

Becker Consulting comments on EU trade policy.

Sieps, the Swedish Institute for European Policy Studies, held a seminar 16 December 2004:

“Which Priorities for the New Commission in the WTO?”

The Director-General for Trade with the EU Commission, **Mogens Peter Carl** introduced the EU priorities for the current negotiations under the **Doha Development Agenda** to a Swedish and international audience.

At the seminar, **Gunnela Becker** at Becker Consulting commented on the presentation by DG Carl.

Mr. Carl, Mme. Chair, Ladies and Gentlemen,

It is an honor and a great pleasure to be here today, and to have the opportunity to comment on the trade policy of the new Commission, as voiced by Commissioner Mandelson, and today so eloquently by you, Mr. Carl.

I note, and welcome, that Commissioner Mandelson has already stated a strong commitment to the view that trade and development go hand in hand, and that he would like to be remembered for that. Commissioner Mandelson has also stated that a successful Doha Round is his top priority. He has emphasized that it is essential to show tangible benefits for the developing countries, especially the poorest of them.

These are very positive signals from the Commission and I could not agree more on these priorities. I also agree that negotiations must aim at a win-win package for **all** participants.

I do appreciate the very important initiatives already taken by the European Union in the context of the Doha Round to improve the situation for developing countries. I congratulate the Community for setting a number of very good examples in this regard.

Mr. Carl, You and I have met previously on several occasions, actually on both sides of the negotiating table – the opposite side during the Uruguay Round and the same side since 1995. It is a pleasure and a challenge to meet you now under quite different circumstances.

Today, my situation is different. Since several years now, I am an independent consultant. I do not speak for Sweden. Those responsible for Swedish trade policy do not necessarily agree with what I am going to say today. I am entirely free to express my views.

And, indeed, why am I here, if not to use this freedom? Actually, I do intend to bring up a few controversial matters – and I do hope to provoke reactions both from you, Mr. Carl, and from the audience. I could spend all day commenting on the Doha Agenda and the various EU positions. But I have to be brief, and therefore quite selective.

I will touch upon **five** areas of the EU trade policy.

1. *EU relations with Africa;*
2. *Preferential trade arrangements;*
3. *Special and differential treatment of developing countries;*
4. *Anti-dumping;*
5. *The enlarged EU and the Doha agenda.*

They are all, in my opinion, highly relevant to the outcome of the negotiations.

I was in Tunis, just a couple of weeks ago. I met with trade policy delegates from all Africa. It was a high-level brainstorming workshop on market access issues for Africa. It was a co-arrangement between the UNDP (United Nations Development Programme), the UNECA (the UN Economic Commission for Africa), the African Union (with 53 members) and the African Development Bank, with contributions from the UNCTAD, The ITC and many other organizations.

I mention all this in order to explain that it was, indeed, a broad continental African forum with close links to the Geneva process.

The purpose was to discuss strategic Doha Round issues for Africa and to coordinate trade capacity building for sub-Saharan Africa. Very few representatives from developed countries were present. The Commission was there, which I was pleased to note. Although invited, none of the Nordic countries were represented. They had sent large delegations to Tanzania, however. I'll say more about that in a few minutes.

I am still full of impressions from Tunis. For example, I definitely got the impression that the European Union is perceived as a **very** tough negotiator. It was seriously questioned, at least in the corridors, whether EU is **genuinely** keen on learning about the **real** problems and constraints of developing countries.

There is also a feeling of double standards. The EU (like e.g. the World Bank) preaches the benefits and blessings of trade liberalization **by developing countries**, while the EU itself more often than not practices *quid pro quo* mercantilism and protectionism, especially in the agricultural sector. I believe Harry Flam will talk more about this. By this, I don't mean to disagree with Mr. Carl on the importance of removing high tariffs and other barriers to trade also in developing countries. Trade liberalization is essentially good for all countries.

I've got to give you this: These critical comments **may** seem a little ungrateful, considering all the positive initiatives and substantial financial contributions by the EU to trade capacity building in developing regions, including Africa. Nevertheless, I think one must have an open mind and listen carefully and without bias to these critical comments.

My **first** specific comments relate to bilateral EU relations with Africa. I think they are of significant importance to the negotiations in Geneva, not only to the parties immediately involved.

1. EU relations with Africa

I have heard from both individual African countries and the ACP (African Caribbean Pacific/Lomé/Cotonou) Secretariat that they actually fear the ACP/EU negotiations on Economic Partnership Agreements, for the following reasons:

- For adding to the already severe strains on African capacity to participate in the Doha Round by dictating an unrealistic timetable;
- For splitting African regional integration efforts (Tanzania and Nigeria already affected – singled out);
- For splitting the integration and coordination efforts by the African Union (covering all African countries but one);
- For forcing Africa to premature reciprocity and WTO-plus commitments.

The EU has obviously denied African countries and regions the right to choose themselves in what groupings they prefer to negotiate with EU. What is this? A revival of colonization behavior, with Northern imperialists drawing new borders on the African continent?

What is your advice to Africa? Should they prioritize the Doha Round? This seems to be the advice by most economists. Should they prioritize their own regional integration? **Or** should their main priority be the EPA negotiations with the European Union? It will be very hard for them to manage all of these areas simultaneously in a competent manner. I am not at all sure that the third option is the one most beneficial to African economic development. Actually, I have heard the opposite. Regional integration within Africa is probably more economically sound than a bunch of bilateral agreements with trading partners on other continents.

Then we have the so-called **Nordic Africa Initiative**, which must I **assume** is yet another expression of the **common European trade policy** as coordinated by the Commission. The Nordic countries will arrange a trade policy

ministerial meeting in Tanzania in January. They have invited a limited number of selected countries, their own ad hoc choice, as I understand.

First, I wonder: What is the purpose of selecting these specific countries rather than others, and for choosing Tanzania as the location?

Second: Does Africa need yet another ministerial meeting? Africa is frequently organizing its own trade ministerial meetings and working hard on their continental cooperation. The budgetary and personnel resources for this are very limited. Wouldn't it be better for the Nordics to contribute to the financing of an African Union ministerial meeting? They might even get invited.

Third: Will a selectively targeted **Nordic** African ministerial meeting really help the African group in Geneva in accordance with **their** interests? One might actually ask: Is the **real** purpose to split the African group? Other aspects of EU trade policy versus Africa, such as the EPA, hint that this is, indeed, the general idea. Why?

2. Preferential arrangements

Now to a closely related and controversial issue, preferential arrangements, whose relevance in the WTO may be debated, since they are unilateral and autonomous instruments.

However, I expect we can agree that they are, in practical terms, a significant element in market access discussions with developing countries. The issue of erosion of preferences is also mentioned in the Doha Round Work Programme.

I note that Peter Mandelson has stated, I quote:

“There are areas of our policies, for example on preferences and rules of origin, whose impact we need to keep under constant review”.

Unquote.

Now, exactly what does that mean? **Impact?** On whose interests? EU producers, who are already very competitive in comparison?

EU has a wide array of different preferential schemes and asymmetrical agreements, each with different coverage, tariff quotas, special conditions and sets of rules of origin. Their different sets of rules of origin are negotiated rather than neutral, and therefore politicized. They are highly technical and difficult to apply, both for developing country exporters **and** for European Customs administrations. They are often not very clear and predictable for traders.

The EBA (Everything But Arms initiative towards the least-developed countries) is generous in terms of coverage and preferential treatment, but has even tougher rules of origin than the other schemes. Why, one must ask. Allegedly, its utilization rate is a mere 2.6 or 2.7 percent. Why, again?

The US AGOA preferences (African Growth and Opportunities Act) are, on the other hand, well used and apparently highly appreciated. What is the difference, one must ask?

I certainly do not deny that preferences, despite these circumstances, may be of great importance for **some** products, from **some** countries.

But in brief, the administration of preferences is expensive, and often unpredictable. To make use of preferences, the first condition is that you have products to export. For most of the tariff-lines covered by the systems, the poorest countries do not even have any products to export. **Plus**, most of the preferential margins will end up in the pockets of European importers, anyway

My question is: Has the Commission ever done a holistic cost/benefit analysis of the maze of preferential schemes? You might get some quite interesting answers.

Imagine a **radically** simplified scheme of preferences, reserved for the poorer, smaller and landlocked economies in the world. Transparent and clear rules of origin, generous cumulation rules, simple administration.

What if you could coordinate the rules of origin between the major trading areas, EU, North America, Australia and Japan?

What if the money saved through such a reform could be used for trade-creating business and market development, and other trade capacity building in these countries? Commissioner Mandelson has said: “the EU cannot not be the only banker of the WTO”. True. But reform the banking business and others may be more willing to join.

3. Special and Differential Treatment

SDT is closely linked to the issue of preferences, but it contains more, especially in terms of transitional arrangements within individual WTO agreements and – for least-developed countries in particular - exemptions from commitments that are obligatory to other countries.

However, this is a mixed blessing. It is “normal” to cling to supportive measures, but it is not always conducive to sound economic development. It is easy to leave things as they are, if you have no incentive to change. It is like the Swedish health insurance system. It does not provide much of an incentive to get back to business.

What does the Commission do to make poor countries less dependent on preferences and special and differential treatment? After all, trade liberalization does result in ever smaller preferential margins. The solution is certainly not to maintain high tariffs, which is sometimes claimed by developing countries.

The main problem today is that the poorest countries have very weak domestic markets and even worse conditions for international trade relations. Measures to support sound economic leadership at all levels are even more important than trade preferences. **I suggest these countries need special financ-**

ing and capacity building to compensate for the erosion of preferences. I also suggest this is a core issue for the negotiations.

If the efforts were successful, some developing country exporters would probably become quite competitive. However, **then** they would probably be subject to ad hoc graduation or even anti-dumping measures...

4. Anti-dumping

Which brings me over to an **inevitable question**: It is related to anti-dumping. I do not deny anti-dumping is an important feature of the WTO, maybe even one of the prerequisites for far-reaching trade liberalization. But to motivate the existence of this instrument, it needs to be kept in very tight reins. Lately it has been spreading across the globe like a plague, **in addition** to all the other escape routes open for developing countries. This may be a new Pandora's box of messy trade and dispute settlement cases.

My question is: What does the Commission do about the increased and possibly incorrect and unduly trade distorting use of the AD weapon by developing countries?

5. The enlarged EU and the Doha Agenda

Finally, How will the new enlarged EU manage to deal with all these complex issues without back-tracking into more passive trade policies and more protectionist outcomes?

(I could add a number of more questions on the difficulties for developing countries to comply with sanitary and phyto-sanitary regulations, technical regulations, quality standards etc. I could ask you about competition, investment and IPR policy issues. And a lot more. But I think my time is out.)

Mme. Chair, Mr. Carl, Ladies and Gentlemen, thank you for your attention.

Gunnela Becker