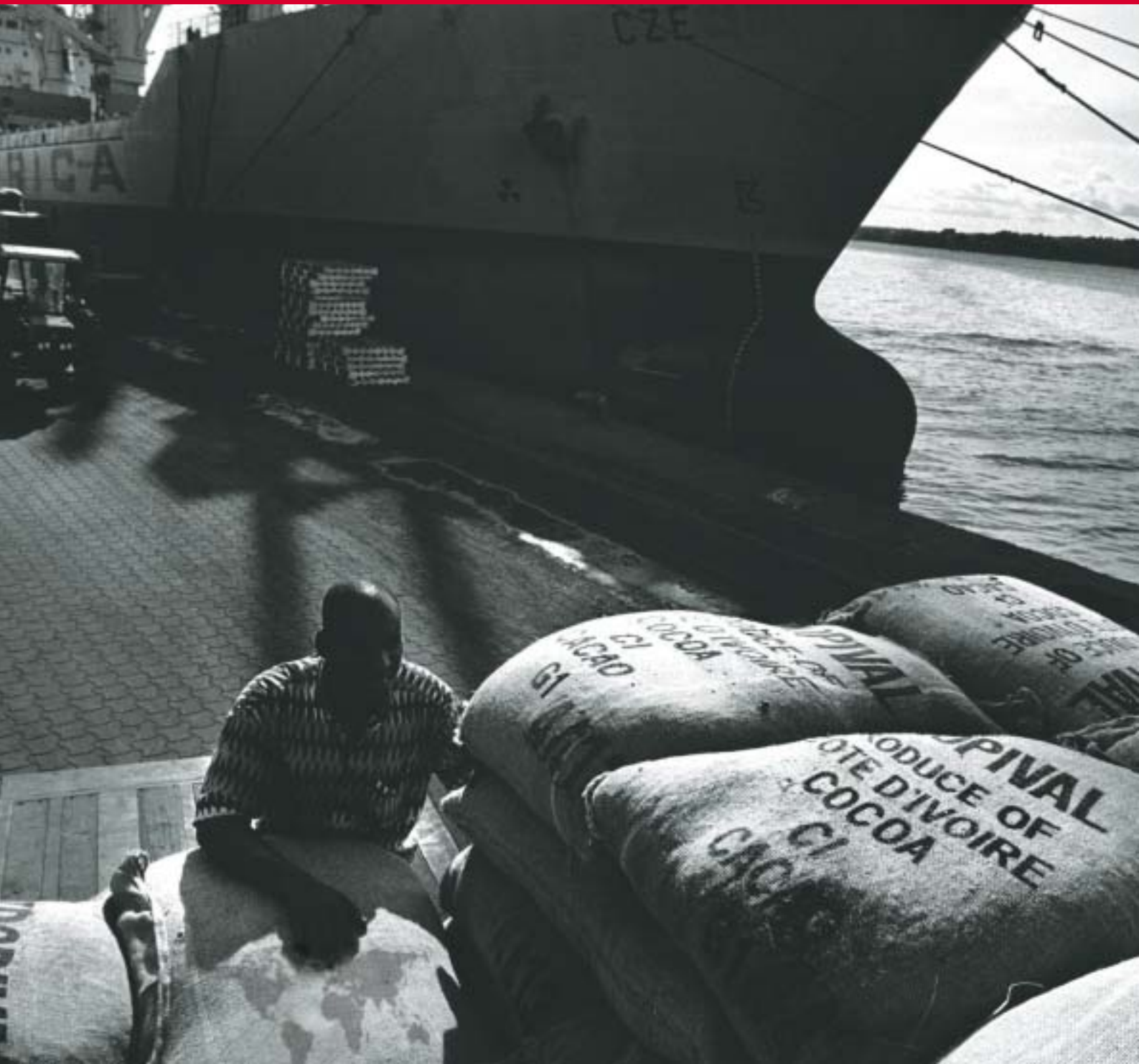


# The Role of Trade and Investment in Global Poverty Reduction



## Introduction

# The challenge of world poverty and the Millennium Development Goals

One in five of the world's population currently lives in abject poverty in a world of growing material plenty.

This is the greatest moral challenge facing our generation. It is also in the UK's national interest that we tackle it. Many of the problems that affect us – war and conflict, international crime and the trade in illicit drugs, and the spread of health pandemics such as HIV/AIDS – are caused or exacerbated by poverty. Our vision is that every country should be able to offer a minimum acceptable standard of living that will grow over time.

In September 2000 the member countries of the United Nations adopted the Millennium Declaration. This set out Millennium Development Goals, targets for reducing poverty by 2015, and a road-map for implementing the Millennium Declaration.



# UN Millennium Development Goals

By the year 2015 all 191 UN member states have pledged to meet the following goals.

## 1 Eradicate extreme poverty and hunger

- Reduce by half the proportion of people living on less than a dollar a day
- Reduce by half the proportion of people who suffer from hunger

## 2 Achieve universal primary education

- Ensure that all boys and girls complete a full course of primary schooling

## 3 Promote gender equality and empower women

- Eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015

## 4 Reduce child mortality

- Reduce by two thirds the mortality rate among children under five

## 5 Improve maternal health

- Reduce by three quarters the maternal mortality ratio

## 6 Combat HIV/AIDS, malaria and other diseases

- Halt and begin to reverse the spread of HIV/AIDS
- Halt and begin to reverse the incidence of malaria and other major diseases

## 7 Ensure environmental sustainability

- Integrate the principles of sustainable development into country policies and programmes; reverse loss of environmental resources
- Reduce by half the proportion of people without sustainable access to safe drinking water
- Achieve significant improvement in the lives of at least 100 million slum dwellers, by 2020

## 8 Develop a global partnership for development

- Develop further an open trading and financial system that is rule-based, predictable and non-discriminatory. This includes a commitment to good governance, development and poverty reduction, nationally and internationally
  - Address the least developed countries' special needs. This includes tariff- and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; cancellation of official bilateral debt; and more generous official development assistance for countries committed to poverty reduction
  - Address the special needs of landlocked and small island developing states
  - Deal comprehensively with developing countries' debt problems through national and international measures to make debt sustainable in the long term
  - In cooperation with the developing countries, develop decent and productive work for youth
  - In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries
  - In cooperation with the private sector, make available the benefits of new technologies – especially information and communications technologies.

### Progress towards meeting the Millennium Development Goals

Trends in poverty over the last two decades show a mixed picture. Poverty is being cut dramatically in some parts of Asia, yet the Goals will not be met in many African countries. Overall global poverty has fallen by around 40%. Most of this improvement has come from China where poverty has fallen by two thirds since 1981 to 17% in 2001 – although this masks large urban/rural disparities. Over 400 million people have been lifted above the poverty line. Elsewhere the situation is far less promising, with poverty levels either static, as in India (although a growing population has meant that the rate of poverty has fallen significantly), or actually rising, as in Latin America and sub-Saharan Africa. Indeed, in sub-Saharan Africa, both the level and rate of poverty have increased.

### The development challenge

This leads us to the question of how individual countries can tackle poverty. Economic growth is a key driver of poverty reduction but it is not sufficient in itself. The extent to which poverty is reduced depends on how the benefits of growth are distributed. That in turn depends on the spread of opportunities available to different sets of people, such as jobs, health and skills and the extent to which they are active in creating that growth. Countries that experience sharp increases in growth rates usually see marked reductions in poverty, although growth brings with it a range of challenges that need to be managed – such as environmental impacts, flexibility in the labour market, and social protection systems. In Vietnam, poverty fell from 75% in 1988 to 37% in 1998 – a dramatic halving in a decade. Of the poorest 5% of households in 1992, no less than 98% had higher incomes by 1998 – the growth was feeding through to the poorest of the

#### 3.1 Number of people living on less than \$1 a day (million)

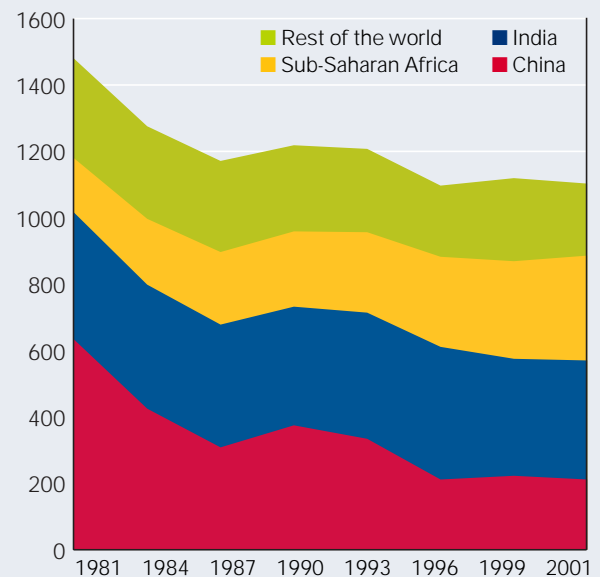
	1981	1984	1987	1990	1993	1996	1999	2001
East Asia & Pacific	795.6	562.2	425.6	472.2	415.4	286.7	281.7	284.3
China	633.7	425.0	308.4	374.8	334.2	211.6	222.8	211.6
East Europe & Central Asia	1.1	1.2	1.7	2.3	17.4	19.8	29.8	17.6
Latin America	35.6	46.0	45.1	49.3	52.0	52.2	53.6	49.8
Middle East & North Africa	9.1	7.6	6.9	5.5	4.0	5.5	7.7	7.1
South Asia	474.8	460.3	473.3	462.3	476.2	461.3	452.7	428.4
India	382.4	373.5	369.8	357.4	380.0	399.5	352.4	358.6
sub-Saharan Africa	163.6	198.3	218.6	226.8	242.3	271.4	294.0	315.8
<b>Total</b>	<b>1,479.8</b>	<b>1,275.6</b>	<b>1,171.2</b>	<b>1,218.5</b>	<b>1,207.5</b>	<b>1,096.9</b>	<b>1,119.4</b>	<b>1,103.0</b>

Source: World Bank

poor.<sup>1</sup> The role of liberalisation in stimulating the growth that has unquestionably reduced poverty is difficult to quantify. But in China, India and Vietnam all of which have seen significant reductions in poverty rates, there was a move towards more open economies over the period concerned.

For growth to take place, and for it to lead to poverty reduction, the conditions within an individual country have to be right. When we look at many of the poorest countries, we see a number of factors working together to keep them poor – the same factors already referred to in the context of sub-Saharan Africa in Part 1. We see massive shortfalls in health and education systems, skills and infrastructure, coupled with trade barriers in rich countries that keep out developing country exports. We also often see disruption through armed conflict and weak governance and corruption. Our strategy for poverty reduction has to tackle all of these issues together.

3.2: Number of people living on less than \$1 a day (million)



Source: World Bank

### 3.3 Percentage of population living on less than \$1 a day

	1981	1984	1987	1990	1993	1996	1999	2001
East Asia & Pacific	57.7	38.9	28.0	29.6	24.9	16.6	15.7	15.6
China	63.8	41.0	28.5	33.0	28.4	17.4	17.8	16.6
East Europe & Central Asia	0.3	0.3	0.4	0.5	3.7	4.2	6.3	3.7
Latin America	9.7	11.8	10.9	11.3	11.3	10.7	10.5	9.5
Middle East & North Africa	5.1	3.8	3.2	2.3	1.6	2.0	2.6	2.4
South Asia	51.5	46.8	45.0	41.3	40.1	36.6	34.0	31.1
India	54.4	49.8	46.3	42.1	42.3	42.2	35.3	34.7
sub-Saharan Africa	41.6	46.3	46.8	44.6	44.0	45.6	45.7	46.9
<b>Total</b>	<b>40.3</b>	<b>32.8</b>	<b>28.4</b>	<b>27.9</b>	<b>26.3</b>	<b>22.8</b>	<b>22.2</b>	<b>21.3</b>

Source: World Bank

<sup>1</sup> Dollar and Kray (2004).

### **Rwanda: an example of a challenge that goes beyond trade**

**The challenge that confronted Rwanda in December 1994 was truly extraordinary. Thirty two years of state divisionism, eight years of economic collapse, four years of conflict and three months of savage genocide had left one million people dead, a collapsed state and economy, infrastructure destroyed and nearly three million refugees in exile.**

Nine years later, Rwanda's needs remain acute. The violent legacy of genocide, civil war and of an authoritarian state has been compounded by continuing regional instability, a highly vulnerable rural majority, political and social fragility, extreme environmental degradation, the highest population density in Africa, high levels of inequality, an emerging HIV/AIDS epidemic, severe skills shortages and severely limited market and trade links. 60% of Rwandans currently live below the national poverty line, 40% in extreme poverty.

And yet there is no doubt that the government has made great progress in national reconstruction since taking power in 1994. The country is at peace, the economy is stable and growing (real GDP growth averaged almost 8% per year from 1998 to 2002), and the incidence of poverty is declining. The Government has developed a long-term vision of Rwanda's development and an internationally endorsed Poverty Reduction Strategy designed to deliver this.

Rwanda now wishes to mainstream trade into its Poverty Reduction Strategy, both for policy coherence and proper financing of trade-related projects. It has applied to join the integrated framework for trade-related technical assistance for least developed countries. A technical review process is underway.

As one of its priorities for assistance to Rwanda over the next three years, DFID will provide support for the basic processes of government such as economic management, including trade policy.

### **How do we harness trade and investment to our overall objective of poverty reduction?**

Trade can be an important engine of economic growth. Once the conditions are right, trade may often be the means by which growth takes place. The countries in which poverty has been reduced have generally expanded their level of participation in world trade.

Whilst trade can play an important role in poverty reduction we need also to acknowledge and tackle the many supply side constraints faced by developing countries – these are discussed more fully in chapter 2. Taking account of these constraints, developing countries need the space to design and sequence trade reform packages in a

way that is appropriate for their particular circumstances, and then integrate them into their own development and poverty reduction strategies. The international community has a strong role to play in supporting these reform efforts with long-term sustainable finance supported by aid flows, in order to ease capacity constraints and help manage change.

The purpose of the forerunner to the WTO, the GATT, was to raise global economic growth through facilitating trade. In the immediate post-war years, that meant ensuring that economic rivals did not pursue the "beggar-my-neighbour" trade policies of the 1930s. The GATT Rounds were designed to provide a countervailing pressure to domestic protectionist desires. The WTO is still useful as a

forum to help the EU and US, and other large economies, avoid trade disputes.

But now that a large majority of WTO members are developing countries, it is right that international trade policy should acquire a further role: to support the economic development of poorer countries through policies appropriate to their needs.

Clearly, we should not expect poorer countries to pay a 'price' for any 'concession' on subsidies, tariffs or market opening by a developed country – as trade negotiators too often imply. Instead we should make these reforms willingly, both because they are the right things to do for the developing world, and because they are in our own interests.

This part of the White Paper, therefore, looks at the ways in which governments can promote international trade and investment with a view to tackling poverty.

The European Union is a major player in international trade. It operates a Common Commercial Policy, under which the Commission negotiates on behalf of the EU as a whole.

We thus have an important continuing challenge: to work with the Commission and other Member States to maximise the effectiveness of the Common Commercial Policy, making sure that the EU is able to speak with a strong single voice and that the EU line accurately reflects our concerns.



## Chapter 1

# The Doha Development Agenda

In November 2001, Ministers from all 144 (now 147) WTO member countries met in Doha, Qatar to seek to agree a new agenda for negotiations.

The result was the Doha Declaration, under which the Doha Development Agenda (DDA) was launched. The term “development agenda” was used to emphasise the point that, more so than in previous “Rounds” of negotiation, all WTO members were committed to placing the concerns of developing countries at the heart of the negotiations.

It was agreed to launch negotiations that would form part of a “single undertaking” – in other words, all WTO members would have to accept or reject the whole package at the end of the day. The subjects to be negotiated were as follows:

- agriculture;
- services;
- non-agricultural market access or “NAMA” – tariffs and non-tariff barriers affecting industrial goods;
- environment – some aspects of the relationship between WTO rules and multilateral environmental agreements;
- rules – a renegotiation of the WTO agreements on anti-dumping, subsidies and Regional Trade Agreements; and

- the principle of granting Special and Differential Treatment to developing countries was included as key component of each individual negotiation, as well as for the DDA as a whole.

The intention was that the following WTO Ministerial meeting, in Cancun, Mexico in September 2003, should agree a negotiating framework (broad principles to be followed, but no detailed figures) on agriculture and NAMA. It was also planned that the Cancun Ministerial should agree on the “modalities” for negotiations on four other issues – the so-called “Singapore issues”<sup>2</sup> of investment, competition, trade facilitation (how to adopt basic rules on customs and related procedures to help trade flow) and transparency in government procurement.

In the event, the Ministerial broke up on 14 September 2003 with no agreement on these, or on any other issue relating to the DDA. The Doha Declaration set a target for the DDA to be completed by 1 January 2005. Always ambitious, the failure of Cancun makes this target – barring a miracle – impossible to achieve. Our hope is that we can achieve by the end of this year the kind of outcome that we had hoped to achieve at Cancun, and that negotiations can be driven forward in 2005.

The DDA could make a highly significant contribution to increasing world trade and reducing poverty. Agriculture is central both in economic and in political terms to securing a good outcome to the DDA. A deal on agriculture could unlock other vitally important issues, such as NAMA and services.

<sup>2</sup> So-called because they were introduced onto the WTO agenda at the Singapore Ministerial meeting of 1996.

The principle of Special and Differential Treatment needs to be put into effect across the board (see Chapter 2).

The DDA is not just about removing trade barriers. It also encompasses a number of issues relating to improving the operation of the WTO's rules. For example, all four of the Singapore issues could have made a valuable contribution to trade and development. It is now clear that investment and competition, and probably transparency in government procurement, will not feature in the DDA. We see value in pressing on with negotiations on trade facilitation but we will not pursue them at the expense of the DDA as a whole.

## Chapter 2

# Market opening by developing countries: same destination, different speeds

Our view is that, as a long-term objective, the removal of trade barriers is just as important for developing countries as for developed. The evidence shows that those countries which have achieved the biggest reductions in poverty in recent years have been those which have been open to international trade.

However, while trade openness can lead to economic growth, it is not a sufficient condition in itself. As was noted in consultation for this paper, there are examples of poorer countries which have opened up their markets but have not experienced trade growth. And in some countries, small and vulnerable local producers have been badly hit.

### **The importance of complementary (“flanking”) policies**

Openness to international trade and investment is not always the main determinant of whether a country is able to prosper through trade. This is illustrated by the example of Korea, below. A country which is well governed, has a stable economy and which invests heavily in innovation and skills may succeed even if it adopts a somewhat restrictive trade policy whereby it limits imports but promotes exports. A country which is open to trade but badly governed and lacking in infrastructure is unlikely to succeed. (This is as relevant to developed countries as to developing – Part 2 of this White Paper sets out our recommended “flanking” policies for the UK and the EU.)

But this does not “prove” either that openness to trade is irrelevant nor, still less, that a protectionist country must have enjoyed any success that it has because of protectionism.

### **The importance of placing trade liberalisation within a broader context of development**

In our view, the fact that most developing countries face severe supply side constraints that limit how their economies respond to international price signals, points to the need to remove trade barriers in a way that is properly sequenced and, vitally, within a broader plan for development and poverty reduction.

Proper sequencing should allow developing countries and donors to invest in the basic building blocks of a well-functioning and flexible economy, at the same time as safeguarding vulnerable people through change. It would seek to ensure that the transition costs that arise through being more open to competition can be mitigated, and do not erode longer-term progress on raising living standards.

Experience of rapid structural reform in the Former Soviet Union and Central and Eastern Europe – including on trade but extending more broadly – suggests that the legal, regulatory and institutional environment was insufficiently developed to manage the adjustment prompted by the whole range of reforms. In particular, it showed that full deregulation of financial markets can lead to

### Example: the lessons of East Asia

**A major source of contention among economists is the question of what lessons to draw from the industrialisation of East Asia.**

South Korea is an example of the impressive growth that can be achieved by following effective economic policies. In 1970, Korea's GDP per capita was on a similar level to Mozambique and half that of Portugal. By 1995, Korea had overtaken Portugal. Between 1970 and 2000, Korea's economy grew by an average of 5% per year, despite several setbacks along the way.

A 1994 World Bank study<sup>3</sup> pointed to a number of reasons for this:

- high levels of domestic savings, feeding into high levels of private sector investment;
- a strong emphasis on education;
- a sound and stable macro-economic framework;

- government pressure on Korean companies to compete amongst themselves;
- a rapid and effective government response to the economic crises in 1979 and 1997;
- good governance – high quality regulation and a strong meritocratic civil service.

As part of this strategy, South Korea also maintained high tariffs on some products during the 1970s. The Korean economy grew more rapidly once these tariffs were removed. Some economists argue that this tariff protection was an essential plank of Korea's strategy of industrialisation<sup>4</sup> – the subsequent growth would not have happened without the earlier protection. Others dispute this: they argue that Korea succeeded because of the broader strategy outlined above, and that restricting imports was a bad policy that was, fortunately, more than compensated for by a package of good policies.<sup>5</sup>



3 "The East Asian Miracle: economic growth and public policy: a World Bank Research Report 1994.

4 The Global Governance of Trade: as if development really mattered. Rodrick (2001).

5 Krueger, speech at the 7th World Economic Forum

## Supply-side constraints

The extent to which any individual country can respond to the signals provided by international trade will vary, but can result from deficits in a number of areas:

- **Human capital** – the health, skills and productivity of the population. While these are not this paper's main focus, a shortage of capacity in this broadest sense means that countries are unable to respond to the challenges and benefits that more open markets bring. HIV/AIDS poses a particular challenge for many African countries.
- **Capacity in directly trade-related areas** such as efficient customs administration, transport and communications infrastructure, appropriately designed and implemented regulation, and legislation covering property rights and the means to enforce these.
- The **institutions** needed to create appropriate governance and regulatory environments and to mitigate transition costs, such as opportunities for re-skilling, a flexible and dynamic labour market, and a healthy environment for the creation of new businesses.

- **The institutions and resources needed to safeguard people through change**, such as effective social protection and welfare programmes with broad coverage. UK expenditure on social safety nets averaged over 10% of GDP between 1972-1995 compared with an average of 1.4% in sub-Saharan Africa.

- **A well educated and skilled workforce.** This enables a country to respond flexibly to changes in working practices and economic and social priorities.

In order to address all these supply constraints simultaneously, and to enable developing countries to become better integrated into the global economy, it is essential that the international community makes available sustainable long-term finance to supplement domestic resources that are often scarce. Tax systems in many countries are often underdeveloped or rely heavily on trade tariffs. This is why the UK has proposed the creation of an International Finance Facility in order to provide a substantial increase in external support through aid. The IFF would issue securities on international bond markets in order to double aid flows up to 2015, the year when the Millennium Development Goals fall due.

dangerous volatility. Recovery is now underway, but the short-term impact was a substantial drop in GDP.

This suggests that in some sectors, investment and international support, over a defined period, may be needed in some vital building blocks as part of the move to liberalisation. This is especially true in markets and for products that are of particular importance to large numbers of poor producers –

and where the prospects for diversification in the short term are weak.

At the same time as managing liberalisation in this sequenced way, we should be careful not to permanently entrench incentives that maintain the status quo, nor to discourage or undermine institutional development.

### Infant industry protection: the case for and against

There has been much discussion about the validity of the “infant industries” argument – that developing countries should be allowed to erect or maintain high tariff barriers to help them develop particular industries. According to the argument these barriers can be dropped once the industry has “grown up” and become internationally competitive. Supporters of the argument point out that most developed economies had just such tariffs as they were industrialising. They also argue that domestically-owned industries are more beneficial because they are less footloose, and keep a higher proportion of their high value jobs such as R&D in developing countries.

### Concerns about infant industry protection in the modern economy

The infant industries argument is based on the premise that the industry will become internationally competitive within a reasonable period. This involves sustained improvements in competitiveness at a greater rate than established producers. In some industries major improvements can be secured by purchasing state-of-the-art equipment, more than by “learning by doing”. But the main sustained driver for improvement – competition – is missing. As international productivity levels increase, often as a result of faster and faster developments in technology, the industry behind tariff walls will find it harder and harder to catch up. This is also why historical comparisons with developed countries are no longer so valid: times have changed too much.

Support for an infant industry is not cost free and can be very expensive for a poor country. Resources invested in a new industry cannot be used elsewhere (e.g. on education, health or infrastructure); local consumers will pay more.

Times have changed, and so have industries, which appear to be less ‘sticky’ in terms of their reluctance to leave their home country. As all industries become more international, the distinction between domestic and foreign ownership may be becoming less relevant. Both generate jobs and export income; both can transfer technology.

This analysis also illustrates that to have any chance of succeeding internationally the infant industry must be in a sector in which the country will have some competitive advantage in the future. In practice, it is often difficult for any government – whether in a developed or developing country – to pick winners in this way. This is particularly true (and mistakes are increasingly costly) with the ever-accelerating pace of technological change, and the shrinking window of opportunity available to companies to get a new product to market before a new generation of technology makes it redundant.

### Practical steps for the future

We accept that these are issues on which people who care about development and poverty reduction may disagree. We remain open to new evidence as it emerges. We also see it as important to maintain a dialogue with all interested parties as to the best way to act in the short term.

In practical terms, the speed of market opening is determined by negotiations. One of our key priorities for the DDA is to refine the concept of “Special and Differential Treatment” (SDT) for developing countries, which is enshrined in the 2001 Doha Declaration.

What form does SDT take? This has to be negotiated issue by issue. But it might mean:

- the right of developing countries to open their markets more slowly than developed countries, to allow for adjustment;

- fewer procedural burdens on developing countries, for example over the notification of subsidy programmes;
- more flexibility for developing countries to take short term measures when faced with economic or social disruption; and
- longer timescales for implementing agreements which require expensive new capacity.

Our intention is that it should not mean wholesale and long-term exemptions for developing countries from WTO rules. We should not have a “two-tier WTO”. The rules should be designed so that they are sufficiently flexible for developing countries to operate them. A number of developing countries have required long-term exemptions from rules negotiated under the Uruguay Round (such as the Agreement on Trade Related Aspects of Intellectual Property or TRIPS), because these agreements did not have the necessary flexibility built in. This is a mistake that the WTO’s big players should not repeat – there is no point in securing a “high quality” agreement if there is no prospect of getting it implemented.

We also think that the system should be flexible enough to recognise the different levels of development of developing countries. What works for Brazil may not work for Bangladesh. We welcome a recent ruling by the WTO Appellate Body that developed country members of the WTO are free to offer concessions to groups of developing countries based on their particular development needs.

## Chapter 3

# Agriculture: a vital trade and development challenge

## The case for agricultural liberalisation

International agricultural markets are neither fair nor free.

Of all sectors, agricultural markets remain by far the most heavily protected. Tariffs and quotas block access to markets (both developed and developing), distort consumer choice, divert resources from more productive sectors of the economy, and lower overall consumption causing domestic welfare losses. Along with trade-distorting subsidies they also depress world prices by encouraging over-production and reducing demand from the protected market for imports from the rest of the world. Export subsidies increase price volatility and disadvantage developing countries in their own and in third country markets.

Three in four of the world's poor people live in rural areas. Most of them are engaged in agriculture. In Africa the agriculture sector provides two thirds of employment, half of all exports and over one third of Gross National Income (GNI). In Asia, agriculture provides jobs for 60% of the working population and generates 27% of GNI. Agriculture and agricultural trade therefore play a central role in meeting *the Millennium Development Goals*.

The level of distortions in agricultural markets worldwide has a huge detrimental impact on the global economy and more particularly on developing countries' economies. The distortions prevent developing countries from trading their way out of poverty by undermining their comparative

advantage to trade in the products they are best able to produce. The World Bank estimates that developed country agriculture policies could cost developing countries up to €75 billion a year, ie around 1.5% of their GDP.

For poor people in developing countries to benefit from agricultural trade, developed countries must reform a number of practices that currently stand in the way. To increase the prospects that developing countries will benefit from agricultural trade a number of reforms to agricultural policies in developed countries are required: these include opening their markets to developing country exports, ending the practice of 'tariff escalation' that discourages developing countries from processing their own products, and reducing their trade-distorting subsidies, which enable developed countries to dump their farm surplus on the world market at artificially low prices, undercutting developing country producers. Developing countries, meanwhile, need to ensure that they maximise the opportunities created by trade liberalisation by pursuing complimentary domestic policies such as infrastructure development, good governance and rural development to use trade opportunities as part of their national development strategies.

Import tariffs prevent developing countries from exploiting their comparative advantage of cheap input costs. Average *ad valorem* agricultural tariffs in both industrial and developing countries are up to four times higher than manufacturing tariffs<sup>6</sup>. Specific duties (a fixed duty per quantity) which are

<sup>6</sup> World Bank (2003)

not automatically reduced as world prices fall, are yet more distortive and are included in more than 40% of tariff lines in the EU and US<sup>7</sup>. Agricultural tariff peaks (tariffs above 15%) reach 506% in the EU, and 350% in the US<sup>8</sup> and can be as high as 900% in some countries.

Added to the problem of high market barriers is that of tariff escalation. Tariff escalation restricts developing countries' ability to move into value-added processing industries by applying higher tariffs the more a commodity is processed. This forces developing countries to depend on a narrow range of primary commodity production with volatile earnings and declining terms of trade. For instance, the tariff on cocoa beans in the United States is 0%, rising to 0.2% per cent for semi-processed cocoa, and 15.3% on the final product<sup>9</sup>.

Agriculture represents on average less than 3% of GDP in high-income countries, yet the OECD estimates that agricultural support/protection in OECD countries has increased OECD farm gate prices to on average 31% above world prices (in 2002)<sup>10</sup>.

In 2002 support to agriculture producers in high-income countries was an estimated \$250 billion, about five times the level of international development assistance. Cotton producers in West Africa, for example, are estimated to lose around \$250 million per year from unfair competition from heavily subsidized cotton from the EU, US and China<sup>11</sup>. It has been estimated that, prior to the most recent series of reforms, the CAP alone cost the world economy \$75 billion annually.

But agricultural liberalisation is not only in developing countries' interests. It has, for instance, been estimated that two thirds of the damage caused by the CAP is caused to the EU's own economy<sup>12</sup>. In 2001, through cost of subsidies and higher food prices, EU taxpayers and consumers paid out €104 billion to support EU farmers – equivalent to 1.7% of EU GDP or £16 per week in

taxes and higher food costs for the average family of four. This represents a disproportionate burden on the poorest as food represents a higher proportion of poorer families incomes. To put this into the wider context, EU growth was only 0.8% in 2003.

Furthermore, despite the substantial costs imposed by the CAP on consumers, taxpayers and the economy, the value of support measures tends to be lost in higher input prices, including capitalisation into land values. Comparing subsidy with farm profits gives an indication of the extent to which subsidy has been dissipated in higher costs and thus does not benefit producers: estimates for England for 2002/03 show that the average ratio of direct subsidy payments to net farm income for all farm types was around 150%.

It is by no means only developed countries that protect their economies. High agricultural tariffs are also a feature of many developing country economies, discouraging the development of important 'south/south' trade, which accounts for 50% of developing country trade. Applied tariffs for sugar reach 100% in India, 66% in China and 65% in Thailand.

The economic gains on offer if agricultural protection is tackled are significant. The World Bank estimates that, on a dynamic model, global welfare gains from significant agricultural liberalisation could reach \$358 billion by 2015. Global net gains from worldwide liberalisation of sugar markets (one of the most heavily distorted sectors) have been estimated at \$4.7 billion<sup>13</sup>. Protectionist agricultural policies stand in the way of economic growth and prosperity for us all, but particularly for developing countries, where agriculture can represent as much as 50% of GDP.

The WTO negotiations, the Doha Development Agenda, provide a vital opportunity to step up the dismantling of global agricultural protection. We will work with our trading partners in the EU and around the world in the current Round of WTO negotiations to achieve an ambitious outcome which tackles the

7 World Bank (2003)

8 World Bank (2003)

9 World Bank(2003)

10 OECD (2003)

11 World Bank (2002)

12 Goreux (2003)

13 Borrell & Pearce (1999)

practices –quotas and high tariffs, export and trade-distorting domestic subsidies – that damage the global economy and the development of the poorest countries in particular. Through global action we will achieve the greatest global gains.

### **Agriculture in the EU**

The origins of the CAP lie in the aftermath of the Second World War, when there were significant food shortages. In this climate, policy makers believed that increasing support and protection for agricultural production was the best way to improve Europe's food security.

Until the early 1990s the bulk of EU subsidy was used to guarantee farmers a minimum price for much of their produce, considerably above world market levels. Quotas and high tariffs were required to keep out cheaper imports which would otherwise have undermined the high internal EU prices. These measures, combined with improvements in technology, significantly increased EU production. Export subsidies were needed to enable traders to bridge the gap between EU and world prices and export their otherwise uncompetitive excess production onto world markets. That further depressed world prices, undermining third country producers, often from developing countries who could otherwise produce food more cheaply. The

notorious food mountains of the 1980s were a clear signal that policies designed to promote production were unsustainable. And there was a high environmental cost for the EU too. The intensification which production subsidies promoted led to the destruction of hedgerows and other habitats and the excessive use of fertilisers and pesticides.

### **Agricultural reform in the EU**

The EU has already started to tackle the inequities caused by agricultural protection, through successive reforms of the CAP. The UK Government has always been a leading voice for agricultural reform in Europe, advocating a market-based system, where any public support farmers receive reflects delivery of benefits for the whole of society, such as environmental protection, provided in a way which does not distort world markets. We believe that within the context of agricultural reform and liberalised global trade, the agriculture industry in the EU will be able to thrive and prosper by competing on the basis of what it does best – producing safe, high quality, value added produce. Our reform efforts have led to changes for the better over the years.

Since the early 1980s there have been various reforms of the CAP, driven by a number of factors



including the liberalisation of world trade through WTO negotiations and the particularly welcome budgetary restraint which the EU has adopted. Substantial change started with the MacSharry reforms in 1992 with the most recent step being the major reforms of the CAP agreed in June 2003 and in April 2004.

These reforms have been moving the CAP away from costly and damaging price support towards a model aimed at paying farmers directly for providing certain public benefits. The fact that most tax-financed subsidies will no longer be linked to what a farmer produces will reduce the incentive to over-produce and encourage farmers to focus on the demands of the market. The reforms represent a significant shift away from the most trade-distorting forms of subsidy and will reduce the damage caused by the CAP in terms of dumped products on the world market and reduce the negative impacts on the environment.

It is important to recognise how far the EU has come – when fully implemented in total these reforms will have contributed to a reduction in export subsidies of around 70% since 1992, to around €3 bn and a reduction in trade-distorting domestic subsidy as defined by the WTO of around 70%. In the same period US support has actually increased, with the 2002 Farm Bill (The Farm Security and Rural Investment Act) reversing many of the trends of its 1996 predecessor (the FAIR Act), and increasing agricultural expenditure by some \$83 bn over the 10 years to 2011.

### **But there is still a long way to go**

We should be under no illusions. Further reform is still necessary to reduce agricultural support and protection to more tolerable and sustainable levels. Tariffs, in particular, are still unacceptably high to the detriment of consumers and producers in both developed and developing countries.

We are setting ourselves an ambitious agenda for the short-to-medium term, which will allow an orderly adjustment to a less protected and more competitive environment to the benefit of all. The EU should continue to take steps to tackle trade-distorting domestic support. We believe the EU should agree to further significant reform, particularly of those market regimes, including sugar and dairy, that have been only partially reformed so that the effect of quotas and tariffs is substantially reduced and export subsidies are no longer an issue for world trade by 2010.

All agricultural tariff peaks should be reduced towards the maximum level for non-agricultural products. In the longer term the UK Government believes there is no logical reason why agricultural products must be treated in a different way from industrial goods. Our long-term goal will be to abolish progressively, as for industrial goods, all trade-distorting agricultural subsidies and all barriers to agricultural trade in the form of tariffs or quotas.

### **Market access**

As is outlined above, significant removal of market protection is needed if the benefits of liberalising agricultural markets are to be truly realised and developing country producers are to be able to gain from selling their produce in our markets. We therefore support the ambitious outcome called for by the Doha mandate that reduces tariff peaks and escalation as well as achieving genuine improvements in market access. Improved market access for developing countries must be the priority. Other developed countries should follow the EU's lead and provide unrestricted access to their markets for all Least Developed Countries, as called for in the UN Conference on Least Developed Countries in 2001 and at the World Summit on Sustainable Development in Johannesburg in 2002.

### Special Products

The nature of agriculture in developing countries is often substantially different to that found in developed and other large agricultural exporting countries, and this needs to be reflected in trade rules. In many developing countries, millions of small farmers produce food crops on small plots of land, with only minimal technology. Their ability to sell on the local market can be undercut by rapid trade liberalisation that opens the way to surges of cheap, often subsidised, imports. In these circumstances, the Government supports the call from a number of developing countries involved in the WTO agriculture negotiations, who have asked for extra flexibility to enable them to protect a small number of 'special products' (essentially food crops) that are essential to poverty, food security or rural development.

### Export subsidies

Export subsidies allow countries to export below production cost, undermining developing countries' ability to compete in third countries and their own domestic markets. The EU accounts for 90% of all agricultural export subsidies accorded by OECD countries, with spending at about €3 bn a year. The US uses alternative forms of export subsidy such as subsidised export credit guarantees (total budget of \$5.5bn) or food aid to disburse unwanted excess production.

Export subsidies have long been illegal under WTO rules on the industrial side: similar rules are now needed for agricultural trade. There is no longer a place in world trade for export subsidies. The EU is ready to do this. The letter from Commissioners Lamy and Fischler of 9 May showed that the EU was willing to give up all its export subsidies if other countries were willing to do the same with their forms of export subsidy. All forms of export subsidies must be eliminated if we are to secure real developmental benefits – one form of export subsidy being replaced by another is not the answer.

### Domestic support

We will also seek reform of trade-distorting subsidies worldwide. The Uruguay Round began the process of limiting support. The outcome of the DDA negotiations must substantially reduce the most trade-distorting domestic support across the world, with disciplines to prevent countries simply moving subsidies between boxes<sup>14</sup> without changing the nature and real-world effects of those subsidies (so called "box-shifting"). The acid test will be whether the negotiations result in an overall reduction in trade-distorting support be it the most distorting amber box subsidies, the less distorting blue box subsidies or de minimis support.

Despite the major progress made recently, we need to reform the remaining EU trade-distorting domestic support, which is still linked to prices or to production. For example the CAP regime for sugar has remained largely unreformed since its creation over 35 years ago. In 2002 the EU sugar regime is estimated to have lowered the value of Brazil, Thailand and South Africa's sugar exports by over \$700 million – countries where nearly 70 million people survive on less than \$2 a day<sup>15</sup>. Furthermore sugar from Least Developed Countries will not be able to enter the EU tariff free under the EU's open market access arrangements ("Everything But Arms") until 2009. And the EU dairy sector still contains unacceptable barriers to both internal and world trade.

The Uruguay Round Agreement on Agriculture and the various reforms of the CAP were important steps along the road of reform, but we are still a long way from our final destination. The move towards liberalisation is a continuing process that will need commitments over time going beyond our immediate Doha ambitions if we are to realise our ambition of creating a truly fair and free global market place for agricultural goods.

14 For WTO purposes domestic agricultural support is divided into coloured 'boxes': 'green' for non-trade distorting support; 'blue' for support tied to programmes that limit production; 'amber' for all other support.

15 Oxfam, (2004).

## Chapter 4

# Other key issues in the Doha Development Agenda

Once we have movement on agriculture, we can tackle other issues which pose difficult problems of their own.

### Non-agricultural market access (NAMA)

NAMA is the overall name given to the negotiations on tariffs on industrial goods and industrial non-tariff barriers. The EU is calling for an ambitious agreement, under which no tariff will remain above 15% (tariffs above this level being known as “peak tariffs” and significant cuts are made below that).

EU industrial tariffs are already very low, but the volume of our imports is such that the benefit from further reductions could be very significant, both for our trading partners and for our consumers (industrial as well as domestic). As we push for an ambitious outcome, all remaining EU tariffs are on the negotiating table. The NAMA negotiations also include work to identify and address a wide range of barriers to trade known as non-tariff barriers. Work on this part of the negotiation is at a very early stage.

### Services

We see the further reduction in barriers to trade in services both as a key priority for the UK and an outcome that could potentially be of very significant benefit to developing countries.

Services are delivered in different ways, or “modes”, and the negotiations must cover them all. We recognise in particular the wish of a number of developing countries to make progress on services

provided by the temporary movement of people (‘Mode 4’).

In keeping with our determination to preserve the right of governments to provide public services, the UK supports the decision of the EU as a whole neither to request nor to offer any commitment to market opening in the fields of education, health and social services. This will remain the UK and EU position.

However, despite the concerns raised by some of our European partners, we support the idea of WTO negotiations on audiovisual services. We see no conflict between this and the important policy objective of protecting and promoting cultural diversity.

### The General Agreement on Trade in Services (GATS) and the right to regulate

Those who oppose recent developments in international rules such as the GATS argue that:

- as things stand, the balance of power has swung too far in favour of large foreign investors at the expense of developing country governments. The priority should not be to make life easier for investors, but to establish binding international rules governing the behaviour of multinational companies;
- the principle of progressive liberalisation – opening up more and more sectors to foreign business involvement over time - forces countries to

privatise public services and allow them to be run for profit;

- the principle of "non-discrimination" against foreign companies - which has been a fundamental part of international rule-making - reduces the scope for governments to make policy in the public interest for social, environmental and other reasons; and
- international rules do not, in any case, promote beneficial foreign business involvement - companies go where there is money to be made, not to a country that has signed a treaty.

We think that rules have a role to play, and that the fears about the malign impact of existing international rules are greatly overstated.

- Business takes a wide range of factors into account in making commercial decisions. But one of these is political risk. If a country promises fair treatment to foreign investors and service providers, that reduces political risk and increases opportunities.
- It is clear that governments must retain the right to decide which activities are run as public services and, by extension, which are run by public bodies. There is nothing in GATS that forces a country to privatise anything. We – and the EU as a whole - have made clear that we will not ask any country to privatise anything.
- It is also clear that all countries must retain the right to regulate all companies - domestic and foreign – operating within their territory and

generally to make policy on issues such as environmental protection, labour standards and assistance to small firms and deprived regions. This is consistent with the principle of non-discrimination which means that a company is not given different treatment on the basis of its nationality.

- We share the legitimate concern of many people in Britain that UK investors overseas should not exploit their economic power to the detriment of developing countries. The later chapter on corporate social responsibility provides more information on what we have done and are doing.

### Trade and environment

WTO Ministers, at Doha in 2001, reaffirmed the importance that they attach to sustainable development and to a mutually reinforcing relationship between trade and environment. The DDA, unlike any previous GATT or WTO negotiation, includes negotiations on trade and environmental issues. The specific subjects under negotiation are:

- the relationship between existing WTO rules and specific trade obligations set out in multilateral environmental agreements (MEAs);
- information exchange (including observer status) between the secretariats of MEAs and the WTO; and
- the removal of trade barriers affecting environmental goods.

## Chapter 5

# Helping the poorest countries to participate in world trade

As already shown, significant parts of the world are missing out on the potential benefits of globalisation. Our broader action plan for tackling poverty in a globalised world was set out in the White Paper on Globalisation that we published in 2000. There is no need to repeat all of the prescriptions of this document here, but it remains at the centre of our thinking.

### Trade related capacity building

The UK aims to work closely with developing countries to build the skills and knowledge they

require to deal with trade issues as they relate to their specific needs.

Trade related capacity building is about supporting the ability of developing countries to produce and implement a trade development strategy and then incorporate this strategy into their development or poverty reduction programmes. It includes action to:

- increase the volume and value of exports, including widening their range of exports and selling in a wider range of markets;

### Examples of trade related capacity building

**The UK has committed £15 million for a programme in Nigeria to improve poor people's access to commodity and services markets. Poor people in Nigeria traditionally rely on selling commodities such as rice and palm oil to earn their living. This programme aims to improve the conditions in which they do business and thereby increase the value of these commodities which they sell both locally and internationally.**

The UK has committed £1.25 million to the Advisory Centre on WTO Law in Geneva. This independent centre is assisting developing, least developed and

transition countries by providing low-cost legal support to members pursuing cases in the Dispute Settlement Mechanism. It also organises seminars on WTO law, provides general legal advice on WTO law and runs an internship programme for officials.

The UK is providing £1 million to support UNCTAD's Accession Trust Fund project. This aims to support least developed countries accede to the WTO on terms which are consistent with their specific development needs by providing technical assistance to countries at each stage of the accession process.

- increase foreign investment to generate jobs and trade through getting domestic firms to trade more and invest in trade-oriented industries;
- participate in and benefit from the institutions of international trade, especially the WTO.

The UK programme of trade related capacity building is delivered through a mixture of bilateral programmes with national governments, contributions to multilateral organisations and support to non-governmental organisations and the private sector. We have committed £160 million to trade-related capacity building from 1998 – more than three times the pledge in the 2000 Globalisation White Paper. We also contribute to the trade related capacity building programmes funded by the EU, which totalled over \$700 million in 2002.

### **Building a strong climate for investment**

We are working with developing country governments and other donors to assess the main barriers to private investment, identify priorities for reform, and assist with policy, legal and regulatory changes and the provision of services that improve the investment climate and encourage private sector development. Activities include:

- supporting the World Bank and Commonwealth Business Council's investment climate surveys, which help to identify country specific barriers and priorities for reform;
- supporting the World Bank's preparation of the World Development Report 2005, which will focus on the investment climate, growth and poverty reduction, and serve as a basis for dialogue between governments and the private sector;
- co-funding the Financial Sector Reform and Strengthening Initiative (FIRST), which provides Technical Assistance to developing countries on financial sector matters in recognition of the vital

role that an efficient financial sector plays in supporting private investment and delivering growth;

- supporting the provision of business services in weaker markets and rural areas in Bangladesh and Uganda, recognising that access to such services is essential to improve investment conditions, increase returns and reduce risk for rural businesses;
- supporting banks to extend risk lending to smaller firms in order to stimulate growth of the SME sector in Africa, Asia, Eastern Europe and the Caribbean; and
- sponsoring initiatives intended to help mitigate risks and increase sources of funding for potential investors in the infrastructure sector in developing countries, including the provision of technical assistance through the Public/Private Infrastructure Advisory Facility (PPIAF) to help host governments improve the enabling environment for private sector investment.

## Chapter 6

# Tackling the particular challenges of sub-Saharan Africa

As set out in Part 1, sub-Saharan Africa faces a particular set of challenges which are hindering growth and poverty reduction. These have been recognised – at the highest political level – as requiring a specific response.

In July 2001, African governments adopted the New Economic Partnership for African Development (NEPAD). The overall aims of NEPAD are:

- to eradicate poverty;
- to place African countries, individually and collectively, on a path of sustainable growth and development;
- to halt the marginalisation of Africa in the globalisation process and to enhance its full and beneficial integration into the global economy; and
- to accelerate the empowerment of women.

As a positive response to NEPAD, leaders of the G8 countries at their 2002 G8 Summit in Kananaskis, Canada, adopted an Africa Action Plan, which included a major section on “Fostering Trade, Investment, Economic Growth and Sustainable Development”. This had six main elements:

- helping Africa attract investment, both from within Africa and from abroad, and implement policies conducive to economic growth;
- facilitating capacity-building and the transfer of expertise for the development of infrastructure

projects, with particular attention to regional initiatives;

- providing greater market access for African products;
- increasing the funding and improving the quality of support for trade-related technical assistance and capacity-building in Africa;
- supporting African efforts to advance regional economic integration and intra-African trade; and
- improving the effectiveness of Official Development Assistance (ODA).

### Key challenges in helping Africa to benefit from trade

The UK is committed to use its Presidency of the G8 to build further on the Africa Action Plan. The Prime Minister has launched a major new initiative – the Commission for Africa – to take a fresh look at the whole range of challenges that Africa faces. One of the themes to be pursued by the Commission is the economic integration of African countries into the global economy. The Commission will report by spring 2005.

### Investment and infrastructure development will be essential

The UK is providing assistance to African efforts to help African countries create a conducive environment for both domestic (over 40% of

Africa's savings are currently held abroad) and foreign investment to boost productive capacity and promote private sector development. Examples include supporting the Kenyan government in simplifying business registration and licensing, and support to the Ugandan government in improving commercial justice and alternative dispute resolution. These efforts have improved the business environment and generated significant reductions in compliance costs for firms.

Significant amounts of investment are needed for infrastructure development and attracting private sector investment is essential. The Emerging Africa Infrastructure Fund (EAIF), and GuarantCo, which provide long-term loans and local guarantees to finance commercially viable and developmentally sound private sector infrastructure projects, are two initiatives we are supporting in the Continent.

### **Providing greater market access for African products**

There are a number of ways we can help African countries improve their access to global markets, the most important of these being through multilateral liberalisation as part of a Doha Development Agenda that delivers real results for poor countries and poor people. However, tariff and quota free market access for least developed country products, preferences and standards also have a role to play.

### **Delivering the Doha Development Agenda**

The need to reduce agricultural protection and trade-distorting subsidies is an immediate priority given the importance of agriculture for the economies of Africa (see chapter 3). Progress on NAMA and services (see chapter 4) is also important in terms of the long-term development of diverse economies in



Africa. Progress in the WTO on trade facilitation could also contribute to a reduction in customs-related and similar barriers to trade in African goods.

### **Pro-development Economic Partnership Agreements between the EU and ACP countries**

The European Union has long offered preferential access to its markets to products from the African, Caribbean and Pacific (ACP) countries, which include many of the least developed countries and smaller countries that are particularly vulnerable.

Under the Cotonou Agreement, it was agreed that the EU should negotiate economic partnership agreements (EPAs) with regional groups of ACP countries. The EPAs will be extremely important for the ACP countries, as the EU represents the major trading partner for most of them. The Cotonou Agreement is about more than just trade. It represents a broad-based approach to partnership in development, including political co-operation, technical assistance and trade-related capacity building. We are clear that the focus of the Economic Partnership Agreements must fit within this wider, more holistic approach, and be truly development focused.

- Our objective for the negotiations is to help the ACP countries grow through increased trade with us and with each other – the EU as a whole has made clear that we do not have “offensive” market access interests, and the UK will seek to hold our EU partners to this.
- As the ACP countries enter into agreements as part of a wider trading group – such as COMESA or CARICOM – they will have to liberalise their own tariff regimes. This will have significant implications for many ACP countries, who derive much of their government revenue from tariff charges. It will also give an impetus for countries to diversify. These can be difficult adjustments, which must take place at an appropriate pace for the countries concerned supported by the EU and other donors.

- Any opening of ACP markets to EU goods and services will take place on an “asymmetric” basis. Although the negotiations will be concluded by 2007, this does not mean that the ACP countries will have to start opening their markets immediately after 2007. As set out in Chapter 2 above, we believe that poorer countries should open their markets in a properly sequenced way as part of a broader development strategy. In practical terms, we think it is in their interests to open their markets in the long term. It is also desirable – from the perspective of avoiding a WTO challenge from a non-ACP developing country – that any market opening should not be entirely a one-way street. But it is right and proper that there will need to be transitional periods – possibly long transitional periods for – individual countries and individual products.

### **Tariff-free and quota-free access for the least developed countries**

The majority of the Least Development Countries (LDCs) are in Africa. From March 2001, the EU has given tariff-free and quota-free access for all products to all LDCs, albeit subject to phasing in for bananas, rice and sugar. Australia, New Zealand and Canada already have granted similar levels of access. The UN’s “Least Developed Countries III” conference in 2001 encouraged all developed countries to do likewise. The G8 leaders at Kananaskis pledged themselves similarly. We will continue to encourage those developed countries that do not yet match the EU’s levels of access to do so as a further contribution.

Larger developing countries also have a contribution to make. We welcome the recent reinvigoration of the Generalised System of Trade Preferences (GSTP) initiative at the UNCTAD XI Conference (Sao Paulo, June 2004).

### Reform of the EU's rules of origin

It is not just tariffs that create barriers for African exports. The damaging effect of overly restrictive rules of origin is described in Part 1.

For the EU, this issue can be tackled initially in the context of the EPA negotiations. We think that the EU should propose simple and liberal rules of origin under these agreements, the aim being to allow poor African countries to source their inputs from the most competitive suppliers (technically known as "cumulation"), thus integrating them more fully into the global trading system. The same principles should apply to any reform of the EU's Generalised System of Preferences (which incorporates the "Everything but Arms" initiative).

G8 members have committed themselves to improve the effectiveness and ease of use of their respective trade preference programmes. The reform of rules of origin is a key element of this. We will continue to press for other G8 members to simplify and liberalise their rules too.

### Making sure the EU does not erect unnecessary non-tariff barriers on African goods

As well as removing unjustified overt trade barriers on African goods, we need to make sure that we do not put other barriers up in the guise of technical regulations. G8 leaders have committed themselves to addressing this issue as part of the G8 Africa Action Plan. This is a particular problem in the area of food standards: consumers rightly demand that the food they eat is safe, but it is easy for regulators to slip into a "zero risk" approach which destroys trade.

A key challenge for the EU over the next few years is the need to have in mind – when regulating – the interests of our developing country trading partners and, in particular, those who lack capacity to deal with detailed technical regulations. We need to make sure that no regulation is passed without the

impact on developing countries first being considered. We also need to step up our efforts to help the poorest countries build the necessary capacity to meet the EU's regulatory requirements.

This is a particular problem for poor African producers, but the principles of good regulation hold good in terms of our relationship with all of our trading partners.

### Helping in particular those African countries who are excessively dependent on commodity production

Another important challenge for us is to help these countries to "move up the value chain" – in other words, to move into the production and export of products processed from commodities.

This is partly an issue of capacity building. We need to work in partnership with the poorest African countries to help them create the necessary economic conditions and attract the necessary investment so that viable production of this kind can take place.

We also need to defeat "tariff escalation" – whereby the EU and other developed countries levy significantly higher tariffs on semi-processed and processed goods than on commodities. We can do this through the WTO and EPA negotiations. The objective must be to ensure that no tariff on a processed or semi-processed good is higher than the tariff on the commodity that goes into producing it.

### Helping those countries who are currently dependent on their preferential trading links to the EU

At present, EU protectionism gives some African countries an advantage. To take a particular example, they can sell the EU sugar at low (or zero) rates of tariff and they benefit from a privileged allocation of EU import quotas. This means that they are able to trade with the EU even though they are

less economically efficient than other countries – including other developing countries. This is a particular issue for a few developing countries which have historically supplied the EU with sugar.

As the EU reforms and liberalises further, other developing countries will find it easier to sell to us and the historic advantage some of our traditional trading partners will be eroded. Although this will only affect a few developing countries in a few sectors, we recognise that the impact on these countries could be serious.

In August 2003, the IMF and the World Bank announced their intention to develop a new programme of work specifically aimed at helping countries facing the challenge of adjustment to trade liberalisation (identifying in particular the problems of preference erosion and reductions in tariff revenues). This led to the IMF formally approving, in April 2004, the launch of the Trade Integration Mechanism, by which any member country experiencing short-term difficulties resulting from trade liberalisation could request additional assistance. We support this initiative and will work closely with the IMF and the World Bank to take it forward. As referred to earlier, we have also proposed the creation of an International Finance Facility with a view to doubling overall aid flows by 2015.

## Chapter 7

# Helping poor people, including in countries that are getting richer

It is imperative that the overall income of the poorest countries must rise. But this is not sufficient. As we have seen, large pockets of poverty remain even within otherwise relatively prosperous developing countries. The evidence shows that some groups of people find it harder to adjust to increased international trade and development than others and are more vulnerable. One key group is women.

### Women in developing countries

Women in developing countries have a harder struggle to get the education that will help them prosper. They find it more difficult than men to get access to the land and capital that they need to transact business, and still face a disproportionate burden on their time and energy in terms of household labour.

### Globalisation: Is it good or bad for women?

**Trade policy is not 'gender-neutral'. With the different social and economic roles that women play, changes in trade affect them differently. Women and girls, as consumers and care-providers, tend to be particularly dependent on public provision of essential services such as water supply or health.**

Social norms or even laws in many countries still constrain their access to education, credit, property rights and political representation. Women work in particular sectors, and usually in lower-skilled roles. Given these disadvantages, it is often argued that trade liberalisation is bad for women. In fact trade brings opportunities as well as threats, which are different for women and men. Most obviously, there have been new opportunities for employment in manufacturing. Women are often preferred for these jobs, for a variety of reasons.

**Some examples of how trade changes affect women differently from men.**

**Garments.** Women dominate the workforce in many countries; and globalisation has brought opportunities, which have been seen to empower them. However, the end of quotas under the Multi-Fibre Arrangement (MFA) in 2005 will mean that employment for garment workers in China is likely to expand, while in least developed countries such as Bangladesh, where these jobs have brought real benefits, many women will lose them unless they, and the firms in which they work, can move higher up the value chain.

**Agriculture.** As developing country governments open up their markets by cutting tariffs and other barriers to imports, it is often women smallholder farmers who find it more difficult than men to

compete, or to find alternative ways of generating income. On the other hand, there may be increased employment opportunities for women, for instance in horticulture working for larger-scale firms, where they are often preferred to men.

#### **Trade rules on intellectual property rights.**

Access to cheap, generic medicines is important to women in their care-providing roles and for their own health needs. In sub-Saharan Africa, more than 55% of HIV/AIDS infected adults are women, while in South and South-East Asia, women account for 60% of infected young people. Agreement on an amendment to the WTO rules related to intellectual property rights before Cancun should make access easier.

**Services.** Relaxed trade rules have created new employment opportunities for some women (in sectors such as health, tourism, data-processing and telemarketing). But there are concerns that women and girls, as consumers and care-providers, may be particularly affected by cutbacks in the public provision of essential services. This may be a direct result of trade liberalisation commitments or as an indirect consequence of governments losing revenue with cuts in import taxes and no new fiscal sources being found.

#### **What is the UK government doing to integrate gender into trade policy?**

While trade liberalisation can impact on women, continued protectionism that will limit opportunities for growth is not the solution. The UK Government strives to ensure that the different impact of trade liberalisation on men and women is addressed in trade-related programmes.

At Ministerial meetings, such as the WTO meeting in Cancun, 2003 and UNCTAD XI in Sao Paolo, 2004, a gender representative was nominated to join the UK delegation and ensure a gender perspective informed the government's position.

The DTI has set-up a Gender Expert Group on Trade (GEGT) to provide independent, expert advice on gender issues to ensure gender mainstreaming is included in the development of UK Government policy. The GEGT consists of representatives of women's organisations with an interest in trade and gender issues, academics and representatives from UK Government departments.

DTI, DFID and the FCO are working with the Home Office to ensure that gender issues inform policy on migration, trade and trafficking.

DFID supports research to inform policy, at country, regional and international levels on a variety of areas within this field.

Gender training for trade negotiators is being planned.

## Chapter 8

# The need for international better regulation

Freer trade does not mean a free for all. As international trade and investment continue to increase, this will put greater emphasis on the need for high quality and effective regulation of businesses. We think that the basic principles of better regulation are universal. Laws or regulations should be:

- proportionate: regulators should only intervene when necessary. Remedies should be appropriate to the risk posed, and costs identified and minimised;
- accountable: regulators must be able to justify decisions and be subject to public scrutiny;
- consistent: government rules and standards must be joined up and implemented fairly;
- transparent: regulators should be open, and keep regulations simple and user friendly; and
- targeted: regulators should be focused on the problem, and minimise side effects.

### Trade facilitation – good practice in helping trade flow

We need a broad-based long-term strategy for “trade facilitation” – designing rules and procedures so that goods can flow freely across borders. This includes, but is broader than, the proposed agenda for negotiations on some aspects of trade facilitation in the WTO.

A recent OECD study concluded that the cost of getting goods through customs currently amounts to between 1% and 15% of the value of these goods. This strategy has to go hand in hand with making customs authorities more effective – a more effective customs can gather more revenue, better detect illicit traffic, reduce scope for corruption, enable administrative savings and facilitate trade.

This also involves governments working together to tackle current (and understandable) concerns about freight security in a way that does not choke off trade.

### UK strategic export controls

The Government does not believe in free trade in everything; in some cases trade needs to be regulated in the wider public interest. An important example of this is the control of strategic exports. In applying a robust regulatory framework in this area, the Government ensures that there are measures in place to counter the illicit proliferation of conventional and non-conventional arms, whilst permitting legitimate and responsible defence exports. We have taken major steps both nationally and internationally to address arms control, implementing far-reaching changes to our own arms control regime. On 1 May 2004, we completed the implementation of new controls, and consolidation of existing controls, under the Export Control Act 2002, marking the conclusion of the most comprehensive overhaul of the UK’s export licensing system for over 60 years. The new controls on trade in controlled goods, electronic

transfers of military technology, and WMD-related intangible technology transfers and technical assistance, together with extant controls on physical exports of strategic goods, electronic transfers of dual-use items, and WMD end-use ensure the UK has one of the most robust strategic export control regimes in the world. The Government consulted extensively throughout the passage of this new legislation and, with the new controls now in force, has committed, in line with Cabinet Office guidance on better policy making, to review the operation of the new controls in three years.

### **Better regulation case studies – intellectual property**

As set out in Part 1, many British companies who are successful overseas, trade on innovation and

creativity, selling goods for which the brand is a strong part of the appeal. For these companies, the ability to protect their intellectual property is essential. In the long term, we see significant benefits for the inventors and innovators in developing countries from the development of IPR law. However, two issues have to be borne in mind at the same time.

The first is the need to strike the right balance between rewarding the inventor and encouraging further innovation in the future. Intellectual property rights that are drawn too widely can have anti-competitive effects.

The second issue is that it takes time, money and expertise to implement IPR protection. Developing countries received long transitional periods during

## **Patents and essential medicines**

**The pressing need to tackle the spread of AIDS, tuberculosis and malaria in Africa has been recognised over the past few years as a key development challenge. This challenge requires action across a number of fronts, including the promotion of robust, secure health infrastructure.**

As one element of this challenge, a number of African governments and development NGOs raised the concern that the fight against these diseases was hampered by the high price of the most effective medicines, some of which were subject to patents. This was despite the individual initiatives taken by some pharmaceutical companies to offer essential medicines to some countries at low prices.

This issue was raised at the 1999 WTO Ministerial meeting in Seattle and was subsequently one of the central themes of the 2001 Ministerial meeting in

Doha. The governments of the affected developing countries argued that it was necessary to amend the WTO Agreement on Trade-Related Aspects of Intellectual Property (TRIPS). The argument was that TRIPS prevented them from asking a third country to send them low-priced copies of patented medicines when faced with a public health emergency (or rather that it prevented this third country from exporting the medicines). Other governments were concerned to ensure that any agreement on medicines should not undermine the overall infrastructure of TRIPS and patent protection. The Doha Ministerial agreed that discussions should be pursued on this issue.

In 2003, agreement was eventually reached on the terms on which it would be acceptable for copies of patented essential medicines to be supplied to poorer countries facing a health crisis. Discussions on converting this agreement into a formal amendment of the TRIPS Agreement continue.

which to implement TRIPS, but it is becoming clear that many are no more able now to implement TRIPS than they were ten years ago. The evidence suggests that the existence of IPR protection within a country has some bearing on the amount of inward investment that it is able to attract. As such, it forms one element of a country's development strategy. However, it has to compete with numerous other development priorities.

That said, when a country has decided to put in place IPR protection, it is important that these rules should be enforced consistently. During the preparation of this White Paper, numerous business organisations stressed to us the importance for them of tackling this issue.

### **Better co-operation between national regulators**

The UK's international business community have identified, as an issue of growing importance, the need for different bodies of national regulation to fit together better than they do at present. Companies that do business under a number of different jurisdictions do not want to be in the situation of having to comply in different – and sometimes contradictory – ways with different bodies of regulation. Cross-border commerce also creates more opportunities for fraudulent trading and scams, and therefore a need for co-operation between consumer authorities.

Grand schemes for global regulatory authorities or for harmonisation of national laws are unrealistic. We see the priority as improved dialogue between the key national regulators. In particular cases we may be able to go further – for example, national regulators may be willing to accept each other's regimes as broadly equivalent.

This is a particular problem with regard to sophisticated bodies of regulation being built up by the EU and the US. For example, attempts to achieve mutual recognition of product regulations between EU and US certification authorities have not been fully successful. However, it is potentially relevant to the EU's relations with all of its major trading partners.



### **The vital importance of the transatlantic relationship**

**The European Union and the United States are the two largest economies in the world. Together they account for about half the entire world economy.**

The EU and the US also have the biggest bilateral trading and investment relationship. Transatlantic flows of trade and investment amount to around \$1 billion a day. Jointly, the EU and US account for almost 40% of world trade.

The EU and US are key partners in driving progress towards further liberalisation of world trade through the WTO. They are also looking to tackle a range of other barriers to trade and investment between them on a bilateral basis. At the 26 June EU-US Summit in Ireland, they agreed an action plan to take this agenda forward.

## Competition law enforcement

**One area where regulatory cooperation is now imperative is competition policy and enforcement. More and more competition cases are falling within the jurisdiction of two or more competition authorities. Cooperation is essential to avoid friction and conflict. The last 10 years have seen a boom in international efforts.**

The competition authorities of the world's big two biggest jurisdictions – the EU and US – have developed a close and mutually beneficial working relationship, based on two agreements signed in the 1990s. These provide for the sharing of views on policy developments and for cooperation in individual cases. The European Commission has concluded similar agreements with other key trading partners including Canada and Japan.

But bilateral cooperation has its limits given that there are now more than 90 countries which have or are developing competition laws and institutions and who are increasingly eager to engage internationally. Developed and developing countries have much to gain from working together, for example to tackle global anti-competitive practices such as the so-called international “vitamins cartel” – a cartel of vitamin manufacturers and producers which operated during the 1990s, affecting 90 different economies, both developed and developing, and resulting in estimated overcharges on vitamin imports of almost \$2.75 billion.

In response to this challenge new multilateral initiatives dealing with competition policy have emerged such as the International Competition Network (ICN). Work has also stepped up a gear in existing fora: for example, the OECD and UNCTAD. These organisations are playing an important role in strengthening cross-border cooperation and the convergence of competition law enforcement practices, as well as providing much needed technical assistance and advice.

Following Cancun, it is clear that the time is not ripe to negotiate a set of multilateral WTO competition rules. This leaves open the question of where any rule-making might take place.

## Chapter 9

# The challenges of environmental protection and labour standards

## Protecting the environment

International trade and investment boosts economic growth and therefore magnifies the consequences of economic growth for the environment. Precisely how it does that is not pre-ordained. Trade is essential for helping developing countries to escape poverty; and poverty and environmental degradation are often strongly and closely linked.

Each developing country has to set its own priorities and make its own decisions on how best to integrate economic growth and environmental protection. But, in an increasingly interdependent world, we all have a role to play in ensuring that we are aware of these issues.

We need to ensure that effective international settings exist in which developed and developing countries can engage in productive dialogue that developed and developing countries work in partnership to best meet the interests and needs of those countries directly involved; and that we provide assistance, help and information to developing countries where necessary. This puts a premium on the need for coherence between the work of different international organisations.

- We need to work in partnership with civil society. Business, trade unions, consumers, NGOs – from both “North” and “South” – can do a lot to make sure that environmental protection is taken into account as the economy grows. We also need to help developing country producers develop

market opportunities for sustainably produced goods and services.

- And we need to ensure mutual supportiveness between trade rules and environmental rules.

## Key priorities for action

The current round of WTO negotiations for the first time includes negotiations on trade and environment issues. This is an important contribution. However, environmental issues cannot be resolved solely within the WTO. Other international institutions have clear expertise in environmental matters and therefore have an important role to play in tackling these issues. Global governance which encourages the participation of all relevant international institutions will help ensure that a global problem is tackled at a global level.

The UN in particular has an important role to play. This includes UNEP: the principal strategic global environmental authority serving as the focal point for environmental action and coordination within the UN system. The UK is a strong supporter of UNEP and, for the last two years (2003/04), has been the largest single donor, providing £4.2 million per year to the Environment Fund. Together with international partners, the UK wants to find ways to strengthen the membership, funding base, role and remit of UNEP which improve the capacity of the international community to deliver sustainable development and environmental protection. In this vein we are actively engaged in a working group to

## Climate change

**Climate change is one of the biggest challenges the global community faces. The UK remains fully committed to the Kyoto Protocol which is a vital first step towards longer term cuts in greenhouse gas emissions.**

But climate change is a global phenomenon and can only be tackled by all countries working together. In the EU we now have in place all the legislation needed to implement the Kyoto Protocol and emissions trading will start on 1 January 2005. The challenge in the future will be to ensure all countries take action to tackle climate change. Globalisation can and must be part of the solution.

Tackling climate change need not be at the expense of lower economic growth. For many countries

taking action to reduce greenhouse gases will draw in foreign investment and modernise their industrial and energy infrastructure. In 2002, annual UK emissions of greenhouse gases were 15.3% lower than in 1990. We are therefore already meeting our Kyoto target, which is a 12.5% reduction. Over the same period the economy grew by 36%. The UK introduced the world's first economy-wide emissions trading scheme, which has exceeded its environmental objectives. The first year of trading achieved emissions reductions of 4.6 million tonnes of carbon dioxide equivalent. Our ultimate aim is to reduce carbon dioxide emissions by 60% by about 2050.

assess the advantages and disadvantages of a French proposal for UNEP to be transformed into a UN specialised agency or UN Environment Organisation.

The UN plays a significant role in building capacity in developing countries on trade, investment and environment issues. This role should not be underestimated. The UK recognises the importance that action on the ground can have in demonstrating commitment and good motives, in particular in developing countries where there are fears of eco-protectionism. We have also provided funding to the UNEP-UNCTAD Capacity Building Task Force on Trade, Environment and Sustainable Development. Further to the decision at this year's UNEP Governing Council/Global Ministerial Environment Forum, we are also participating in consultations on a UNEP inter-governmental strategic plan on capacity building and technology transfer.

### **The OECD also has an important role to play.**

The UK pressed hard for strong OECD Recommendations on Common Approaches to the Environment and Officially Supported Export Credits. These recommendations stipulate that all overseas projects should comply either with local environmental standards or with those of the World Bank, whichever are the more stringent. They also provide for environmental impact information to be publicly available 30 days before a project is approved. As part of our continuing commitment in this area, we will continue to push for further strengthening and broadening of these recommendations in the revision scheduled for 2006.

The UK is also a strong supporter of the OECD Guidelines for Multinationals. This is an important instrument which encourages the promotion of environmental standards in multinational enterprises and is the only internationally

recognised instrument which has a mechanism for raising concerns over alleged breaches.

Whilst co-ordinated international action is important, we can also work within the EU to tackle environmental issues.

We have been actively involved in the EU initiative to carry out sustainability impact assessments of trade negotiations. We will continue to work closely with the European Commission to develop and promote these assessments, in particular drawing on our own experience in undertaking regulatory impact assessments.

We also recognise and support the special incentive arrangements which form part of the EU Generalised System of Preferences. These have the potential to encourage the wider adoption of key environmental protection standards.

### Promoting core labour standards

Our promotion of trade and investment must go hand in hand with our promotion of social justice around the world. It is not acceptable in the long term for us to consume goods and services which are supplied to us in conditions that do not meet the most basic of international standards.

We focus on the core labour standards as defined by the International Labour Organisation. This means:

- no to child labour;
- no to forced labour;
- no to restrictions on trade unions and collective bargaining; and
- no to discrimination in employment.

### EU Forest Law Enforcement, Governance and Trade (FLEGT) Initiative

**The EU's FLEGT initiative aims to tackle illegal logging and its associated trade. Illegal logging is a big problem as it denies a livelihood to many poor people, robs governments of enormous amounts of revenue (the World Bank estimates \$10-15 billion each year), results in environmental degradation and provokes and sustains conflicts in several parts of the world.**

It is a consequence of poor governance, at local, national and international levels. No single action can stop illegal logging. Combating it requires the simultaneous implementation of many policies and measures in and between those countries that produce timber and those that import it.

The FLEGT initiative is based around voluntary partnership agreements, by which the EU will work in partnership with key timber producing countries to improve governance in the forestry sector. The EU will support this work through development cooperation where appropriate, and by denying access to the single market to illegally logged timber from partner countries.

The UK has played an active role in developing the EU Action Plan, and is continuing to work with the Commission, member states and civil society – particularly the private sector and NGOs – in order to move the process forward.

The international labour standards agenda is a sensitive issue for developing countries. All developing countries who are members of the ILO have accepted the principle of protecting core labour standards. Their concern is that international implementation of these standards should not be carried out in a way which erodes their sovereignty or which acts as a cover for protectionism.

It is for this reason that the focus of the 1998 ILO Declaration of Fundamental Principles and Rights at Work is on core labour standards rather than labour standards more broadly, avoiding any suspicion that we are seeking to erode the competitive advantage of developing countries by harmonising wage rates. It is also for this reason that we work in partnership with developing country governments, UK companies and trade unions at home and overseas rather than working by diktat and the threat of sanctions.

### **Key priorities for action**

We will continue to promote the ILO Declaration. In doing so we will encourage all Member States to ratify and implement the ILO core conventions. We also support the work of the ILO World Commission in taking forward an agenda on a range of issues on the social dimension of globalisation including employment and labour standards.

Yet core labour standards are not solely the prerogative of the ILO. They have been enshrined and encapsulated in other international agreements and initiatives. For example, the Government along with a number of UK companies has been closely involved in the UN Global Compact which has incorporated the ILO core labour standards in three of its nine principles.

The UK also strongly supports the OECD Guidelines for Multinationals which includes a chapter on labour standards.

We contribute funding to a World Bank managed project which helps build the capacity of developing country governments to develop sustainability-related voluntary codes and standards.

At the EU level, we support the special incentive arrangements which have the potential to encourage the wider adoption of ILO core labour standards.

## Chapter 10

# Promoting high standards of corporate social responsibility

The Government has an ambitious vision for corporate social responsibility: “To see UK businesses taking account of their economic, social and environmental impacts, and acting to address the key sustainable development challenges based on their core competences wherever they operate – locally, regionally and internationally.”

Increasingly, many companies have gone beyond philanthropy to the “second generation” of CSR, which involves incorporating ethical principles into their business practices so as to ensure that their operations do not have harmful local consequences. Some are looking to a “third generation” of CSR, by which their business practices are designed from the outset to give maximum benefit to local communities.

We see our role as to encourage and enhance – at home and abroad – a public policy framework that encourages innovation and further development and widespread application of private sector best practice. Nationally we have recently launched a new Government CSR website<sup>16</sup> which provides an overview of the wide range of activities across departments in support of CSR, links to the various organisations also working in this area and case studies of best practice. The Government is also committed to establishing a CSR Academy which will support the development of CSR skills across business practice.

In March 2004 we published a draft strategic framework on our approach to CSR at the

international level. The draft proposed an objective of “continuous improvement in all of the economic, social and environmental impacts of business particularly UK companies outside the UK” and priorities as follows:

- to spread best practice from the few to the many;
- to help ensure approaches that deliver practical outcomes; and
- to encourage all relevant international and inter-governmental institutions to be actively engaged, applying their strengths and competencies and avoiding duplication.

We will continue to work actively at the multilateral level through the CSR activities of international organisations (including the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the Voluntary Principles on Security and Human Rights, and the work of the ILO); as well as collaboration with EU partners; through other international initiatives aimed at promoting CSR; and by helping to integrate CSR considerations into the action and outcomes of other international fora, such as G8, the Doha Development Agenda and the work of the Commission on Sustainable Development in taking forward the WSSD Plan of Implementation, including delivery of the Millennium Development Goals.

And we will continue to work overseas, with the support of the FCO’s network of Posts and in the work of other departments such as DTI, DFID and

<sup>16</sup> [www.csr.gov.uk](http://www.csr.gov.uk)

UK Trade & Investment, to promote CSR principles to governments, companies and civil society and explain the role they can play in promoting sustainable development.

The argument has been made that governments should work towards binding international laws governing the behaviour of multinational companies. However, given the breadth of the issues concerning such behaviour and the wide variety of circumstances – economic, legal and cultural – in which those companies operate, we are not convinced of the feasibility of an effective and enforceable universal regime. Moreover, we see little prospect of individual developing countries agreeing to the international enforcement of their social and environmental requirements. We conclude that the right way forward is to seek to work with all interested parties – business, trade unions, NGOs and developing country governments – to help ensure compliance with all relevant national requirements and encourage good business practices worldwide through partnerships that seek to go beyond those requirements.

### **We seek to increase the amount of information available to consumers and investors**

Given the legal and practical difficulties – set out above – involved in a global approach to regulating the conduct of business in the developing world, some argue that the next best solution is for consumers to be given comprehensive information about what they are buying.

We see the empowerment of consumers in this way as an important element towards our goal of ensuring that sustainability issues are considered as global issues with an impact on everyone – governments, business and consumers alike. However we also recognise the need to ensure that any labelling and reporting schemes are not viewed as protectionist by developing countries. It is important that we are able to assist consumer choice without at the same time penalising producers in developing countries.

## **CSR**

### **The UK is supporting a number of initiatives to promote corporate social responsibility (CSR) in developing countries in the interests of the poor.**

Many countries rich in natural resources have very poor records of growth and poverty reduction. The Extractive Industries Transparency Initiative aims to increase revenue transparency in the oil, gas and mining sectors in order to encourage better resource management and hence poverty reduction. Just Pensions, a programme of the UK Social Investment Forum, is working with large institutional investors to improve the social and environmental impact of their investments on developing countries. The UK

also supports the Ethical Trading Initiative, an alliance of business, trade unions and NGOs working to improve labour conditions in the companies that supply goods to consumers in Britain.

A key theme of these initiatives is the need for genuine collaborative partnerships between different sections of society (private sector, civil society and governments) in support of common socially responsible objectives. Greater attention to CSR does not lead automatically to poverty reduction. The aim of our work is to identify approaches that make sound business sense, take account of society's rights and aspirations and promote poverty reduction.



We are working towards increasing the level and quality of information available publicly to stakeholders on these issues. For example, 139 companies participated in Business in the Community's second Corporate Responsibility Index – a Government sponsored initiative – this year. The Government is also introducing regulations to require quoted companies to publish an Operating and Financial Review which will include information on environmental, social and community issues where these are material to an understanding of the business. UK pensions legislation also requires occupational pension schemes to state their policy regarding the extent to which social, environmental or ethical considerations are taken into account in investments. Both of these initiatives will help harness the power of the UK investment

community in improving the social and environmental as well as economic performance of UK business overseas as well as at home.

It is also important, however, to provide information on specific products. We encourage business to participate in good environmental labelling schemes with clear and reliable criteria, such as voluntary schemes run by the Forest Stewardship Council (FSC) and the Marine Stewardship Council (MSC). We have also produced a Shopper's Guide to Green Labels to help consumers understand some of the most common environmental labels seen on products. We have supported the work of the Ethical Trade Initiative to which many UK companies belong. This has the aim of ensuring that conditions of workers producing for the UK market meet or exceed the ILO core labour standards. This type of

information will enable consumers to make more informed decisions about the companies from whom they purchase.

### **As a major purchaser ourselves, we try to set the example within Government**

Government can do much to set the example to others both in the UK and in other countries. It is important however to recognise that UK public procurement is governed by both domestic policy as well as EU rules. The Government's overarching policy is that all public procurement of goods and services is based on value for money. There is considerable scope to consider environmental issues in procurement, within the context of achieving value for money. The scope to take social issues into account during the procurement process is more limited than that for environmental issues. However, there will be cases where social issues can legitimately be taken into account.

Despite these constraints, we are doing a great deal already. It has been estimated that central civil procurement spend of goods and services stands at £13 billion. Therefore, as part of our WSSD commitments, we have pledged to consider how Government bodies can carry out the procurement of goods and services in a manner that supports the Government's policy and objectives for sustainable development. To manage this, we have published, as a tangible expression of Government's commitment to sustainable procurement, a report with recommendations to Ministers and a Joint note on environmental issues in purchasing. The Government has announced its intention to buy certain specified products that already meet minimum 'green' standards while offering value for money. Future work will focus on implementing the remaining recommendations in the report and taking forward new ideas on innovation and social issues in procurement. Sustainable public sector procurement cannot be achieved overnight, but this first step will send a clear signal to public sector organisations that in public sector procurement achieving value for money and sustainable development objectives are compatible.

### **Promoting human rights: doing business in conflict zones**

Zones of conflict present a particularly challenging environment for business. We should expect business activities not to make conflict worse nor increase the risk of it. As well as making contributions to sustainable development business can also help develop the Rule of Law, for instance through securing investments, defining property rights, forming contracts and developing a body of commercial law. Local business leaders also have a role to play in helping to transform their societies from zones of conflict to areas of peace and security. It is not the role of business to take the lead in resolving conflict, but it can make a significant contribution.

Many companies support such good practice. The Government is engaged in several initiatives

designed to encourage and support good practices in business behaviour. The UK and the US jointly launched the Voluntary Principles on Security and Human Rights in December 2000. The Principles provide practical guidance for extractive companies operating in zones of conflict. They aim to ensure that company measures to protect the security of their personnel and facilities are taken in a way which guarantees respect for human rights. The Principles were developed through consultation with companies in the oil, gas and mining sectors and NGOs. In the short-term, they aim to encourage companies to understand better the environment in which they operate. The long-term goal is to create a better for sustainable economic investment and human rights. The number of companies adhering to the Principles continues to grow. We are seeking to expand participation further and to instigate efforts on the ground to promote the use of the Principles in specific conflict zones.

## Chapter 11

# A more effective WTO

## Helping non-members to join

Despite the occasional loss of confidence in the WTO system, countries are still queuing up to join, suggesting that they recognise that the WTO offers the best forum for the negotiation and enforcement of trade rules. At Doha, we saw a development of enormous significance as China joined the WTO, together with Chinese Taipei. At Cancun, the development of new guidelines governing the accession of least developed countries bore fruit with the agreement of Ministers that both Cambodia and Nepal should join.

In terms of the future agenda, the EU concluded a bilateral market access agreement with Russia on 21 May 2004. This is an important step forward in the process that will culminate in the accession of Russia to the WTO. The EU has concluded a similar agreement with Saudi Arabia.

## A growing WTO needs to function better.

With nearly 150 members and a much wider remit than the authors of the original GATT could have imagined in 1948, reaching a consensus in the WTO on issues which penetrate far into the domestic policy and political spheres of individual countries becomes complicated.

We see the need for a major change in the way in which WTO negotiations are conducted. The failure of Seattle and Cancun showed that the WTO had changed, and that many negotiators had not recognised this. Seattle showed that all members had to be kept informed of the issues being negotiated. It also showed – although the mistake was repeated at Cancun – that leaving all signals of

flexibility to the last minute no longer worked. Changes of behaviour and attitude, allowing co-operative negotiation rather than confrontational mercantilism, could greatly improve the chances of success.

We also see some potential for improving the processes of the WTO, although there seems to be no appetite at present for radical changes to the WTO institutional structure and rules. Ideas floated by various delegations include the following:

- a “WTO Security Council”, or small standing group of countries representing various regions and sectoral interests. A representative body of this sort, covering all issues, seems unlikely to be formed easily, and its decisions would not be accepted without challenge. A more fruitful route might be for the DG and chairs of negotiating groups to ensure that limited groups being consulted on any issues include all interested parties;
- new rules for Ministerial meetings: some developing countries argued after Doha for stricter rules on the preparation of texts for Ministerial conferences; other countries, including the UK, felt that this risked hampering the ability of Ministers to solve problems by taking political decisions. Others have voiced the concern that the chair of Ministerial conferences, usually the trade Minister of the host country, is left without sufficient support in running the meeting and taking the necessary procedural decisions. We see some merit in the idea of specifying that the chair should be assisted by the DG and a representative set of Ministers and in the idea that facilitators for Ministerial meetings should be appointed further in advance;

- **executive powers of the Director-General:** a recent EU paper proposed a greater role for the DG in making proposals and producing compromises. This has encountered some resistance in Geneva, with many developing and developed members concerned that this would undermine the “member-driven” nature of the organisation; and
- **consensus.** All decisions in the WTO are made by consensus. There is provision for voting in the WTO agreement, but WTO ambassadors have always opposed it. The Government believes that there is scope for some softening of consensus rules in issues not vital to Members’ national interests. Examples might be in respect of procedural decisions or decisions to open negotiations on a country’s accession to the WTO (while safeguarding all Members’ interests by

requiring consensus on the final terms of accession). The problem remains, however, that (i) a decision to remove consensus would itself need a consensus; and (ii) that the legitimacy of any decision taken without consensus might be questioned by those opposed, creating potential divisions which might undermine the authority of the organisation more generally.

In conclusion, the Government believes that there are WTO processes which could be improved, and that we should endeavour with EU partners to bring these about. But equally important to the proper running of the WTO will be a change in attitudes and behaviour of its members to create a cooperative endeavour to improve all countries’ economic circumstances, rather than artificial and self-defeating skirmishes.

### The development of the world oil and gas market

Open energy markets are a key international trade interest of the UK. As our North Sea resources run down, we will become dependent on oil and gas imports. As well as encouraging open markets in themselves, we also have an interest in diversifying our sources of supply (both of supplier countries and the forms of energy we use, such as renewables), in fostering the conditions for international investment in energy resources and in encouraging more liberalised energy transit, notably of gas. The development of rules-based mechanisms and multilateral institutions dealing wholly or partly with energy, including the WTO, the International Energy Agency (IEA), the Energy Charter Treaty (ECT) and EU, is central to our strategy. We need to ensure that the EU energy liberalisation package agreed in November 2002 functions effectively; that the IEA, through its dialogue with OPEC, helps ensure stability in the oil markets; and that signatories to the ECT are fully engaged in bringing about liberalised trade, transit and investment relating to energy – particularly conclusion of the ECT Transit Protocol.

This would provide more liberalised energy transit between contracting parties, notably improving access for gas exports from central Asia to and through Russia’s pipeline system to markets in western Europe.

### The significance of Russia:

The development of Russia is a very important part of our strategy. As well as possessing large resources of her own, Russia occupies a strategic geographical position between us and the vast reserves of central Asia (hence the importance of the ECT Transit Protocol).

Russia’s accession to the WTO is another key element in the strategy to encourage open energy markets in Russia. As part of the accession process, the EU has secured agreement that the price of gas from Gazprom to its domestic industrial customers will in future include costs, profits and investment needed for exploitation of new fields. Gas prices to domestic industrial customers will increase in line with proposals in the Russian energy strategy. This will encourage energy efficiency and release gas for export.



