

## **MANDELSON REPLIES TO OXFAM**

Brussels, 15 May 2006

Dear Friend,

I have always looked upon NGOs like Oxfam as allies in my basic determination to put trade at the service of development, notably in the Doha Round. However, I believe that Oxfam's recent dismissal of the WTO Doha Round negotiations as a 'recipe for disaster' for the developing world is a serious misjudgement. Doha is not, and could never be, the complete answer to ending world poverty, but, for all the difficulties, a Doha Agreement remains a worthwhile goal that takes us forward down that road. Let me explain why I think so.

### **A small revolution in subsidy reform...**

NGOs like Oxfam have argued that that the EU and US have not cut their trade-distorting farm subsidies as much as they should. In 2003 the European Union committed itself to the biggest reform of its agricultural spending it has ever undertaken. By decoupling farm support from production incentives and price supports the EU has made almost ninety percent of payments to farmers non-trade distorting. Similar reform in the US remains, at present, hypothetical. The EU is still the only WTO Member so far to offer cast-iron commitments to eliminate all its agricultural export subsidies. In terms of the Common Agricultural Policy as it once was, this is a small revolution. Through Doha we are offering to bind these changes as an international commitment in the WTO and thereby make them irreversible

### **Cutting farm tariffs cuts both ways...**

Some NGOs like Oxfam say that the agricultural tariff cuts we have offered should go further. The European Union is prepared to cut its highest farm tariffs by more than 60%, and to halve its average farm tariff to around 12%. These cuts will mean real pain for Europe's farming sector. But it is also easy to forget that many developing countries may end up the losers. Cutting our tariffs will seriously erode the preferential market access that Europe already extends to the world's poorest countries. Remember that at present almost all agricultural exports from African and Caribbean countries enter the EU duty and quota free. As tariffs fall, this advantage falls.

The experience of sugar trade liberalisation in the Caribbean shows that the removal of preferential access causes serious economic and social hardship. It has to be handled with considerable care, and flanked by cash help for adjustment. We also need to be clear that most of the new market access that Europe will create by cutting its farm tariffs will not be used by the neediest developing countries but will be snapped up by a handful of highly competitive agricultural exporters like Brazil and Australia. Agricultural tariff cuts create valuable new trade for some, but they are not a magic road to development for the world's poorest.

### **Some credit for the EU's development agenda...**

In its recent paper Oxfam gives the EU no credit for fully supporting the principle of special and differential treatment in agriculture for developing countries and the development of a Special Products category for developing countries. We have also supported other key Oxfam demands including:

- The elimination of all trade-distorting US cotton subsidies, as called for by the WTO dispute settlement body. The 2003 CAP reform has eliminated all export subsidies for EU cotton and EU production no longer has any effect on world prices.
- Further disciplines on the Blue Box to ensure that trade-distorting supports like the US' Counter Cyclical payments are not preserved under a new name.
- Reform of the food aid system: the EU fully supports the maintenance of emergency food aid, but wants to see rules on Food Aid tightened so that this is linked to helping those who need food, not US farmers who want to be paid for their surplus production.
- The EU has supported progressive tariff reduction and a substantial aid for trade package to help offset the effects of preference erosion through tariff cuts.

### **Services and NAMA: something from China, nothing from Chad...**

Like Oxfam, in the negotiations on non-agricultural market access (NAMA) the EU is committed to addressing tariff peaks and escalation in developed countries through the use of a Swiss Formula that would automatically eliminate tariff peaks. From developing countries the EU has asked for cuts only from a small number of

advanced developing countries, and this at a level less than the developed world, with a right to shield sensitive sectors from cuts completely. Like Oxfam, the EU fully believes that it is important that progressive liberalisation allows for flanking measures to shelter temporarily growing “infant” industries. It has asked for concessions only from those whose growing economic strength equips them to contribute. Yes, they are developing countries; but China is not Chad. Brazil is not Benin.

In services, the EU has only asked for commitments from developing countries that reflect their capacity. As Oxfam demands, it has backed countries like India in pursuing an ambitious outcome in negotiations on Mode 4, which is crucial for developing country workers’ being temporarily posted abroad. Although the EU will not exclude the option of negotiation on public services access where developing countries choose to do so, we are most definitely not seeking to “force” any such negotiation.

### **Progressive trade liberalisation is pro-development...**

The most dramatic benefits from trade liberalisation in recent years have been felt in developing countries. Yet the stance of some NGOs implies that trade liberalisation is something that developing countries can only endure, not something they benefit from. Yet every successful example of economic development in the twentieth century was built on steady economic liberalisation and market opening. In the last decade, booming developing markets like Brazil, India and China have been unilaterally cutting their tariffs because they know it makes economic sense. That is how they have been successful in tackling poverty reduction through growth.

More than 70% of developing country trade is in industrial goods. So are most of the tariffs they pay – mostly to other developing countries. While tariffs can be an important source of revenue for developing countries they also penalise trade and raise prices for consumers. Growth of trade between developing countries - South-South trade - would replace this dependence on tariff revenues with a more sustainable fiscal income from a growing economy and commercial sector, which are also necessary for development. So a carefully calibrated agreement on industrial trade liberalisation is an important part of a Development Round – for everyone.

Likewise, services trade can provide a vital means of transferring technology and expertise between developed and developing countries, and when it brings

investment with it, is an important way to build the transport, communications and banking sectors that are the backbone of a growing economy. Obviously in the Doha Round, many of these decisions to liberalise will remain discretionary for most developing countries, but we should nevertheless emphasise some of the potential gains that exist.

### **Everything to lose in walking away from the table...**

For these reasons alone, the recent suggestion by Oxfam that developing countries have so little to gain from the current Doha negotiations that they should consider abandoning the talks is extraordinary. Consider:

- Without Doha, developing countries would lose the opportunity to lock in reform of agricultural trade-distorting subsidies and export subsidization systems in the developed world. Unlike the EU, the US has undertaken no farm reform yet. Doha remains the best and only chance to secure US commitments to reform for the foreseeable future. NGOs like Oxfam may believe that proposed reform does not go far enough fast enough, but does it really favour the alternative?
- Without Doha, competitive agricultural exporters in the developing world would lose the possibility of improved market access opportunities to developed country markets - notably the EU agricultural market access offer, which will seriously reduce EU tariffs and EU production and create big new markets in key products like poultry and beef.
- Without Doha, a huge opportunity for poorer developing countries to gain access to the markets of the more advanced developing countries would be lost. Most of the world's remaining tariff barriers are between developing countries. A multilateral agreement can achieve much more than bilateral agreements in opening this south-south trade. Oxfam is rightly critical of the resistance by some developed countries to providing duty-free quota-free market access to all imports from all Least Developed Countries (the EU has provided this since 2001). But only Doha provides the moment where this kind of multilateral preferential agreement is even possible.
- Without Doha, countries affected by preference erosion through bilateral agreements by other countries would receive no compensation. Doha will include a substantial compensation package for countries affected by the erosion of their existing trade preferences.

- Finally, without Doha, all developing countries and the G90 countries in particular, will miss the opportunity to secure a substantial 'global' Trade Related Assistance package. The EU has already pledged more than 2 billion euros a year in untied aid by 2010: through Doha we can convince others to make their own contributions. In the field of trade facilitation, new rules would help increase customs revenues and improve efficiency for developing countries. These can only be negotiated multilaterally.

In sum Doha offers developing countries an opportunity to lock in farm reform in the developed world, open new markets for their exports and develop new trade among themselves. It can produce new multilateral agreements on rules that benefit them and aid that will boost their capacity to trade. These things are all on the table. Those advising them to walk away from the Doha table should think long and hard about the alternatives.

Yours Sincerely

Peter Mandelson

EU Trade Commissioner