trade;
16. **recognises** a wide range of domestic capacity problems faced by developing countries, which need to be helped by a combination of Official Development Aid (ODA), investment and reform; these problems include:
- policies which are antipathetic to investment and entrepreneurship;
 - an underdeveloped financial sector;
 - inadequate physical infrastructure, including transport links, utilities and telecommunications;
 - low literacy and educational standards;
 - institutionalised corruption;
 - civil unrest;
17. **further recognises** a set of interconnected problems faced by developing countries in the international trade arena, including:

- excessive dependence on a narrow range of agricultural and manufactured commodities, making them particularly vulnerable to worsening terms of trade and volatile world prices;
- high levels of competition between a large number of small producers;
- high trade barriers, particularly for agricultural and labour-intensive goods;

18. **recalls favourably** the Commission Communication of April 2000 on “The European Community’s Development Policy” (and the Joint Council-Commission Statement of 10 November 2000) which helpfully identified the main areas for the EU to concentrate its assistance for trade capacity building; these fall into two broad categories (not explicitly identified as such in the original Communication):

i. assistance specifically directed at trade negotiations (including assistance for WTO accession and multilateral trade negotiations, and support for the implementation of existing and future WTO agreements);

ii. more general assistance directed at strengthening the country’s economic, social and political institutions and practices; including:

- support for policy reforms, and investments necessary to enhance economic efficiency and to ensure greater participation in the world economy;
- support for technical assistance and capacity building in relation to the linkages between trade and the environment (e.g. training in environmental impact assessments);
- the promotion of sound macro economic sectoral and tax policies which improve the climate for inward investment;
- support for the involvement of the private sector in the economy;
- support for the development of regional markets and institutions among developing countries, particularly through the negotiations and implementation of bilateral and regional agreements with the EU: Regional Trade Agreements (RTAs) amongst developing countries can lead to ‘South – South integration’ which can enhance efficiency, increase competition, enable economies of scale, and increase the attractiveness of Foreign Direct Investment (FDI);

19. **agrees** with the Communication about the need to integrate trade with development strategies in a way which contributes to the objectives of poverty reduction and sustainable development, through ensuring that trade issues are included within Poverty Reduction Strategy Papers (PRSPs) and other national development strategies, in line with the approach adopted at Doha, Monterrey and Johannesburg;

20. **draws attention**, in this context, to the huge potential of tourism – and in particular eco-tourism – to produce high value developments which generate local employment, make a significant contribution to infrastructure improvements and which – if done properly – respect the environment and local culture;

21. **supports** the Commission's proposal to focus EU assistance on:

- assistance for WTO accession, mainly through training programmes;
- support for the implementation of WTO agreements, particularly in respect of the need to help develop relevant institutional and regulatory frameworks;
- support for wider policy reforms, including reform of customs administration (e.g. simplification of import and export documentation and procedures); ensuring that regulatory and enforcement systems (e.g. health, labour standards, sanitary and phyto-sanitary agreements) meet international standards; and ensuring that adequate intellectual property rights legislation is implemented and enforced;

22. **agrees** with the report of the European Parliament⁵ when it comments that:

“even if the poorest countries have non-reciprocal right of access to the markets of the developed countries, this will be totally inadequate as a means of ensuring that trade actually develops unless at the same time those countries' industrial and agricultural development capability is increased, their ability to comply with the rules and meet the standards (in particular health and plant-health ones) in force in the importing countries is enhanced and their knowledge of marketing networks is improved.”;

23. **draws the attention** of the Commission to the significant role which local and regional authorities can play in capacity building through international cooperation links between municipalities and regions; these links – such as town twinning and involvement in international development cooperation projects (including, in the future, in "Type 2 Partnerships" launched at the World Summit on Sustainable Development at Johannesburg in 2002) – allow local and regional authorities in the EU to transfer their skills and experience in the management of local economic development and trade relations to authorities in developing countries;

24. **recognises** that in this regard, local and regional authorities in the EU enjoy considerable powers and responsibilities (and consequently skills and experience) in respect of policies and services which have an important influence on economic activity and trade, including :

- strategic planning;
- transport infrastructure and services;
- economic development management;
- encouragement and incentivisation of inward investment, including tourism;
- development of economic partnerships between business firms and local authorities (including public/private finance initiatives);
- promotion of and regulation of local markets;
- education and skills training;
- procurement policies (allowing of the possibility of specifying "fair trade" conditions);

25. **urges** the Commission to create an enabling environment, including a higher level of grant aid, for local and regional authorities, as well as civil society players such as NGOs, churches and trade unions, and business corporations, to engage in capacity building in less developed countries.

Brussels, 9 October 2003.

The President

The Acting Secretary-General

of the

of the

Committee of the Regions

Committee of the Regions

Albert Bore

Gerhard Stahl

¹ OJ C 192 of 12.8.2003, p. 37

² "The Least Developed Countries Report," UNCTAD, 1999

³ "World Development Report 2000/2001: Attacking Poverty." World Bank, 2001

⁴ World Bank, "Global Economic Prospects 2002".

⁵ A5-0066/2003 – 2002/2157 (INI), Rapporteur: **Concepcio Ferrer**.

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