6

THE PRICE OF A CUP OF TEA

While the slump in primary commodity prices has had a profound impact on Third World producers, it has hardly been felt by consumers in the Northern industrialised countries. When, for example, the International Coffee Agreement collapsed in 1989 and coffee prices fell to half their 1980 level, there was no immediate change in the price paid for coffee by consumers. In fact, international commodity prices are only a fraction of the amount ultimately paid for the product by the consumer. This is because the real value in commodity trading is not in the primary production of sugar, coffee, or tin, but in the subsequent activities, such as the processing, packaging, transporting, and retailing, that occur in the product's journey to the consumer.

This chapter traces one commodity, tea, in its journey from the tea picker to the tea drinker. There is no particular significance in the choice of tea. Like all commodities the marketing patterns of tea are, to a great extent, dictated by its physical characteristics. So while each commodity has its own peculiarities, they all tell much the same story. Oxfam's experience of the tea industry comes from working with tea workers in a number of countries. In common with many other primary-commodity producer groups, such as the Bolivian tin miners, tea workers tend to work long hours for very little money. They lack access to basic services, suffer health problems, and are poorly educated. They are, in every sense, at the end of a long and complex chain that links them to the consumer.

THE CONSUMER

By the end of the 1980s the world's population was steadily drinking its way through around 2.2 million tons of tea a year.[1] Each year the global increase in tea drinking outpaces that of population.[2] In short, tea is a growth industry. The historian Henry Hobhouse puts its popularity down to its theine content. Theine, like caffeine, is a mildly stimulating drug, harmless if taken in sensible doses. Tea is also cheap and practical in those parts of the world where there are dangers in drinking unboiled water.[3] Barring the Gulf State Qatarians, the Irish and British drink more tea than anyone anywhere in the world. In Qatar the average amount of tea drunk per person is five and a half cups a day. In Britain and Ireland the average is about four cups per person per day, still considerably more than in the rest of Europe, where the figure is less than one cup a day.[4]

Since the beginning of the 1960s the pattern of world tea consumption has changed significantly. People in the industrialised countries are drinking less tea than they were twenty years ago. Substantial as it may seem, the British four-cups-a-day habit is only half of what it was at the beginning of the 1960s.[5] This is partly due to the increasing popularity of coffee, and the growing market for soft drinks. But it is also due to the introduction of the tea bag. Tea bags have a convenience value over loose tea, with the result that tea bag sales now far outstrip sales of packaged tea, providing some blenders/packagers with as much as 75 per cent of their revenue.[6] This partly accounts for the decline in consumption because the tea bag, while more expensive, uses far less tea per cup than loose-leaf tea. However, this decline has been more than compensated for by a rapid growth in consumption in the Middle East, North Africa, South Asia, and the USSR. In many countries in these regions rapid growth in population and incomes has led to a steady increase in tea drinking, a trend that looks set to continue well into the 1990s.[7]

THE PRODUCER

Tea comes from an evergreen bush that thrives in the wet regions of the tropics and subtropics. As Tables 3 and 4 show, Asia dominates the world tea industry, with India and China alone producing more than half the world's tea, and accounting for nearly 40 per cent of world tea exports. But tea is also important as an export crop for a number of much smaller developing countries. In 1989 Sri Lanka, for example, accounted for nearly a fifth of world tea exports, yet tea provided more than one third of the island's foreign-exchange earnings between 1982 and 1986. Tea is also an important export for Kenya and Malawi, and significant to the economies of a small number of other very poor countries such as Rwanda and Tanzania, as Table 4 shows. Kenyan tea is the main supplier to both the British and Irish markets, providing 49 per cent and 34 per cent respectively of their tea supplies. India has cornered 33 per cent of the Irish market and 18 per cent of the UK market. Other suppliers include Sri Lanka, Indonesia, Rwanda, and Malawi.[8]

There are three ways in which the physical properties of tea have dictated its marketing patterns. The first is that tea needs to be processed immediately after harvesting. This means that processing has to take

Table 3: Major tea producers, 1989

Country	*Thousand metric tons*	*% of world production*
Asia		
India	684.1	27.8
China	558.9	22.7
Sri Lanka	207.0	8.4
Indonesia	156.0	6.4
Bangladesh	39.1	1.6
Africa		
Kenya	180.6	7.4
Malawi	39.5	1.6
Zimbabwe	17.9	0.7
Tanzania	16.1	0.7
Rwanda	13.0	0.5
Latin America		
Argentina	40.0	1.6
Brazil	14.8	0.6
Other countries	493.1	20.0
Total	2460.1	100.0

(Source: Food and Agriculture Organisation of the United Nations: *Tea*, New York: FAO, 1990)

place close to where it has been grown. Secondly, tea has a limited storage life and needs to be sold quickly. This is one reason why it is generally sold through auction. Finally, in terms of processing there is virtually no scope for adding value to tea. Once the leaf has been dried and cured, all that there is left to do is blend and package it, or granulate it to make 'instant' tea, the most recent innovation in the tea market.[9]

It is the first characteristic that has had most influence on the way in which the production of tea is organised. On-the-spot processing requires large-scale production to justify the use of expensive processing machinery. Tea, therefore, is generally grown on a plantation, or estate, with a factory attached. In most countries at least some of the production is carried out by smallholders – farmers living near a tea factory. Their harvest will generally supplement that of the main estate, although occasionally they are the only suppliers. The income they earn from it is likely to be their only source of cash to supplement their otherwise subsistence economy.

In some countries, such as Indonesia and Sri Lanka, the estates and factories are state-owned. In India, plantation ownership is

Table 4: Major tea exporters, 1989

Country	Thousand metric tons	% of world exports	% of export earnings*
Asia			
India	220.7	20.0	5.7
China	211.9	19.2	–
Sri Lanka	204.2	18.5	34.8
Indonesia	114.7	10.4	
Bangladesh	23.4	2.1	6.1
Africa			
Kenya	163.2	14.8	17.1
Malawi	39.0	3.6	20.0
Zimbabwe	14.0	1.3	–
Tanzania	13.0	1.2	5.0
Rwanda	10.8	1.0	8.0
Latin America			
Argentina	43.3	3.9	–
Brazil	9.4	0.9	–
Other Countries	34.3	3.1	–
Total	1101.9	100.0	

* UNCTAD Report by the Secretariat on Diversification. REF: TD/B/C/.1/AC/7, July 1989.
(Source: as for Table 3.)

predominantly private, while in Kenya there are a large number of smallholders (although the processing is done by a parastatal organisation, the Kenya Tea Development Agency (KTDA)). One legacy of British colonial history is extensive British corporate involvement in the tea industry at all stages of production. Until the Sri Lankan tea estates were nationalised, many of them were owned by British companies. They still dominate the African tea industry. Booker McConnel, Finlays, and Brooke Bond all own or manage large estates in Malawi and Kenya, while the Commonwealth Development Corporation has shares in the KTDA and in tea estates in both countries.[10]

In tea production it is the owner of the tea factory who bears all the costs of production up to the point of sale to the blender/packers; payment of estate labourers or smallholders, processing, transport to the port, shipping, insurance, warehousing and brokerage fees. The tea factory may be owned by a parastatal, private company, or foreign transnational. Whichever, the living and working conditions of the estate labourers, or the standard of living enjoyed by smallholders, depend on how much they are paid by the tea company owner. Being at the end of the production chain, they are the most vulnerable to internal state or company policy, or external market forces.

Tea workers

Sevanthamma has picked tea all her life. She lives with her two children and her husband on one of the 'labour lines' on the estate in Sri Lanka where she works. These are rows of huts, provided free to workers by the estate owner. Each family occupies one small room. Sevanthamma's room has neither water nor electricity. She has partitioned off one corner to serve as the cooking area.

Her day starts at 4 a.m., when she gets up, fetches water, and prepares breakfast. She has to report for work by 7 a.m., having dropped her two younger children off at the estate's primary school. On some days she has a long walk to the area of the estate where she will be working that day. If she is late, she could lose a full day's work, or have money deducted from her wages. She spends the rest of her day picking tea. She normally works until 4 p.m., with a break for lunch. If the crop is particularly heavy, she may have to spend longer picking and often does not get home until 6 p.m. Then her domestic routine begins once again: washing, cooking, cleaning, and caring for her children.

Her wages are paid every month, calculated at a daily rate of about £0.50 a day. In some weeks she will be given only three or four days' work, depending on how much tea is ready to be picked. So her wages tend to be much lower than in most other sectors of the economy.[11]

Like nearly all Sri Lanka's tea workers, Sevanthamma is of Tamil origin. Her grandmother was bought to Sri Lanka, aged 13, in 1913, to pick tea. The island was under British colonial rule at the time, and as the Sinhalese refused to work on the estates, they recruited labour from South India. These so-called 'Estate Tamils' have remained culturally and physically isolated on the island, where they are regarded by the Sinhalese majority as second-class citizens. Health and education facilities are inferior compared to those available to other sectors of the population, and their wages are lower.

For these reasons tea workers have, since the mid-1970s, been a priority target of Oxfam's programme in Sri Lanka. Project funding has mostly aimed at improving their working and living conditions. The Oxfam-supported organisation Satyodaya works with Tamil estate labourers and Sinhalese farmers in the villages that surround the tea estates in the Kandy district of the central highlands of the island. Through community organisation, it works to increase the educational and health status of these groups and to manage income-generation and welfare projects. It also aims to promote better understanding between Tamils and Sinhalese.[12]

Sri Lanka: 'Labour lines' on a large government tea estate near Kandy.

Conditions on tea estates in Bangladesh have, for many years, also been of concern to Oxfam. Back in the 1970s and early 1980s Oxfam supported a campaign designed to improve conditions on estates owned by the Scottish company, James Finlay, the biggest single producer of tea in Bangladesh. At that time conditions on those estates were described as follows:

> To describe the tea workers as slave labour would not be accurate, since they receive wages; but the similarities between their situation and that of a slave labour force are considerable, in that the attitudes and policies of their employers completely dominate every aspect of their lives. They live inside the gardens in 'labour lines' (housing) provided by the company. They are issued by the company with cheap rations of food stuffs they cannot otherwise afford. They depend on the company for any elementary education or medical care that may come their way, and even for their water supply. They are required if necessary to work as personal servants to estate managers; and they are generally unable, because of cultural isolation and high unemployment, to leave the gardens and find alternative work.[13]

A more recent study shows that overall conditions in the Bangladesh tea industry remain extremely poor.[14] It focused on women workers on a tea estate in the Sylhet region. As in Sri Lanka, the tea workers live on 'labour lines', rows of huts scattered all over the estate. Since 1977 tea companies in Bangladesh have had a legal responsibility to replace 10 per cent of the mud, bamboo, and thatch huts with cement houses that have tin roofs. But as the study shows, only a very small proportion have done so. The vast majority of workers still live in the old style housing:

> These one-room huts, measuring about 8 ft by 8 ft, have no doors. The old thatch roofs ... are leaking badly and rotting away. The floors are made of earth, there are no windows, and no separate kitchen. These homes are meant to house a maximum of four people, but up to six adults and four to six children often live, sleep, cook and eat their meals in them ... The physical environment of the labour lines is extremely poor. In the garden, attack by the mosquitoes is tremendous, and the labourers do not have any mosquito nets to protect themselves. Many are also attacked by cold, 'flu and diarrhoea. There are many labourers who suffer from malnutrition due to lack of food, and as a result their power to resist diseases becomes very weak.

As far as education was concerned, the study showed that fewer than three per cent of women on the tea estate were literate. Although a primary school had been recently established, few people could afford to send their children there, as it would deprive the family of the vital income that the child could earn on the estate.

Wages on the plantation were extremely low in comparison to those paid in other industries, and the workers on the estate were described as 'unhealthy and skinny'. To increase their basic daily wage many work over-time, for which they are paid piece rates, but even so, the 'majority of the plantation workers, especially the women workers on the Tea Estate, cannot eat two meals a day, let alone buy the bare necessities.'[15]

Responding to this the company, James Finlay, says, 'Overall the picture is not one of which we are particularly proud.' However, they add that 'All our children attend primary schools, where there are also free crèches which supply food and milk to the children ... wages are negotiated on a nationwide basis. Standards of housing and so on are subject to the Labour Act.'[16]

The company stresses the difficulties that tea companies face due to low prices for tea on the world markets: 'We have made very small profits in the last few years and there have been no dividends paid in the last decade to our shareholders.' They go on to say, 'What is needed in Bangladesh is to bring the yields and productivity of the estates up to a level comparable to the rest of the world. We are working on that and have a very major uprooting and rehabilitation programme. As the success of the rehabilitation is realised, we will have more money to add to our already considerable expenditure over labour health, welfare, education, housing and so on.'

Tea production is also of concern to Oxfam in Malawi. But here the focus of concern is on the impact that the industry has had on the local economy, rather than on the plight of workers. The industry is concentrated in the Mulanje District, in southern Malawi. Mulanje is one of the most densely populated regions in the country. But the problem is exacerbated by two factors. First, much of the area is unsuitable for cultivation, either because it is very hilly, or marshland. Secondly, much of the area is not available for cultivation, because 10,000 hectares of it is used for growing tea. The result is that there is enormous pressure on land, with not enough available for smallholder cultivation. Hence the size of landholdings in the area tends to be very small: the majority are less than half a hectare, and often fragmented, so families are cultivating tiny plots of land scattered over a large area. As these small plots have to be heavily cultivated, the soil has gradually become less productive.

All this makes it difficult for families to grow enough food to support themselves all year round. Ninety per cent of households run out of food before the next harvest is due. The main source of income to supplement subsistence farming in the area is from the tea estates. But wages in the industry are low. Malawian tea workers are among the lowest paid in the world. The daily rate is equivalent to about £0.25 – 18 per cent of the rate paid to Zimbabwean tea workers, and half the rate paid in Sri Lanka.[17] This means that there is a general lack of purchasing power, which in turn contributes to extreme poverty in the region.[18]

Oxfam is currently funding a community development programme in Mulanje District aimed at assisting the region's most vulnerable farmers and communities.[19] Tea production is just one of a complex combination of factors that has contributed to poverty in this region. But it illustrates how this type of large-scale production for export can contribute to rural poverty, through low wages and by limiting the land available for smallholder cultivation.

PROCESSING

Tea is classified according to the processing procedure used, which results in three classes of tea: black tea (fermented after plucking), green tea (unfermented), and oolong (semi-fermented). Over 90 per cent of exports consist of black tea. Most green tea exports come from China.

The processing of tea is relatively straightforward, and starts immediately the leaves have been picked. The harvested leaves first go through a 'withering' process to dry off excess moisture. Then they are put through rollers, so that the juice left in them is spread evenly over the leaf particles. After this, they are left to ferment, a process of oxidation during which the leaves change colour. Once their smell and colour are judged correct, the leaves are fired to stop fermentation, and then sorted into grades.

The best grades are large, long-leafed, and well twisted. They are known as Orange Pekoe. Then come the broken grades with names like Golden Broken Orange Pekoe. Then come the 'dusts', which are not the tail end of the tea trade, as their name suggests. They can be used in tea bags and can often fetch high prices on the open market. These are known as 'orthodox' teas, named after the machine used in their manufacture. There is also CTC (Cut, Tear and Curl) tea, which is processed through the more capital-intensive CTC machine. The smaller fragments of leaf produced by this process are ideal for tea bags, as they infuse more quickly.

After processing, the tea is packed in plywood tea-chests, or – more commonly nowadays – into five-ply foil-lined sacks ready for sale to the manufacturers, known as blender/packers in the tea industry. Some blender/packers buy direct from the tea estate. A few buy on forward contracts, but the vast majority purchase tea from public auctions.

THE AUCTION

There are tea auction centres in all the major producer countries: India, Bangladesh, Sri Lanka, Kenya, Cameroon, Singapore, and Indonesia. These account for about 90 per cent of all auction sales of tea.[20] Tea sold in Britain and the EC is generally sold through the London Tea Auction, which was established in 1834 and was, for many years, the world's leading auction. Its importance diminished in the 1970s as British tea consumption fell and the volume auctioned in producer countries increased. All the auctions follow similar sales procedures. Up to the point of sale, all costs are born by the producer. If the tea is being sold at the London auction, the producer's post-production costs will include transport to the port, shipping to London, insurance, and any warehousing involved. The producer will also pay a commission to the broker in London for selling the tea.

Auctions, as buying and selling institutions, are operated by brokers. Each producer will have a broker to whom the tea will be delivered for tasting and assessment of market value. For the London Landed Auction, that is the sale of tea warehoused in the UK, the brokerage fee was 1.75 per cent of gross sale proceeds in January 1988. For the selling of tea at the Offshore Auction, which deals with tea still aboard ship and en route to its final destination, the brokerage fee is 2 per cent. The broker may also act as agent for the seller, dealing with documentation, warehousing, and collection and remittance of proceeds. For this service an additional fee of 1 per cent of gross sale proceeds is charged. A further £8.50 per lot is levied as a sale charge for London Auction teas.[21]

Only four tea brokers now operate at the London Auction.[22] The brokers draw samples from the tea warehoused for auction, taste it themselves as an aid to pricing in the catalogue, and send out samples to any buyers for whom they may also be acting.[23] The London Auction is held weekly at Sir John Lyon House. Each broker selling that day has a catalogue of lots, and auctions it from the podium in the small auction room. The buyers sit in the body of the room, though it soon becomes apparent that only three or four are doing much bidding. These are the representatives of the so-called 'Big Four' companies who dominate the tea industry in Britain and elsewhere. They are Brooke Bond, Premier Brands, Allied-Lyons, and the Cooperative Wholesale Society.

The auctioneer states a lot, for instance Pekoe Dust, 60 chests, starting at 95. This means that the broker's minimum valuation on this lot is £0.95 per kilo. The bidders may bid up from this figure, or may come in at a lower figure. If a lot does not come in at his calculated minimum, the auctioneer withdraws it, and it goes on to the 'outlist', for sale later by private treaty, or else to be 're-printed' into the catalogue of a later auction.[24]

The bidding progresses by a penny per kilo at a time, never straying very far from the brokers' own valuation, except when a scarce item, such as an early Darjeeling, comes in. The movement from lot to lot is swift, and the whole auction, with four brokers presenting landed and offshore catalogues, can be over in three or four hours. While representatives from the 'Big Four' companies dominate the bidding for most lots, other buyers in the room occasionally ask for parts of lots. They do this by shouting out to the main bidder, for instance, 'I'd like twenty, please'. This means that they want to take twenty chests out of the lot, which may contain sixty chests, at the price currently on the table. This practice is widespread at all tea auctions. It enables smaller buyers to procure tea from lots which would otherwise be too large for them. Yet, frequently, the voice requesting a part-lot comes from another major bidder. This has led to speculation that on occasions the major companies collude to keep prices low, splitting lots rather than bidding against each other.[25]

The broker extracts a further 0.5 per cent of the auction price from the buyer, for a grand total of 2.25 per cent commission on gross sales – 2.5 per cent from offshore sales. In 1987 the average price of tea sold at the London Auction was £1.051 per kilo. The total amount of tea sold in the same year was 52,968,000 kg, giving a total sale price of £53,238,136. The brokers' 2.25 per cent cut of this comes to £1,197,857.[26]

Tea prices

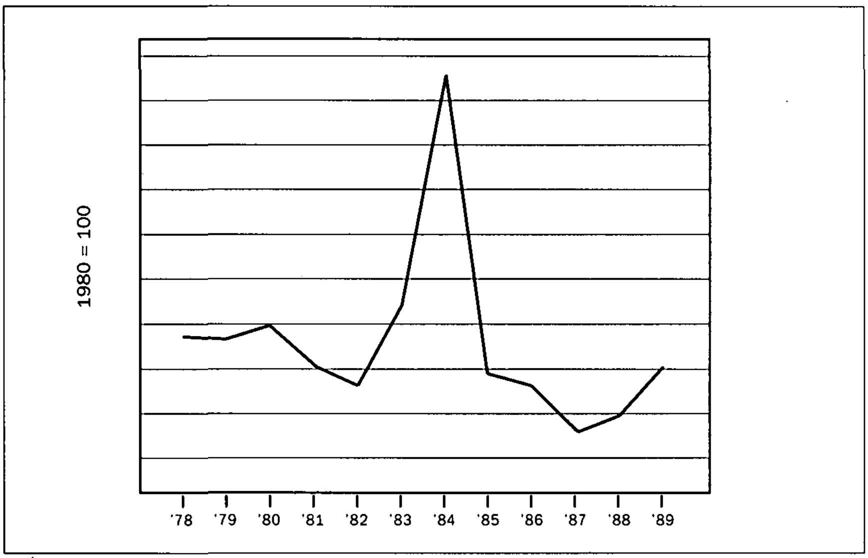
The amount that tea sells for at auction is determined by a number of factors. The sharp rise in tea prices in 1984, for example (see Figure 7), was mainly due to India's ban on all exports of CTC tea in the first five months of that year in order to protect its domestic market. Drought, which adversely affected production in Kenya, Sri Lanka and India, also put pressure on international supplies.[27] Poor harvests caused by drought in India were again a factor in the price rise at the end of the decade, at a time when political unrest in Sri Lanka was having serious consequences for its tea industry. A tea workers' strike in 1989 to demand a rise in the minimum wage was estimated to have cost Sri Lanka 20 per cent of its crop.[28] Meanwhile in the USSR, fall-out from the nuclear disaster at Chernobyl has affected tea production and forced the government to buy from external markets.[29]

Attempts to regulate the price of tea through international agreements have proved largely unsuccessful, mainly because producers have been unable to agree on market shares.

THE BLENDER/PACKAGER

Eighty per cent of tea drunk in the UK, of a total market valued at £600 million a year,[30] will have been blended and packed by one of the 'Big Four' companies. The largest of these is Brooke Bond Foods Ltd, which

Figure 7: London tea auction prices, 1978 to 1989



(Source: UNCTAD: *Handbook of International Trade and Development Statistics, 1989*, New York: United Nations, 1990) includes the two tea companies, Brooke Bond and Liptons. Both are subsidiaries of Unilever PLC, making it the world's biggest tea company. Unilever made its first foray into the tea market in 1872, when it acquired Liptons, a Glasgow firm which, by that time, dominated the tea trade in the USA. In 1984 Unilever expanded its tea operations by its take-over of Brooke Bond. Brooke Bond was even more established than Liptons, and had been selling, blending, and growing tea since 1861.[31] With the popular Brooke Bond brands (PG Tips, Choicest and D), Unilever now controls an estimated 30 per cent of the UK market.[32]

The second largest blender/packer in the UK is Premier Brands Ltd – makers of Typhoo, Ridgeways, Melroses, and Glengettie – which has cornered 21 per cent of the market.[33] Premier Brands used to be the food arm of Cadbury Schweppes until a management buy-out in May 1986. Three years later it was acquired by Hillsdown Holdings PLC. It has subsidiaries in the USA, France, Ireland, and Italy. Third on the list is Lyons/Tetley Ltd, a subsidiary of Allied Lyons PLC, with 18 per cent of the market[34] and brand names such as Tetleys and Quick Brew. Allied Lyons has extensive marketing interests outside the UK: it is the market leader in Ireland, and has a share of the US and Canadian market; in Australia it holds second place after Unilever. Fourth comes the Co-operative Wholesale Society, the Co-op, with 12 per cent of the market.[35]

It is mainly the 'Big Four' who supply the major retailers with their 'own-brand' teas, although which company supplies which retailer, and with how much tea, is never publicly disclosed. Retailers' 'own brands' account for about 30 per cent of the total tea market.[36] The remainder of the market is taken up with the 'speciality teas', such as Ridgeways (a subsidiary of Premier Brands) and Jacksons of Piccadilly, which account for about 10 per cent of the market, and a miscellaneous grouping which includes instant teas, such as James Finlay's brand 'LIFT', and the various regional brands, such as Taylors of Harrogate for the remaining 10 per cent.

After purchase, the original teas are blended. All popular brands are a combination of teas which may come from as many as thirty different sources. Skilled blenders will mix together the various available teas so that the taste, if not the origin, remains consistent, and satisfies the blender's requirements of strength, flavour, and colour. In general, North Indian teas (particularly from Assam) are used to give strength; Sri Lankan, South Indian and Indonesian teas give flavour, and African teas give colour.[37]

After blending, the tea will be packaged. The ever-increasing popularity of tea bags means that around 85 per cent of all UK tea is bagged.[38] The growing popularity of tea bags over loose tea is good news for the consumer, if cost takes priority over quality, and for the manufacturers, who get more money for less tea. A 125 g pack of loose tea makes on average 55 cups of tea. A 250 g pack of tea bags contains 80 tea bags and makes between 100 and 150 cups of tea.[39] The retail price of ordinary tea bags works out at some £1.08 per 250 g, as opposed to £0.93 per 250 g for the same tea in packaged form.[40] The consumer saves around 15 per cent on each cup of tea drunk, but the producer sells less tea overall.

Once the tea has been blended and designated loose or bagged, all that remains to do is package it. It is in the design of the packaging that the companies compete most intensely for a share of the retail market. However, the scope for change is limited. In 1989 Premier Brands decided to boost its tea sales by a relaunch of its most popular brand, Typhoo. In looking at ways of doing this, they decided that as the blend was already near-perfect, all that was left was to redesign the packaging. The resulting new-look Typhoo tea bags were sealed in foil pouches, in tear-strip packs. The machinery required to do this cost the company £8 million. It then hired advertising agency Leo Burnett to market the product. They added a support line 'OO that's NOO' to the old advertising slogan 'You only get an OO with Typhoo'. The bill for the relaunch was £6 million.[41]

Blender/packagers enjoy a price mark-up of around 50 per cent, which makes it a lucrative business even for small, independent companies. They can often beat the 'Big Four' on price for a given tea at auction, because they know the exact size of their market, and their overheads are lower. What they are unable to do is expand their market. The four major companies maintain their grip on the market in two major ways. First through massive advertising campaigns, such as Premier Brand's re-launch of Typhoo, and secondly by offering discounts on bulk sales to retailers for 'own-brand' labels.[42] Neither tactic would be within the means of more modest operations.[43]

Of the four companies, Unilever is by far the largest. Apart from its dominance of the UK tea market, Unilever has also captured 62 per cent of the Australian tea market, via Bushells and Lipton, 30 per cent of tea sales in Canada, 49 per cent in the US market, and 95 per cent of packaged tea sales in India and Pakistan.[44] Unilever's subsidiary, Lipton Far East, has been blending and packing tea in Singapore since 1978, from where it supplies most of the South East Asian region with black tea. It has also started marketing green (unprocessed) tea, which is still the preferred drink in many parts of the region. Unilever is well aware that South East Asia is a dynamic growth area, and is concentrating its efforts there with the aim of considerably expanding its market. It has also made significant inroads into the fast-growing Turkish market, where its operations are fully integrated.

Tea-time in Turkey

Unilever's Turkish operation is probably indicative of the way in which the company would like to see its tea operations going in producer countries. Up until 1984, tea production in Turkey was controlled by the government parastatal Caykur. However, in 1984 the market was opened to private companies. Unilever was already well-placed to take advantage of the change of policy via its subsidiary, Dosan, which produced canned foods and tomato paste.[45]

Dosan sited a new factory in an area of high unemployment on the Black Sea. The aim is to provide 4,000 tonnes of Turkey's annual consumption of 120,000. The Unilever operation buys its tea direct from the 61 buying centres which it has established in the hill villages where the tea is grown. The advantages of this to the 3,000 registered tea growers who supply the Dosan factory is that they do not have to bear the costs of transport, insurance and documentation for their tea. They are also spared the costs of processing.[46] By using another Dosan plant at the industrialised end of the country for blending and packing, Unilever maintains a verticality of integration that few Turkish companies could afford to match. Packing machinery was shipped in from a Brooke Bond factory in Manchester.

Unilever is aiming for a modest 3.5 per cent of the Turkish market. But tea consumption in Turkey is growing fast. With a population that is increasing at a rate of around a million a year, consumption rose from about 1.44 kg a head to 2.65 kg a head between 1980 and 1986, putting it only slightly behind the UK as one of the world's major tea consumers. Between 1980 and 1987 the area of Turkey's land under tea cultivation and production increased by a third. At the same time, exports dropped from 5,243 tonnes to only 177 tonnes.[47]

Through strategic positioning Unilever has been able to enter the tea industry in a country with huge potential for an increasing market. As the growing industrial population of Turkey turns increasingly to convenience foods, inevitably the packaged tea sector of the market will increase its share. Unilever will be in a strong position to dominate the sector, and eventually the market.

WHOLESALERS/RETAILERS

In most countries the major intermediary between the manufacturer and the retailer is the wholesaler, who makes bulk purchases from producers for resale to retailers. But in the last thirty years, as retail power in industrialised countries has become increasingly concentrated in the hands of a relatively small number of supermarkets or chain stores, these mega-retailers have tended to buy direct from the manufacturers.

The retailer buying tea direct from the manufacturer can expect to make a mark-up of about 20 per cent. Jackson's Ceylon Tea Bags, for example, were being bought at the trade price of £11.78 for 12 boxes of 50 bags in 1989. Their retail price was £1.19, a mark-up of 21.4 per cent.[48]

However, the smaller retailer cannot hope to compete with the supermarket at the cheaper end of the range. In April 1989, for example, PG Tips was listed at a trade price equivalent of about £0.55 a packet, yet Tesco was selling it for £0.48, complete with a voucher offering 5 pence off the next packet purchased.[49]

The price of a cup of tea

Oxfam's main concern in the tea chain is with the ways in which the industry contributes to rural poverty in the producing countries. The need for improved pay and conditions on many tea estates is apparent. But to achieve this, two factors have to be taken into account. The first is the price of tea on the international market. Put simply, this means that the estate owners have to earn enough from their tea sales to be able to pay decent wages. The second factor relates to how those earnings are distributed. The benefits of good prices then have to reach the workers and their families. Clearly, in many cases they do not.[50]

Developing countries also need to be able to maximise their returns on their exports. In October 1991 medium-quality tea was selling in the London Tea Auction for £1.10 a kilo. The retail price was nearly four times that amount, even though the tea only has to be blended and packaged between the auction rooms and the retailer.[51] If producing countries were able to blend and package the tea before it was exported, they could substantially increase their share of the profits from the industry. Likewise they could export more if Northern consumers could be persuaded to revert to loose, rather than bagged, tea.

However, the obstacles to achieving either of these objectives are formidable. In the words of the company chairman of James Finlay: 'This is simply something which Brooke Bond, Premier and so on would not accept, but even if they did, the very high costs of transporting materials out to these countries and bringing the tea back in a packeted form would more than offset the advantage. The packeting companies like Brooke Bond and Premier would still want to advertise their products. Prices on the shelf would be much the same or even more. The producer would not be better off.' In his view, 'It is a myth that more tea would be drunk if it were in a packet rather than tea bag form.'[52] In short, it would mean changing Northern consumer habits and breaking the grip that the large tea corporations have on the market.

7

THE CASE OF COCONUTS: Market power and the vulnerability of small producers

Tea can only be drunk. The coconut, by contrast, can be used in many different ways. In Britain the large nut with its brown 'hessian' coating frequently turns up in fairgrounds, but is only occasionally found whole, in food stores. However, its hard white flesh is used in a variety of ways, both edible and non-edible. In its desiccated form it can be found in cakes, biscuits, and confectionery. As an oil it is used in artificial milk products and ice cream, and as a glossy coating for biscuits. As an oil in non-edible products it can be found in a range of products that include soaps, washing-up liquids and powders, toothpaste, cosmetics, adhesives, pharmaceuticals, industrial oils, and fire-fighting equipment. Copra cake, a by-product of coconut oil, is used extensively by European countries as a cattle feed.[1]

COMPETITION FOR COCONUTS

But there are disadvantages in being so versatile. Coconut oil is just one of many sources of vegetable oil that compete in a highly complex market (see Table 5). Unilever, one of the world's largest processors of vegetable oils, divides them roughly into three groups. The first consists of those which are used predominantly in foods: soya, ground nut, cotton seed, sunflower, rape seed, sesame, and olive. The second group contains those with both edible and non-edible uses: palm, palm kernel, and coconut. The third group consists of those used mainly for industrial purposes: linseed, castor, and tung.[2]

Copra's main competitors are oil palm and soyabean, which together account for more than 30 per cent of world exports of vegetable oils. Its nearest substitute is palm kernel oil. Palm kernel oil and palm oil come from the same plant, the oil palm. The fruit appears in the form of bunches of nuts. Beneath the outer skin of each nut is a layer of fibrous pulp, known as the pericarp. Ordinary palm oil is processed from this. Inside the pericarp is the seed, from the inner kernel of which comes palm kernel oil. Palm oil is used locally in areas of production as a cooking oil. Its major use as an export commodity is as an ingredient in edible fats. Palm kernel oil is 'harder', and closer to coconut oil. It has good lathering qualities that make it suitable for use in soaps and detergents. It is also used in margarines, cooking oils, and confectionery, in much the same way as coconut oil, and for much the same reason.

Africa used to dominate the oil palm business, with Nigeria, Zaire, and Benin producing some 70 per cent of the total by volume. At the end of the 1950s Côte d'Ivoire started growing oil palm, and ten years later as synthetic rubber began to displace natural rubber, Malaysia switched its attention to oil palm.[3] Malaysia now dominates the palm oil market, accounting for nearly 70 per cent of exports (see Table 5). Oil palm is principally a plantation crop, unlike coconut, which is grown by small farmers. The oil palm has a higher production potential per acre than any other oilseed crop, and production has been increasing steadily over the years. It is undoubtedly seen as the oil plant of the future, in terms of current investment and research. In the field of biotechnology it has proved particularly amenable to tissue-culture techniques. Unilever has used tissue culture to speed up new variety development, and has succeeded in increasing yields from the new trees by 30 per cent. The

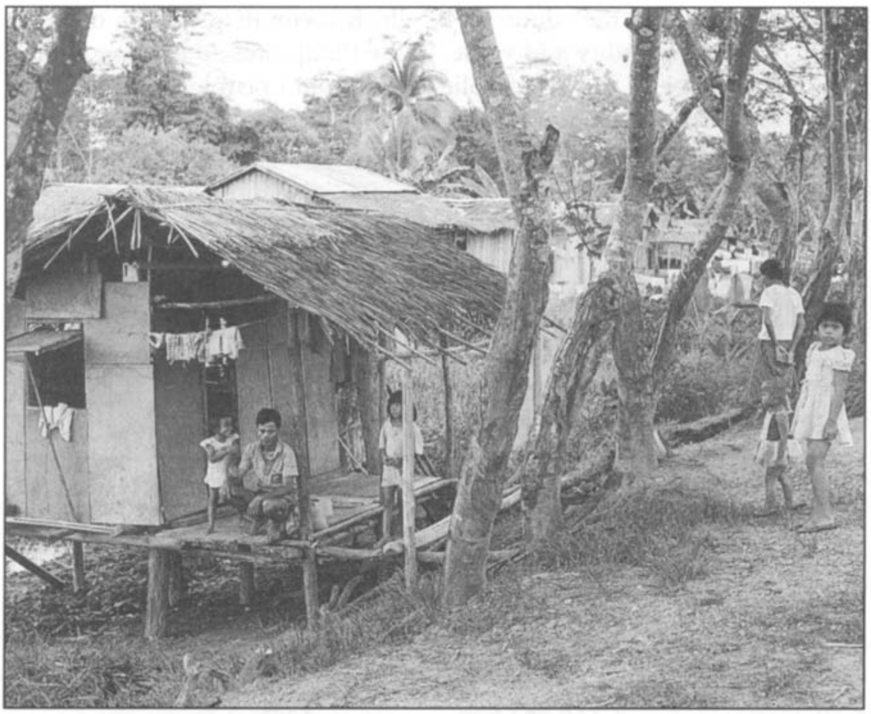
Table 5: Vegetable oil exports (in metric tons) in 1988

I	II	III	IV	V
1	Palm oil	2,590,153	96%	Malaysia 69%, Indonesia 13%
2	Soya oil	1,840,689	44%	USA 26%, Argentina 23%
3	Sunflower	1,080,377	36%	Argentina 35%
4	Olive oil	995,471	14%	W. Europe 86%
5	Rape & mustard seed	864,919	4%	
6	Coconut	721,914	91%	Philippines 57%, Indonesia 15%
7	Palm kernel oil	390,025	91%	Malaysia 67%
8	Maize	254,002	17%	W. Europe 40%
9	Groundnut	211,472	74%	Africa 47%, Argentina 13%
10	Cottonseed	174,622	43%	USA 51%, Brazil 25%
11	Castor	128,027	3%	Brazil 43%, India 21%, China 18%
12	Linseed	87,317	60%	Argentina 56%
	TOTAL	9,338,995		

Key
I Oil's rank in terms of volume exported
II Oil type
III Metric tons exported in 1988
IV Percentage of exports coming from Third World countries
V Major exporters and their percentage of column III

(Source: FAO: *Trade Yearbook, 1988*, Volume 42, Rome Tables 118 to 129 inclusive, New York: United Nations, 1990) company expects that before long oil-palm yields will be two to six times greater than those of the older varieties, a development seen by other experts as 'threatening the position of traditional cultivators and the producers of rival vegetable oil crops, such as ground nuts and coconuts'.[4]

Copra competes with soya in cooking oils and fats, solids such as margarine and spreads, and the large and lucrative animal-feed business. In this soya has the edge over copra, because of the high protein content of the residue left after crushing and milling to produce oil. Soya is less of a 'Third World' crop than either coconut or palm oil. Over half comes from North America and Europe. Major Third World producers are Brazil and Argentina. Because of soya's particular strength as a base for valuable animal feeds, and palm oil's strength as a suitable candidate for advanced plantation techniques using tissue culture, the coconut is the most vulnerable of these three oil sources. Of the three it is also the most important as a small-scale farm crop, providing a livelihood for a large number of people in rural areas, particularly in the Philippines.



BELINDA COOTE/OXFAM

The Philippines: Coconut farmers and their families, forced off their land to make way for a commercial palm-oil plantation, take refuge in shanty villages on the island of Mindanao.

THE TREE OF LIFE: COCONUTS IN THE PHILIPPINES

The tall, graceful coconut palm thrives in tropical climates, particularly in sandy loams and deep alluvial soils close to sea level. It can be found in most parts of the tropical world, but grows most profusely in South and South East Asia and the Pacific.

The coconut is exported on to the world market in five different forms. It may be exported whole or desiccated. It may be exported as copra (the dried white flesh), as coconut oil (which is derived from the copra), or as copra cake, a by-product of coconut oil. By far the most important of these is coconut oil, which, in value, accounts for around 65 per cent of all coconut product exports. (See Table 6.)

The Philippines is the world's major supplier of coconut products. In 1988 it accounted for 57 per cent of world coconut oil exports and about half of the copra cake and desiccated coconut market. Indonesia, the next largest exporter, accounted for 15 per cent of the coconut oil market and nearly 40 per cent of the copra cake market. Other exporters include Malaysia, Sri Lanka, Côte d'Ivoire, Papua New Guinea and Vanuatu.[5]

While Northern consumers are largely unaware of the extraordinary versatility of the coconut and the wide range of products in which it can be found, people in the countries in which coconuts grow are only too aware of their versatility and value. In the Philippines, the coconut palm is called 'the tree of life'. It supplies the Filipino people with wood for their houses and furniture, thatch from its leaves for their roofs, an alcoholic drink from its flower, food, drink and soap from its nut, and cooking fuel from the nut's shell.

Apart from its domestic significance, the coconut is the country's single most important export crop, providing the country with about six per cent of its total export earnings. It also, directly or indirectly, provides a livelihood for a third of the population, nearly twenty million people.[6] While there are some large coconut plantations, production is predominantly on a small scale, with about three quarters of all holdings devoted to coconut averaging less than five hectares.[7]

Table 6: Value, in US dollars, of world coconut-product exports in 1988

	US$	
Coconut oil	721,914,000	64.9%
Desiccated coconut	145,552,000	13.0%
Copra cake	128,633,000	11.6%
Unprocessed copra	91,171,000	8.3%
Whole coconuts	24,824,000	2.2%
Total	1,112,094,000	100%

(Source: FAO: *Trade Yearbook, 1988*, Volume 42, New York: United Nations, 1990)

The producers

Situated among the handicraft displays in the Oxfam shops, it is usually possible to find a selection of small, brightly coloured wooden parrots. Sometimes they are sold on sticks as potted-plant supports, and sometimes as mobiles. They come from the Philippines, and they could be said to symbolise the fortunes of the archipelago's coconut industry. The men and women who so painstakingly carve and paint them do so because they are unable to make ends meet from their only other form of income generation – coconut production.

Rural poverty and the coconut industry in the Philippines are virtually synonymous. There are two main reasons for this. This first concerns the way in which land ownership is organised in the Philippines, and the second concerns the increasing marginalisation of coconut products in international trade.

Domingo and Christita Belleza Sendini hold one of the Philippines' half million coconut tenancies – a hectare of land with one hundred trees on it. They live, together with their seven children, in a small *barrio* a few miles inland on the island of Marinduque. The setting looks like a tropical paradise: low, steep, wooded hills, covered with elegant 70-foot coconut palms, the sun dappling thatched-roof houses on stilts. In the valley bottoms are occasional fields of rice, and under the trees are patches of lawn-smooth grass where water buffalo graze.

The Sendinis harvest their trees every 40 to 45 days. They either do this from the ground with a knife attached to a 70-foot pole, or scale the trees to reach them from above. The main danger is injury from falling coconuts, for they hit the ground with immense impact. Coconut farmers in the Philippines always try to harvest before there is any chance of the coconut falling out of the tree and hitting a passer-by. Once the nuts are harvested, the Sendinis strip off the thick green outer skin to reveal the brown nut. They crack open the nut and scoop out the firm, white copra flesh from inside. This is dried on a rack over a fire, fuelled with the discarded husks.

The Sendinis' harvest makes P300 (£8.89) every forty days, but they get only one third of that, P100 (£2.96).[8] The rest goes to the landlord, as is common in the Philippines. So their annual income from coconuts amounts to about P800 (£23.73), a little less than an agricultural worker, paid the minimum wage, would earn in one month.[9] They supplement their income by weaving baskets and gathering firewood, and through occasional work on a neighbour's rice fields. They can also make the coconut shells into charcoal, but the returns are low. From the two thousand nuts they gather each harvest, they can make about twenty pesos, or P160 (£4.74) a year.

Their landlord does not allow vegetables to be grown on his land, even though coconut trees grow better if they are intercropped. This is because he fears that if they do, they may be able to claim ownership of the land should a comprehensive land reform programme be implemented. But the Sendinis do have a small vegetable patch next to their house. They are allowed to grow bananas, and they plant cassava on the unused land in the hills. Their diet mainly consists of cassava, and rice when they can afford it. They supplement this with a few vegetables, pork, and fish. When the copra price falls, they cut back on the pork and fish.

If the Sendinis owned the land that they cultivate, they could triple their income from coconuts, and substantially increase the amount of food they are able to grow by inter-cropping. The Department of Agrarian Reform estimates that about 20 per cent of the agricultural workforce are sharecropping or leaseholding tenants, like the Sendinis.[10] But arguably it is worse still to be without land, reliant on agricultural labouring jobs – the lot of at least half the agricultural workforce in the Philippines.[11]

Not far away from the Sendinis, in a valley with steeper hills and no rice fields, just past a fork in the dirt road there is a small house on the right up a little rise. In it live Salvador and Nelda Seco and their baby daughter. They have no land. Salvador earns a living harvesting coconuts. Coconut harvesters get paid for every one hundred nuts they cut. The amount they earn varies according to the international price, but usually ranges between P3 and P7 per one hundred. The number of nuts Salvador can cut also varies, depending on the season, on competition from other cutters, and on demand from the mills. On an exceptionally good day he may cut as many as a thousand nuts, for which he would earn between P30 (£0.88) and P70 (£2.07).

The Secos pay a rent of P20 (£0.59) a year for their house. As they have no land, they have no opportunity to supplement their income by growing food. Instead they carve parrots.[12] The parrots, which are carved out of a fast-growing island soft wood called 'lanete', or 'deta', start off as an unmarked block of wood, about three inches high and one inch in diameter. It takes Salvador four minutes to carve it into the shape of a parrot, which Nelda then sands. They sell the parrots to a workshop on the sea shore. Here they are painted. There are about twenty painters, most of whom are women.

Levels of pay are determined by the number of orders from marketing outlets. The fewer orders there are, the less work there is available. In mid-1991 there was enough work for only about one third of Marinduque's parrot carvers. The work that is available is distributed between them, so that each carver currently earns around P15,000 (£333.33) a year. Painters can earn up to P100 (£2.22) for an eight-hour day.[13] But because the orders are insufficient to keep them in full-time work, their annual average earnings are about the same as a carver's.[14] Wages for parrot production compare unfavourably with other sectors of the economy. The minimum daily wage for factory work in Manila is P127.84 (£2.84).[15] Yet despite this, the parrots are a lifeline to those people of Marinduque, who otherwise must rely on coconuts for an income. Provided that retail outlets, such as Oxfam, keep buying the parrots, the people are, to some extent, protected from the vagaries of the international market place and adverse weather conditions which can so dramatically affect their income from coconuts. One typhoon can wipe out their earnings from coconuts for six months, or longer.

Processing copra

After harvesting, the nuts are de-husked and the flesh dried to make copra. This first stage of processing is almost always done by the farmer. The copra then begins its long journey to its final in-country destination: the oil mill or copra exporter. First the farmer sells it to the *barrio* buyer. The *barrio* buyer sells it to the town buyer. The town buyer sells it to the intermediary dealers, and they sell it on to the oil mill or copra exporter. This whole process, according to the Philippine Coconut Authority, takes about two months.[16]

Such a long marketing chain means that the farmer's share of the final price is low. One study estimates that landowners receive around two thirds of the Manila price, while the tenant's share is a third of that.[17] Because the farmers receive so little for their copra, many are forced to sell in advance to the *barrio* buyers. Sickness in the family, for example, may mean that they need cash between the forty-day harvests. When this happens, they are tied to the particular *barrio* buyer who has advanced the loan, and cannot sell them elsewhere, which weakens their bargaining power considerably.

The mills

There are 43 copra mills in the Philippines. A number of them are owned by multinational corporations, among which are Unilever, Proctor and Gamble, and Colgate Palmolive. The biggest mills can crush up to 1,000 tonnes of copra a day. The Philippine-owned San Miguel Corporation's Lucena City Oil Mill Refinery has a capacity of 400 tonnes, which puts it in the middle-sized range of mills. Its heart is a 70-foot high production hall, crammed with 18 massive crushing mills. The US-built machines have a nineteenth-century look about them, as cranks and chains clatter noisily round to drive the presses.

The plant absorbs 34 truckloads and 20 jeeploads of raw copra each day. As the copra awaits processing in piles outside the production hall, it is completely covered with black copra beetles, many of which get taken into the press with the copra. Once inside, it is pressed to squeeze out the coconut oil, which runs in channels under gratings in the floor. Twenty-four tankers a day take the oil to Batangas, a port about 100 kilometres away, and then to Rotterdam. From another part of the machine the copra cake is expelled. It takes ten 16-tonne trucks to take one day's output to Batangas.[18]

The export market

The Philippines exports nearly 85 per cent of its coconut products, mostly in a semi-processed form such as crudely refined oil. More than 60 per cent of them go to the European Community. A further 25 per cent go to the USA.[19] Nearly 80 per cent of the world's coconut oil is imported by the EC and the USA, each taking roughly half that amount.[20] Exports of copra cake nearly all go to Europe, while 70 per cent of desiccated coconut exports go to Europe and the USA. However, once these products have left the Philippines, they quickly get lost in the processing chain.

Much of the coconut oil is used in margarine, where it can be interchanged with a number of other oils, such as palm oil, soya, or sunflower. In Europe, Unilever dominates the margarine market, where it accounts for an estimated 60 per cent of all purchases of fats and oils.[21] The amount of coconut oil used in its products depend on the oil's price and availability. In much the same way as in the tea industry, Unilever is involved in all stages of coconut production. It owns plantations, one of the largest mills in the Philippines, and the refining operations – Unimills BV in the Netherlands. It also manufactures all its own end-products in which coconut oils are used. Its operations are broken down into four areas: food products, detergents, personal products, and speciality chemicals – all of which use coconut products.[22]

COMPANIES AND COMMODITIES

The coconut is a particularly vulnerable commodity. In nearly all its commercial uses another source of vegetable oil could be substituted for it. If this should this happen, the Philippines stands to lose its annual coconut revenue of around US$600 million, and a third of the population would lose their main source of livelihood.[23] Its survival as an export crop relies on the commercial decisions taken by the handful of transnational companies which control the vegetable oil industry. The central role played by these and other companies in international trade is illustrated by the cases of tea and coconut. In the United States it has been estimated that the transnational companies (TNCs) generate as much as 90 per cent of all trade. In Britain over 80 per cent of all exports are accounted for by local and foreign-owned TNCs, and the situation is similar in other countries. They are a major force in the development of new technologies, and they control a major proportion of all direct foreign investment.[24]

Oxfam's research into tea and coconut production has inevitably led to a focus on one transnational corporation, Unilever – inevitably, because this vast UK/Dutch-owned corporation is the largest food company in Europe, ranking sixth over all. It also dominates the tea and vegetable oils markets. Had cocoa or coffee been chosen for study, the focus would have been on the Swiss conglomerate, Nestlé – the second-largest food company in Europe, ranking eighth overall.[25] Whatever commodity had been chosen, there would have been one or more transnational corporation playing a leading role in all stages of its production and trade.

Unilever is listed as a food-processing company, although it also runs salmon farms and plant-breeding institutes. It makes shampoos, cosmetics, washing powders, and toilet cleaners. It sells chemicals, manufactures pregnancy-testing kits, and owns textile factories and restaurants. It has principal group companies in 19 industrialised countries and 37 developing countries, and employs more than 300,000 people world-wide.[26] Through its extraordinary range of products and activities it has penetrated nearly every area of our lives. The sheer size of its operations dwarfs the economies of most developing countries. In 1987 Unilever's turnover of £16.5bn was larger than the total Gross Domestic Product for the Philippines, of £15.7bn. In the same year its pre-tax profits of £1.3bn were greater than Tanzania's total GDP of £1.2bn, while its profits (after tax) of £0.7bn were greater than Chad's GDP of £0.6bn.[27]

The growth of companies such as Unilever has been achieved mainly by company take-overs. In the last decade these have been happening at a breathtaking pace, which has led to predictions that by the end of the century the global food industry will be dominated by no more than ten corporations.[28] Hillsdown Holdings plc, for example, has achieved its leading position in the UK tea market through buying up smaller tea companies. In the mid-1980s it acquired the food arm of Cadbury Schweppes and renamed it Premier Brands. Premier Brands proceeded to absorb Melroses, Ridgeways (formerly of Tate and Lyle), Typhoo (formerly of Cadbury Schweppes), and Glengettie Tea (formerly of Lloyd Piggot Co.). Hillsdown Holdings ranks 191 in the European Top 500 Companies, but is Europe's seventh-largest food group and one of the 'Big Four' tea companies.

The result of these company take-overs is fewer but larger companies. The consumer may face the same array of competing brand names, but

Table 7: UK market concentration

Product	*Parent companies*	*% of UK market*	*Major brand names*
Tea*	Unilever	33	Brooke Bond, PG Tips
	Allied Lyons	22	Tetley, Quick Brew, Red Label
	Cooperative Wholesale Society	10	"99", Rich Leaf, Indian Prince
	Hillsdown Holdings	13	Typhoo, Melroses, Ridgeways
	Own-label	16	e.g. Sainsbury's, Tesco's
	Others	6	
Soluble coffee	Nestlé	54	Nescafé, Gold Blend
	Philip Morris	22	Kenco, Maxwell House, Café HAG
	Unilever	7	Red Mountain, Choice
	Own-label	15	e.g. Sainsbury's, Tesco's
	Others	2	
Chocolate confectionery (cocoa)	Mars	30	Mars Bar
	Hillsdown Holdings	26	Cadbury's Milk Chocolate
	Nestlé	28	Rowntrees, Dairy Box
	United Biscuits (Holdings) Ltd.	3	Terry's
	Philip Morris	2	Jacob Suchard
	Others	11	

*A different source was used for these figures from that used in Chapter 6, in order to separate out the 'own label' category from the others.

(Source: Adapted from Mandy Jetter: 'Fair Trade Mark – Preliminary Report', November 1990)

they will be owned by only a handful of companies. In the UK well over half the tea and coffee that we drink and the chocolate confectionery that we eat is produced by only three companies: Hillsdown Holdings, Unilever, and Nestlé (see Table 7). Competition between these companies to increase their market shares is intense. Some of these large corporations have been criticised by Third World interest groups, including Oxfam, on specific issues. To name but a few, Nestlé has faced criticism over its promotion of infant formula in Third World countries; James Finlay for conditions on its tea plantations in Bangladesh; Tate and Lyle for employment conditions on Jamaican sugar estates; and pharmaceutical companies for their Third World marketing policies. Yet without them, the international trading system, as we know it today, would collapse. While these campaigns can be seen as vital checks and balances on specific aspects of company policy, the real challenge of the 1990s and beyond is to ensure that the transnational companies' immense power and influence is used in a way that genuinely enhances the overall development of Third World countries.

8

1492 AND ALL THAT: Third World goods and First World markets

On 3 August 1492 Christopher Columbus set sail from Spain and, heading due south-west, was to 'discover' the palm-fringed islands of the Caribbean three months later. On his voyage home he wrote to his patrons, Ferdinand and Isabella, the King and Queen of Spain, describing the Caribbean as a region that 'fairly throbs with great promises of all kinds of wealth', 'great trade and profit,' 'great mines of gold', and 'a thousand other things of value', lands 'rich for planting and sowing and for livestock of every sort', 'all ... more richly supplied than I know or could tell.'[1] Two voyages and six years later, he also laid claim to that huge land mass that we now know as Latin America. Columbus' discovery of 'The New World' marked the beginning of a relationship between Europe and the Americas that was based on extraction. It began with gold and silver, but extended to include a range of goods, of which sugar and tobacco from the Caribbean were to prove the most durable.

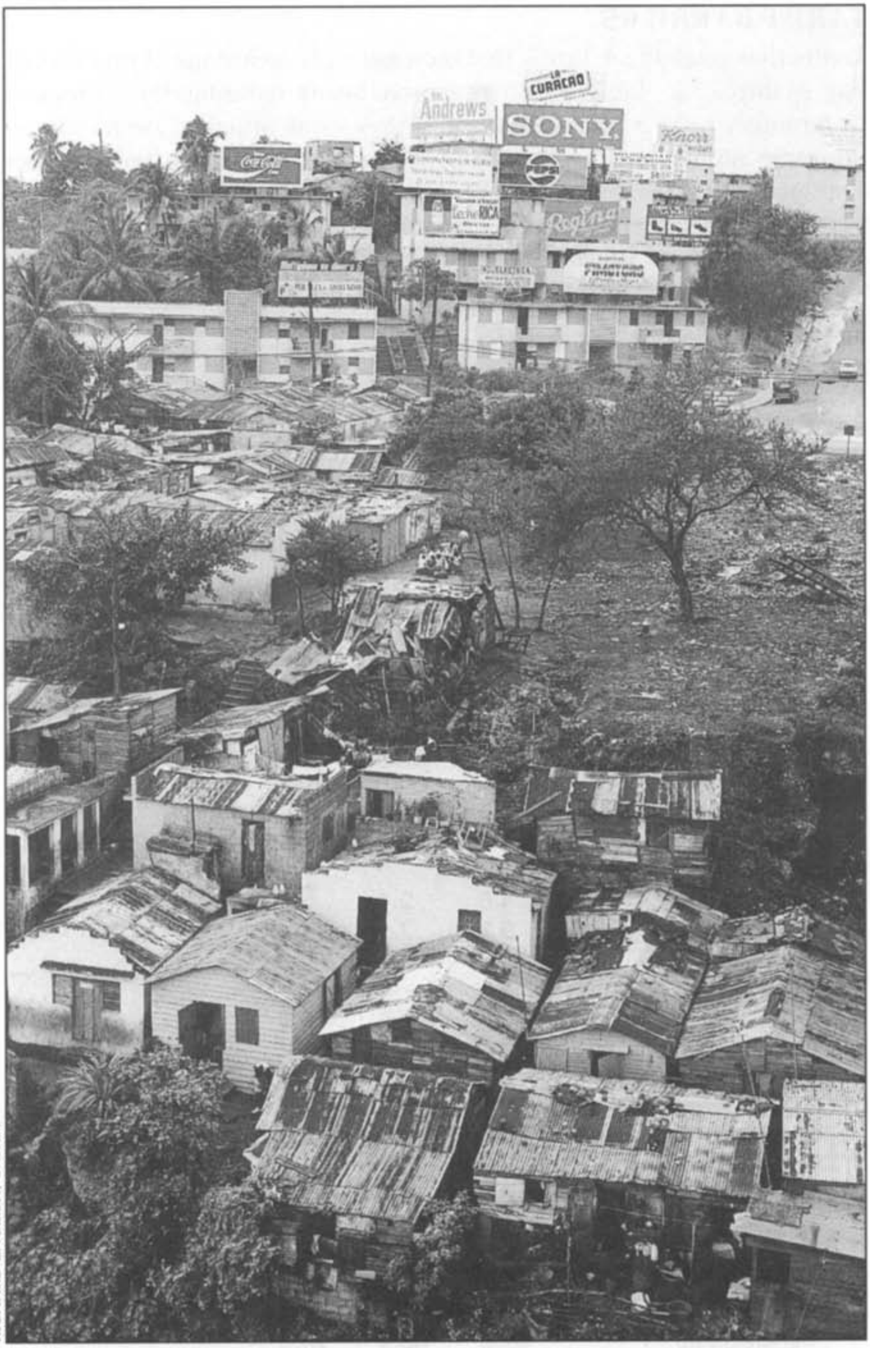
One of his first landings was on the island that he named 'Española' – the island now divided between Haiti and the Dominican Republic. It was, according to the Republic's Minister of Tourism, the island he loved best. To attract tourists in 1992 to coincide with the quincentenary of its 'discovery', the government of the Dominican Republic embarked on a cosmetic clean-up of its capital city. The dusty sprawl of Santo Domingo was to be beautified, and a mighty lighthouse, in honour of Christopher Columbus, erected in its midst, all to promote tourism.[2]

Oxfam has been supporting community projects in Santo Domingo's urban slum areas for many years. These poor communities are facing additional problems because of the government's beautification programme. Street trading, by which many poor people in Santo Domingo make a living, has been banned. Slum areas have been cleared to make way for avenues, parks, and monuments, and entire communities have been re-located away from the city to areas where basic amenities such as water, electricity, sewerage or waste disposal do not exist. As a result, a recent outbreak of typhoid in one of these haphazardly erected, re-located shanty towns claimed many lives.[3]

Many of the people who live in Santo Domingo slums are there because they have been forced off their land by rich land-owners wanting to turn it over to large-scale production for export. Others have been driven to the city in search of work because they could no longer make a living from agricultural production, especially coffee, due to low prices on the world market. The irony is that these slum dwellers whose homes are being bulldozed have become double victims of a trading pattern that was first established in 1492, and has consigned some countries to the category of 'Third World'.[4] This early extraction of goods from the Caribbean islands determined their future role in the world economy: that of providers of raw materials to Northern markets. The unequal exchange on which this arrangement was based has contributed to the region's impoverishment and to the wealth of the importing nations of the 'First World'.

For the last five hundred years Third World commodity producers, such as those in the Caribbean, have relied principally on the industrialised countries to provide them with markets for their goods. This remains true today. As already seen, 66 per cent of developing country exports are destined for developed country markets, predominantly in the USA, EC, and Japan. These industrial superpowers are willing recipients of exports from developing countries, when the market conditions are right. Trade is essentially about meeting demand in the importing country. But this demand is determined not only by the consumer, but by the companies who help to shape it through advertising campaigns. Imports from developing countries are, therefore, essentially tailored around the requirements of the importing companies, such as Nestlé and Unilever. This has both advantages and disadvantages for the exporters in the South. On the one hand, it provides them with markets for their produce and the foreign exchange that they need to import goods. On the other hand, the commercial interests of those companies do not always concur with the interests of the developing world.

One area where there is conflict is in the processing of primary commodities. As we have already seen (in Chapters 6 and 7), the real value added in commodity trading lies in the processing of commodities. Developing countries would gain far more from their exports if they were able to process them before exporting them. It would help them to develop a manufacturing base. It would encourage investment, create employment, and increase their foreign-exchange earnings. But Northern-based companies and importing countries would stand to lose from developing countries making more of the value added from their primary commodities. One of the ways in which their interests are protected is through the use of escalating tariffs.



RICHARD ENGLISH/OXFAM

Dominican Republic: For many small farmers forced off their land by low coffee prices and rich landowners, a slum area of the capital, Santo Domingo, offers the only chance of a home.

TARIFF BARRIERS

Tariffs that escalate are tariffs that increase with each stage of processing. For example, as Table 8 shows, cocoa beans entering the European Community carry a 3 per cent tariff. If they come into the Community in the more highly processed form of cocoa powder, they carry a 16 per cent tariff. Likewise processed coffee is penalised by high tariffs. The EC

Table 8: Tariffs[a] on tropical products by degree of processing in major world markets (per cent or value-based equivalent)

Product group	*EC*	*Japan*	*USA*
Coffee			
Raw	9.0	0.0	0.0
Roasted, ground	16.5	20.0	0.0
Extracts, preparations	18.0	20.5	0.0
Tea			
In bulk	0.0	12.5	0.0
For retail sale	5.0	20.0	0.0
Extracts, essences	12.0	17.3	..
Cocoa			
Beans	3.0	0.0	0.0
Paste	15.0	15.0	0.0
Butter	12.0	2.5	0.0
Powder	16.0	21.5	0.4
Chocolate	..	26.7	1.9
Spices			
Unground, unprocessed	7.5	1.2	0.7
Ground, processed	11.8	6.6	4.5
Essential oils			
Essential oils	4.5	2.4	0.9
Mixtures	5.3	7.5	4.4
Preparations	6.6	..	5.3
Vegetable plaiting materials			
Raw	0.5	5.0	2.2
Plaits	3.4	5.7	5.2
Basketwork, wickerwork	6.2	9.4	6.6
Oilseeds, vegetable oils			
Oilseeds	0.0	1.0	1.8
Vegetable oils	7.2	6.1	3.5
Fatty acids, fatty alcohols	8.8	5.0	4.3
Margarine	25.0	35.0	12.5
Soaps	6.9	6.5	4.0
Tobacco			
Unmanufactured	30.0[b]	0.0	15.9
Manufactured	81.0	68.9	16.8
Rice			
Unmilled	12.0[b]	0.0	4.3
Milled, processed	23.0[b]	16.7	2.7

tariff on unprocessed coffee beans is 9 per cent, while soluble, or instant, coffee carries a tariff of double that amount.[5]

While this protects the commercial interests of companies such as Nestlé and Philip Morris who dominate the UK coffee market, it does little to help the Third World develop a manufacturing base around its own primary products. Tariff escalation applies to nearly all tropical

Manioc, roots, tubers			
Fresh, dried	6.0	11.3	13.5
Flour	6.0	12.5	0.0
Meals, starches	30.0	25.0	0.0
Bananas			
Fresh, dried	20.0	18.0	0.4
Flour, prepared	17.0	25.0[c]	3.5
Tropical nuts			
Unshelled, crude	2.2	10.5	5.6
Shelled, prepared	15.0	20.5	6.3
Tropical fruit			
Fresh, dried	8.0	8.8	10.7[d]
Preserved	11.3	21.1	10.7[d]
Prepared, fruit juices	23.6	28.2	35.3[e]
Tropical wood			
In the rough	1.2	0.4	3.4
Simply worked	3.0	2.6	1.5
Veneers, plywood	4.0	8.9	4.4
Wood articles	4.9	..	6.3
Rubber			
Natural rubber	0.0	0.0	0.0
Simple manufactures	3.7	3.6	4.7
Tyres, tubes	3.6	4.7	3.1
Other articles	4.8	4.6	5.2
Jute			
Raw	0.0	0.0	0.0
Processed	..	..	0.0
Yarns	5.3	8.0	4.1
Woven fabric	8.7	16.0	1.8
Made-up articles	7.7	9.3	3.8
Sisal, henequen			
Raw	0.0	0.0	0.0
Processed	..	..	8.0
Twine, cordage	12.0	6.5	4.1

[a] Simple averages of post-Tokyo or applied (1984) MFN duty rates, whichever are the lower.
[b] Estimated.
[c] Banana flour, not for feeding purposes.
[d] Tropical fruit, fresh, dried, preserved and prepared.
[e] Fruit juices only.

(Source: UNCTAD: *Uruguay Round - Papers on Selected Issues*, New York: United Nations, 1989, Table 4, pp. 349-50) products, such as tea, coffee, spices, wood, rubber, and jute, entering the three main Northern industrialised markets. Having to pay such high duties on processed goods actively discourages Third World exporters from developing their own processing industries. So they remain locked in the role of primary-product exporters.

The use of escalating tariffs on processed primary commodities is just one way in which the developed countries protect their own industries and inhibit the growth of a manufacturing base in many developing countries. There are many other ways. One of these concerns controls on textile imports.

NON-TARIFF BARRIERS

Textiles and clothing are a crucially important export sector for many Third World countries, comprising between 20 and 25 per cent of their total manufactured exports. For some of the poorest countries this is the one area into which they have successfully diversified away from primary commodities. Production processes are relatively simple and labour-intensive, making it an ideal first step into industrialisation. During the 1980s cotton fabrics became the most important processed product exported by LDCs (Least Developed Countries), especially Malawi, Botswana, and Tanzania. In Bangladesh, clothing has emerged as the most important export item, overtaking jute in 1987/88, with 36 per cent of exports.[6] However, development in this sector has, in many instances, been severely impeded by the Multi-Fibre Arrangement.

The Multi-Fibre Arrangement

The Multi-Fibre Arrangement (MFA) is what is known as a non-tariff barrier. In other words, the importing country has resorted to a method other than use of the conventional tariff to limit, or exclude, unwanted goods. It was first introduced in 1974, though it grew out of earlier controls on cotton textiles dating back to 1962. It was supposed to be a temporary arrangement. Declining textile and clothing industries in the North argued for protection against the growing pressure from cheap imports from the Third World so that they could restructure and maintain profitability.

Under the MFA, member-countries are either 'importers' or 'exporters'. The importing countries, which include Britain, are allowed to limit imports by setting quotas on imports from the exporting countries which include Bangladesh, the Philippines, India, Hong Kong, and Singapore. While these quotas were in place, countries like Britain were supposed to 'structurally adjust' their own clothing and textile industries to make them competitive under free-market conditions. If that were not possible, they would be encouraged to diversify.

Failure on the part of the importing countries to make the necessary adjustments to their industries has meant that the original four-year agreement has now been renewed five times, thus stretching the definition of 'temporary'. However, pressure from the exporting countries to abolish it has resulted in a commitment from the EC and USA to phase it out gradually. Hence its most recent extension, in July 1991, was only for a period of seventeen months, so that the parties can await the outcome of the Uruguay Round (see Chapter 9) before deciding what arrangements will replace it.

Voluntary export restraint

Non-tariff barriers, such as the Multi-Fibre Arrangement, take many forms, and are frequently used by industrialised countries to keep competing goods out of their own markets. One device which has been increasingly used against developing-country manufactured products is the 'voluntary' export restraint (VER).

If one government is worried about the harm a specific import is doing to its own producers, it requires another government, on pain of retaliation, to restrict its exports of the goods in question. The use of these voluntary export restraints has spread in the last decade from textiles and clothing to cover steel, cars, shoes, machinery, consumer electronics, and more.

The VER can be effective only if the government imposing the restraint is as powerful, or more powerful, than the one accepting it. Hence it is a device which is used mainly by the USA and the EC and, more recently, by Japan and South Korea. Currently there are about 300 VERs in existence. Many of these are directed at exporters from industrial countries, but some are aimed at developing countries. Among the developing countries which have 'volunteered' to restrict their exports are Brazil, Mexico, and Bangladesh.[7]

Countries will often 'volunteer' to restrict their exports when they are threatened with what are known as anti-dumping measures, which are designed to stop countries 'dumping' their exports on other countries at below-market prices. Under the regulations of the GATT (see Chapter 9), the importing countries are allowed to raise a tariff equivalent to the dumping subsidy used by the exporter. However, the problem is that the rules on anti-dumping are so vague that they are widely open to abuse. If Brazil, for example, wants to sell its footwear in the USA, the threat of US anti-dumping action may well be enough to persuade Brazil to restrict its exports voluntarily. Thus while anti-dumping measures are sanctioned by GATT regulations, they are frequently used as a protectionist measure, particularly by the European Community and the USA.

SUPPORT FOR NORTHERN AGRICULTURE

Manufactured goods are not the only area in which there is a clear conflict of interests between industrialised countries and Third World exporters. The other main problem area is agricultural products that compete with commodities produced in the North. Included in this category are cereals, meat, dairy products, oilseeds/vegetable oils, and sugar.[8] The policies used by the industrialised countries to protect these sectors vary between countries. The shape they take in the European Community is dictated by its Common Agricultural Policy (CAP), which supports farm production through three main mechanisms: guaranteed minimum prices; protection against imports (including levies and other import controls such as duties, tariffs and quotas); and export subsidies to boost sales of surpluses on the world market.[9] In the United States of America the major forms of government assistance to agriculture are direct payments to producers, import restrictions, input subsidies, and export subsidies. Japan uses a variety of measures which include import quotas, import tariffs, input subsidies, and price-support mechanisms.[10] They are all designed to encourage levels of domestic production and protect farmers and agro-industries from cheap imports.

However, their effects are different. The measures used by Japan are used to underpin rice self-sufficiency. By imposing import barriers, they reduce market outlets for rice exporters, but they do not produce surpluses. The measures used by the USA and the EC, on the other hand, support output substantially in excess of domestic demand, so they do produce surpluses.

As we have already seen (in Chapter 3), these surpluses have put a downward pressure on world market prices for agricultural products, as well as closing off markets to Third World exporters. Chapter 3 showed that their negative impact on developing countries has been most visible in the sugar industry. However, any developing country which relies on Northern markets for its agricultural exports is vulnerable to measures taken to protect or promote the interests of their influential farming lobbies or industries. One example is the Philippines' coconut industry which, in recent years, has been threatened in both its main export markets.

Soya's revenge

> In Washington one finds today 'No coconut oil' stickers on food products such as bread. US airlines, particularly United Airlines, serve peanuts with 'No Coconut Oil, No Cholesterol!' labels.[11]

The American consumer has been led to believe that coconut oil is a health hazard. This is not as a result of medical evidence, but due to a campaign waged by American soyabean growers in the mid-1980s. At that time they perceived tropical oils to be a threat to their own market. This led to attempts to discredit tropical oils on health grounds.

The row started in 1984. At an annual conference of oilseed producers, the Malaysian delegation extolled the virtues of palm oil at the expense of soyabean oil, and followed this with a month-long palm oil sales blitz in the USA. This antagonised US soyabean growers, whose producer organisation, the American Soybean Association (ASA), decided to fight back. The Association mounted an attack first on palm oil and then on other tropical oils, namely palm kernel oil and coconut oil. They claimed that they were unhealthy because they contain saturated fats. Health-conscious Americans had only recently been made aware of the link between saturated fats and the build-up of cholesterol, which in turn is associated with coronary heart disease.

The Philippines coconut industry was caught in the cross-fire. Nearly half its coconut oil exports go the USA. Of this around 40 per cent goes to the food industry. A major part of its export earnings from the industry were suddenly under threat, and the country stood to lose $100 million in foreign-exchange earnings.[12] The government coconut authority, UCAP (the United Coconut Association of the Philippines), launched a campaign to save the position of one of the country's major exports in its most important single market.

They set out to challenge the ASA's health allegations by showing them to be based on incorrect scientific information. What they were able to prove was that although coconut oil is a saturated fat, its chemical structure seems to contribute to *low* levels of cholesterol in the blood, rather than the opposite. Soyabean oil, on the other hand, acquires properties similar to saturated fats when hydrogenated. As 70 per cent of soyabean oil used in the United States is reported to be partly hydrogenated, they argued that the claim that soyabean oil contributes to the lowering of blood cholesterol levels is not valid.[13] They were also at pains to point out that coconut oil is not significantly in competition with soyabean oil in the USA home market. In the food industry it is mostly used as a spray oil for crackers, or a frying oil for snack foods, in which it was not in competition with soyabean oil as much as with fully hydrogenated oils of a higher price range.[14] Thus, they argued, the soyabean producers' fears of being displaced by coconut oil were unsubstantiated.

But the Philippines coconut authority still had a trade war on its hands. Through mounting a massive anti-tropical oils campaign, the ASA had backed draft legislation which, if passed by the US Congress, would exclude tropical oils from American food products on health grounds. The UCAP set out to prove that the proposed legislation was nothing more than an unjust trade barrier against imported oils, disguised as a measure to protect consumers' health. The battle was bitter and costly, but eventually the proposed legislation was thrown out of Congress on the grounds that it was unfair and discriminatory. Subsequently new legislation was introduced, requiring products to be labelled as containing saturated fats if they contained tropical oils. While this was considered to be much less harmful than the previous legislation, it still meant that the coconut industry has had to continue to fight its corner for the American market. It has done so through a massive media and information campaign which 'enjoins Americans to believe the experts and not the laymen regarding coconut oil health claims'.[15]

Aflatoxin strikes back

While the embattled Philippines coconut industry was under threat on one side of the Atlantic, it was also facing difficulties on the other. This time the problem was a poisonous mould, belonging to the family Aspergillus Flavus, called aflatoxin. Aflatoxin is commonly found in the tropics, in the same way that other moulds such as penicillin are found in temperate climates. The concern about aflatoxin is that it has been found to be highly carcinogenic in animals. At very low levels it can reduce resistance to diseases. At higher levels it can induce mycotoxicosis, leading to cancer. The problem is that the mould is extremely difficult to destroy, as it can survive heating up to 650 degrees fahrenheit.

The mould spores are present in copra as well as other commodities such as ground nut, cassava, brazil nuts, barley, and palm kernel. In their dormant state they are not dangerous, but the very slightest change in temperature can cause them to grow very quickly. The poison is not found in edible coconut oil, because it is destroyed in the refining process. But it is a problem when the copra is converted to animal feed, because the mould thrives when it has a food source containing amino acids, minerals, and vitamins. The best chance of preventing the mould from developing is to dry the copra thoroughly after the coconuts are harvested. But there is a problem with this. In the Philippines, copra comes from 900,000 small farms which on average are only a few hectares in size. The methods used by the farmers to dry their copra are primitive. Either they scoop out the flesh and place it over a fire, in the way that the Sendinis do, or they simply cut the nut in half and leave it to dry in the sun, as most farmers do on the island of Mindanao. They have no way of testing the moisture content of the copra before selling it, and as a result aflatoxin levels in Philippines copra are high.

The issue of aflatoxin in copra first came to the fore in 1970, when the

US Food and Drug Adminstration served a writ on a copra meal trader in California. It was claimed that the company's warehoused products contained excessive quantities of aflatoxin. Although the shipments were later allowed to proceed when it was shown that all traces of the poison were removed by refining crude oil into edible oil, the issue had been raised. It was subsequently recommended that there should be no more than 20 parts per billion of aflatoxin in copra meal, the same as the limit established for the US peanut industry ten years earlier.[16]

The USA no longer imports copra, but the European Community does. In fact, it is now the sole buyer of copra cake for animal feed.[17] But from the end of 1988 the Community set a maximum aflatoxin contamination level of 200 parts per billion in all raw materials used in animal feeds, comfortably above the 175 parts per billion met by most Philippine copra. However, compliance to this rule is left to the individual country, provided that the ceiling is not exceeded. What has alarmed the Philippine coconut authorities is that Germany and the Netherlands, the major importers from the Philippines, have indicated much stricter requirements of 50 and 30 parts per billion respectively, which would automatically exclude Philippines copra from the market.[18] Most feed for cows contains between 20 and 25 per cent copra meal. Its inclusion in cattle feed is said to produce better-quality milk and higher yields, but even so it would be relatively easy for the industry to turn to other sources, such as soymeal or sunflower seed meal, both of which are produced in large quantities within the Community. This has led to speculation in the Philippines that the EC's ruling on aflatoxin levels is really a trade measure designed to protect the Community's own oils and fats market.[19]

The answer may never be known, but the problem is being taken seriously by the Philippines Coconut Authority. The World Bank has recently pledged a loan of US$121 million to the industry, to be spent over a five-year period. Part of the money will be spent on drying equipment to reduce the risk of contamination by aflatoxin; the industry says that the equipment will be made widely available to small farmers.[20] Whether or not this will make it possible to reduce aflatoxin to levels low enough to satisfy Dutch and German importers has yet to be seen.

The American soyabean lobby attempted to raise a non-tariff barrier against coconut oil, by claiming it to be a health hazard, because it perceived it to be a threat to its own share of the US vegetable oils market. Likewise the EC's ruling on aflatoxin levels acts as a non-tariff barrier on copra imports. While this is in part due to a justifiable health concern, it could also be seen as a way of excluding copra from the Community's market in the interests of promoting its own sunflower and soya industries.

PROTECTIONISM: ON THE RISE

While both tariffs and non-tariff barriers serve much the same purpose, the advantage of exclusion by a tariff barrier, rather than by a non-tariff barrier, is that it is visible, fixed, and calculable. The exporting country knows where it stands. The non-tariff barrier, on the other hand, takes many forms and is sometimes harder to identify. As already shown, they range from the more visible, tangible type (such as the use of quotas on imports) to the more obscure (such as health-labelling requirements).

In recent years the use of non-tariff barriers has increased considerably, while the use of tariff barriers has decreased. In 1981 and 1982 the General Agreement on Tariffs and Trade (GATT) recorded 600 different types of non-tariff barrier. A decade later, people had stopped counting. As one European Parliamentary Committee pointed out: 'It is impossible to draw up a comprehensive list of non-tariff barriers, as human ingenuity in this area is boundless.'[21]

The problem is that the figures alone show that non-tariff barriers raised by industrial countries more often discriminate against exports from developing countries than they do against goods from other industrial countries. The overall share of developing-country exports that face non-tariff barriers is roughly 20 per cent, twice the share of exports from industrial countries. Worst affected are Third World agricultural exports. About 26 per cent of these face non-tariff barriers, while around 18 per cent of manufactured goods are affected.[22]

A curse or a blessing?

This chapter has focused on the negative impact of certain protectionist policies, used by the industrialised countries, on Third World country exporters. There is little doubt that these policies are being used to protect business interests in the North in a way that is damaging producers in the South. However, there would undoubtedly be social costs involved in the removal of some of these protectionist measures, especially the Multi-Fibre Arrangement.

While there is a clear case for arguing for the abolition of the MFA, on the grounds that it is severely damaging Third World industries, there are genuine fears in some countries that its abolition will have grave economic and social consequences. Portugal, for example, relies on textiles for a third of its exports. The industry also provides employment for 30 per cent of the country's workforce.[23] In cases such as this, the government would need to provide the investment and retraining required to reduce the social costs of adjustment.

The issue of protectionism is complex, and cannot be addressed in general terms. It is true that selective protectionist measures can be used positively. They can help to promote food security in developing countries. By erecting barriers to control the import of cheap subsidised foodstuffs from other countries, particularly from the North, and by subsidising their own food production, developing countries can take real steps towards achieving self-sufficiency in food. Selective protectionist measures have a role in supporting infant industries which could become competitive in open markets in the fullness of time. They can also be used to protect consumers from harmful products, and can play a vital role in protecting the environment. This makes it difficult to define what constitutes a harmful trade barrier and what constitutes a beneficial trade barrier, for whom and for what purpose. These tensions are at the heart of the discussions taking place on the General Agreement on Tariffs and Trade.

9

REGULATING WORLD TRADE: The General Agreement on Tariffs and Trade

The proposition that free trade will produce higher incomes for national economies and improve the world economy is central to conventional economics. Competition, so the argument runs, will lead to specialisation, higher output, and greater efficiency. This is true for all producers, be they individual company or country, since it will force them to concentrate resources in areas where they enjoy the greatest cost advantage over their competitors, specialising within an international division of labour. In a nutshell, this is the theory of 'comparative advantage', developed by the Scottish economist, David Ricardo, in the early nineteenth century.

A hypothetical example: Bangladesh can produce textiles at much lower cost than, say, the UK. However, the UK can produce machine tools more cheaply than Bangladesh. In theory, the UK could try to become self-sufficient in textiles. But most trade economists would argue that it should concentrate on producing machine tools to export to Bangladesh. With the foreign exchange thus generated, it could then import more textiles than could be produced by diverting the labour and capital from machine tools into textile production. Conversely, by producing textiles and exporting them to the UK, Bangladesh would be able to import more of the machine tools it needs to develop its manufacturing sector than it could produce by similarly diverting resources. British consumers get cheaper cloth than domestic producers could supply, and Bangladeshi manufacturers get access to cheaper machine tools, maximising the efficiency of their investment. The world economy gains, because both are maximising their potential revenues.[1]

But free trade has never existed in the real world. Today's developed countries industrialised behind high tariff barriers and other trade restrictions, many of which remain in place. Similarly, many efficient and competitive industries, North and South, would never have survived without a period of initial protection. Without heavy state intervention in the 1950s and 1960s, South Korea – one of the world's most efficient electronics producers – would still be dependent on exporting stuffed teddy bears assembled in foreign-owned plants. Stated differently: a static approach to comparative advantage ignores the potential which might be released by a period of protection.

Quite apart from these considerations, there are other forces which undermine genuinely free trade. For instance, the 'free market' in which African cocoa exporters operate is composed of two or three powerful Northern transnational corporations (TNCs), whose turnover may exceed the exporting countries' entire GDP. This massive discrepancy in economic power has important implications, since it means that TNCs are able to use markets to their advantage. Also, the technologies needed for production are often the private property of the TNCs, and made available to developing countries only on the TNCs' terms.

For all this, free trade has remained an ideal to which almost all governments proclaim their commitment, even while transgressing its principles. And it is on the principles of free trade and comparative advantage that the General Agreement on Tariffs and Trade is premised.

THE GENERAL AGREEMENT ON TARIFFS AND TRADE

The dismantling of trade barriers, in a trading system that is underpinned by rules of conduct, openness, and a mechanism for arbitration, is the purpose of the General Agreement on Tariffs and Trade, or GATT. The GATT is the main forum for debating and negotiating the rules and standards of international trade. As we have seen in Chapter 4, the GATT was born out of efforts after World War II to reconstruct the world economy. The proliferation of protectionist measures during the depression of the 1930s was seen by many as an important factor contributing to the outbreak of war. Free trade was, therefore, to be one of the pillars of the new world order. [2]

The Bretton Woods Conference which established the International Monetary Fund (IMF) and the World Bank in 1944 failed to create an organisation of equivalent status for trade. Instead world trade was to be organised and monitored by 'agreement'. Those countries which sign up for the GATT are known as 'contracting parties'. The agreement they contract is serviced by a permanent secretariat based in Geneva. Despite its somewhat inferior status in comparison to the IMF and World Bank, the GATT has exercised considerable influence on the world economy in the last 45 years. The contracting parties are a large group of countries who believe that their best economic interests are served through a multilateral trading system based on open markets. As such they agree to respect certain basic principles governing world trade.

There are four key principles. The first is that any protectionist measure should take the form of *tariffs* rather than import quotas or other non-tariff barriers. The second is that if one contracting party lowers its tariffs against another's exports, there should be matching reductions by the other member. This is known as the principle of *reciprocity*. For example, if Japan agrees to import manufactured goods from France duty-free, then the French must do the same for Japan. Thirdly, no contracting party should grant preferential treatment to another country or group of countries. This is the principle of *non-discrimination*. It means that contracting parties have to extend to each other the most favourable terms negotiated with any trading partner. This is known as the Most Favoured Nation (MFN) treatment, and exceptions are permitted only where there are regional trade agreements, such as those negotiated between the ACP countries and the EC under the Lomé convention. Finally, members agree to commit themselves to periodic multilateral negotiations on tariff reductions.[3]

Hence the Agreement is based on these different rounds of multilateral negotiations. So far, seven rounds have been completed, as summarised in Table 9. The eighth round, the Uruguay Round, was launched in 1986. During the thirty years up to the mid-1970s, the GATT made significant progress towards reducing tariffs, the main inter-war barrier to trade. The average tariff level on manufactured goods fell from 40 per cent to 10 per cent. Agreements reached in the 1973–1979 Tokyo Round brought a further reduction to 5 per cent. However, the Tokyo Round took place against a backdrop of a fast-deteriorating trade environment. Growth in the world economy had slowed dramatically since the 1960s and was further destabilised by the oil price rises of the 1970s. Chronic balance of payments problems in the USA, the world's largest trading nation and the driving force behind GATT liberalisation, gave rise to protectionist pressures. In Europe, too, rising unemployment and 'stagflation' – high inflation and low growth – led to inward-looking policies which conflicted with liberal GATT principles.

Concern in both the USA and the EC focused on the older more labour-intensive industries which were particularly vulnerable to foreign competition. Unfortunately, these industries – textiles, footwear,

Table 9: GATT negotiating rounds

Round		*Dates*	*Number of countries*	*Value of trade covered*
1	Geneva	1947	23	$10 billion
2	Annecy	1949	33	(unavailable)
3	Torquay	1950	34	(unavailable)
4	Geneva	1956	22	$2.5 billion
5	Dillon	1960–61	45	$4.9 billion
6	Kennedy	1962–67	48	$40 billion
7	Tokyo	1973–79	99	$155 billion

steel, and electronics – were precisely those in which developing countries were establishing a comparative advantage. GATT commitments prevented the developed countries from resorting to tariff protection. However, they did not prevent them from introducing a new genre of protectionist measures: the non-tariff barriers discussed in Chapter 8.

DEVELOPING COUNTRIES AND THE GATT

From the outset, developing countries were unhappy with the GATT. They felt marginalised in the negotiations, which concentrated on industrial products – an area which is not of great interest to the vast majority of Third World countries. They also argued that 'equal treatment of unequals is unfair', thus rejecting two of the GATT's fundamental principles: non-discrimination and reciprocal trade liberalisation.[4] It soon became apparent to them that the GATT was not designed to address their problems.

Their dissatisfaction with the GATT led to the creation of UNCTAD (the United Nations Conference on Trade and Development) in 1964. This was set up as an organisation which would be responsible for creating 'an international trading environment that would facilitate the growth of developing countries and not thwart it'.[5] A year later an additional chapter was added to the GATT which gave developing countries what is known as *special and differential treatment* (S&D). It marked the GATT's acceptance of the principle that Third World countries needed discrimination in their favour. In practice it meant that developing countries would not have to make trade concessions which are incompatible with their development needs.

These new principles were given concrete expression during the second session of UNCTAD in 1969, when agreement was reached on the principle of a *generalised system of preferences* (GSP), based on exceptions to the GATT rules concerning the principles of reciprocity and non-discrimination. The stated aims of the GSP were to increase the export earnings of Third World countries, promote their industrialisation, and accelerate their rates of growth. The scheme assists developing countries by helping them to export their manufactured and semi-manufactured goods to industrialised countries through the granting of tariff preferences – that is, a partial or total reduction of customs duties. The industrialised countries had to draw up a list of goods and countries to which they would give preference.

It took some time for this to happen. It was 1971 before the first GSP scheme, that of the European Community, was drawn up. Japan followed soon after, then the other industrialised countries. The USA was the last to have its scheme ready, in 1976. In all cases the scheme was for a period of ten years, but was extended unconditionally in the international trade negotiations of the GATT's Tokyo Round in 1979. By the end of the 1980s, 200 countries were GSP beneficiaries, while only three schemes, those of the USA, the EC, and Japan, accounted for 90 per cent of GSP imports.[6]

In theory, the GSP schemes should cover almost all Third World exports. In reality, as we have seen in Chapter 8, many goods are excluded by a variety of complex measures including quotas and other non-tariff measures. The EC, for example, does not grant preferences on metals or most agricultural products, and severely restricts them on textile imports. It thus excludes the three categories of exports most important to most countries in the Third World.[7] As a result, in 1983 only 11 per cent of EC imports from countries that are beneficiaries of the GSP scheme received preferential treatment – a mere 2.7 per cent of its total imports. The USA was much the same, with 12 and 4 per cent respectively, while Japan was only marginally better with 18 and 4 per cent.[8] One study estimated that preferential imports to the major industrialised countries have a market share of between 7 and 22 per cent. Although these are proportionally small, the author argues that in absolute terms they are significant, amounting to between US$2.4 and US$7.6 billion in terms of 1984 prices.[9] However, the scheme is generally judged to have had a very marginal impact on the Third World exporters that it was originally designed to benefit. Because of its emphasis on manufactured goods, those countries with a more highly evolved industrial base (those that need it least) have done best out of it. The three largest beneficiaries of the scheme are Hong Kong, South Korea, and Taiwan, which alone account for 44.2 per cent of the increase in exports under the GSP.[10]

In January 1990 the European Community announced plans to overhaul and upgrade its GSP system in recognition of its very severe limitations. It hopes to make the system more attractive by extending the range of products that it covers, increasing the number of countries covered to include some of the poorer ones in Eastern Europe, and making the system clearer and simpler to use. These changes will be introduced in 1992, and it is the EC's hope that they will be adopted by other countries.[11]

THE URUGUAY ROUND

> Very few people in Sub-Saharan Africa have heard of the Uruguay Round, yet it will sound the death knell for Africa. It is good to go along to see how you are being prepared for sacrifice.[12]
>
> *(Thomas Ogada, Kenyan Representative to the United Nations at Geneva)*

When the Tokyo Round of GATT negotiations was completed in 1979, the industrialised countries argued that a new round would be needed in the near future. They felt that the world's trading environment was becoming increasingly complex and that GATT rules were no longer able to provide the measure of discipline that was needed to prevent tensions between countries, and the widespread use of non-tariff barriers. They also wanted whole new areas of trading activities to be brought into the Agreement.[13] Most developing countries did not want a new Round. They argued that the GATT should first deliver on past promises, such as the removal of tariffs on tropical products, and that the inclusion of new issues on the agenda was unacceptable.

However, a new round was launched in September 1986 at Punta del Este in Uruguay, with 105 countries participating. The original organisation of the Round is summarised in the box below. Fourteen negotiating groups were established to work on goods, and a separate structure was

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Organisation of the Uruguay Round

The **Trade Negotiations Committee** supervises three Committees which are set up in negotiation groups:

A The Committee of Negotiations on Trade in Goods (CNG), which is subdivided into 14 groups of negotiations:

1 Tariffs.
2 Non-tariff measures.
3 Products based on natural resources.
4 Textiles and clothing.
5 Agriculture.
6 Tropical products.
7 GATT Articles.
8 Examination of agreements and arrangements stemming from multilateral trade negotiations (Tokyo Round).
9 Safeguard measures.
10 Subsidies and countervailing measures.
11 Trade-related aspects of intellectual property rights (including trade in counterfeit goods) (TRIPs).
12 Trade-related investment measures (TRIMs).
13 Settlement of trade disputes.
14 Functioning of GATT (FOGs).

B The Committee of Negotiations on Trade in Services (CNS)

C The Monitoring Committee: it is understood that, with regard to trade in goods, the Ministers are committed to taking no new measures that are incompatible with the General Agreement ('standstill commitment'), and to gradually eliminating existing measures which are incompatible with this agreement ('rollback commitment').

(Source: *GATT Briefing No 1*, June 1990, published by RONGEAD, France.)

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set up to deal with services. Unlike previous rounds of multilateral trade negotiations which primarily focused on trade barriers for goods, the Uruguay Round negotiations included trade in services, the protection of intellectual property (TRIPs), and international investment flows (TRIMs). Also, for the first time, agriculture was included in the liberalisation process. Textiles and Clothing, an area of trade governed for nearly three decades by a regime of its own, the Multi-Fibre Arrangement, as a derogation of GATT rules and principles, was also included.

THE NEW ISSUES

In the last few decades there have been tremendous advances in technology. As we have seen in Chapter 3, technological progress has revolutionised industrial techniques, while biotechnology, for example, has created new opportunities in agriculture. But there have been advances in other areas as well, perhaps most crucially in information and communication systems which have transformed service industries, such as banking, insurance, and aviation. With improvements in computers and telecommunications technology, production and markets have become globalised, and suppliers, consumers, goods, and data have all become internationally mobile.

Nearly all these advances have taken place in the industrialised countries, through the research and development programmes of the transnational corporations. What this means is that the world is becoming increasingly divided between those countries that have developed advanced technologies, and are, therefore, 'technology-rich', and those countries that have not and are, therefore, 'technology-poor'. The technology-poor countries include the developing countries and the newly emerging democracies of Eastern Europe.

The inclusion of the new issues – services, TRIPs and TRIMs – in the Uruguay Round was at the behest of the technology-rich countries, led by the United States. They see the issues as inter-related and complementary to one another in achieving their objectives of optimising the use of their new and emerging technologies, and maintaining their comparative advantage in this area of international economic activity. Hence they want to be able to extend their service industries, increase their investment opportunities, and protect their technologies from adaptation or imitation.

Services

World trade in services has grown much faster than trade in goods, to US$560 billion annually by 1988.[14] The technology-rich countries argued for their inclusion in the GATT on the grounds that this is a growing area of economic activity and trade, and should be brought under GATT rules and disciplines in order to expand world trade and make the GATT more relevant to a changing world economy.

The immediate problem was one of definition. The service sector includes economic activities as varied as telecommunications, transport, electricity, data processing, banking and insurance, and educational and health services. The intangible nature of these activities, and the unique issues that each service raises, make them difficult to regulate through a multilateral agreement that treats them as a single sector. They may cross from one country into another as a flow of information (data processing, design, entertainment), or as a consumer or supplier of services (tourism, education, professional services). They may cross as a flow of money and financial services, or as a cross-border shipment of goods (repair services). Hence, transborder trade in services is often difficult to detect, and equally difficult to regulate.[15] Governments generally regulate their flow not by border barriers, as in trade in goods, but through foreign-investment policies or domestic regulatory policies. The technology-rich countries, the main exporters of services, want to see these barriers detected and made more transparent, so that they can be eliminated, or at least made more consistent.

The position of the technology-poor countries is somewhat different. Although services constitute an important component of their economic activities, most of their industries focus on traditional services such as education and transport, which lack dynamism and have low productivity. None (or very few) of their services operates transnationally. Their priority is to expand and develop their service sectors, and make them more dynamic components of their economic development. They argue that the policies and legislation they use to regulate the transborder flow of services are not motivated by protectionist considerations, but by strategic needs related to public order or consumer protection. The development of certain sectors crucial to the efficiency and growth of the rest of the economy is also an important consideration. They feel that they have little to gain from liberalisation of trade in services, because they are generally the main importers. They also fear that the adoption of international undertakings will undermine the development of their own infant service industries.[16]

Trade-related Investment Measures (TRIMs)

The world's stock of foreign direct investment (FDI), which in 1988 totalled US$861 billion, is becoming increasingly important in international trade.[17] But the nations that invest, primarily the industrialised countries through transnational corporations, are frustrated by the measures used by host-country governments to regulate their investments.

Trade-related Investment Measures, adopted by host-country governments to attract and regulate foreign investment, are mainly of two kinds. The first consists of investment incentives such as loans, tax rebates, or the provision of services on preferential terms. The second relates to requirements that investors must fulfil. A typical TRIM of this nature would require the investing corporation, for example, to restrict imports of certain components in order to encourage local production.

The developed countries want to see an international investment regime which establishes rights for foreign investors, and reduces constraints on TNCs. The view of developing countries is that while they need foreign investment, certain investment measures or performance requirements are necessary to channel foreign investment according to their own national policy objectives. The also argue that if their own TRIMs are to be liberalised, then the restrictive business practices of TNCs should be brought under international control.

With more than a third of world trade now conducted within companies, through their subsidiaries, TNCs are in a strong position to exploit discrepancies between national regulations, repatriate increased profits through transfer pricing, limit technology transfer, prohibit exports, and tie purchasing to their chosen suppliers. These monopolistic practices are not regarded by investing countries as part of the TRIMs agreement, but many developing countries regard the TRIMs liberalisation agenda as one-sided if such practices are not dealt with.[18]

Trade-related Intellectual Property Rights (TRIPs)

Negotiations about TRIPs are concerned with achieving more, not less, protection. The developed countries want to ensure a minimum worldwide standard of protection of intellectual property, in order to protect the technology developed by their firms, and so maintain their competitive position in world markets. They also want the system to extend to living matter. Northern companies trading in pharmaceuticals, biotechnology, communications, electronics and computer software, among others, would benefit as a result. They argue that inventors and investors have a moral right to the returns from their inventions. They also maintain that the economic welfare of developing countries will increase if they adopt patent and copyright systems, because it would encourage inventions designed for the particular conditions of developing countries.[19]

The developing countries, on the other hand, argue that intellectual property protection has nothing to do with trade, and should be dealt with by the World Intellectual Property Organisation, a United Nations body. Their fear is that patent protection, particularly in areas such as food, pharmaceuticals, and chemicals, will inhibit their development efforts to meet basic needs. In pharmaceuticals, for example, they need to build up local capacity to manufacture cheaper, generic versions of essential drugs to meet national health needs. Increased patent protection would prevent them from doing this. It would allow the transnational pharmaceutical companies to dominate local markets with their more expensive brand-name products. Developing countries therefore maintain that, in cases such as this, the larger public interest must take precedence over commercial interests.[20]

The patenting of living matter would also have profound implications for Third World agriculture. Developments in the biotechnology field are highly dependent on freely available genetic resources of the South. But the products of these developments would be patented and exported to the South at high prices.[21] It could become illegal for farmers and herders to renew their stock biologically without permission or payment of royalties. Prices for patented genetically engineered 'miracle' seeds and breeds would be far higher. In addition, the developing world would increasingly lose access to scientific information and technology transfer.

In all three areas (services, TRIPs and TRIMs) there has been a sharp divide between North and South. Debate throughout the Uruguay Round negotiations has been acrimonious. Developing countries have taken a defensive position against what they regard as the largely unwelcome prising open of their markets by Northern-based transnational corporations and an erosion of their national sovereignty.

If the outcome of the negotiations is unsatisfactory from the point of view of developed countries, the USA, in particular, will continue to pursue its overall objectives in these three areas through its domestic legislation. The framework for it to do so is already embodied in US trade law, most recently in the 1988 US Trade and Competitiveness Act. Clauses in this act, known as 'Special 301' and 'Super 301', enable the US Trade Representative to threaten, and use, retaliation when countries impede its commercial activities through unreasonable restrictions. Their definition of unreasonable restriction covers any policies or practices that deny (a) 'fair and equitable' opportunities for the establishment of an enterprise, (b) adequate and effective protection of intellectual property rights, and (c) market opportunities for US goods. The USA has already used this legislation as leverage to change patent laws in a number of countries, including South Korea and Brazil.[22]

Textiles and clothing

The Multi-Fibre Arrangement (already described in Chapter 8) has a quasi-official status as a special derogation from GATT rules. It was established at the behest of the industrialised countries, the main importers of textiles, to protect their industries from cheap imports from the developing world. It is a non-tariff barrier sanctioned and administered by the GATT, and provides clear evidence that the GATT is not, as is sometimes claimed, a 'free trade' organisation, unless in the interests of its more powerful members.

However, the industrialised countries are committed to phasing out the MFA and re-integrating textiles into the GATT. Discussions during the Uruguay Round have mainly concerned the terms on which it should be re-integrated. European manufacturers believe that textiles should not be returned to GATT disciplines until the rules on dumping, subsidies, and TRIMs have been strengthened, while developing country exporters are simply anxious to see the end of it.[23]

Agriculture[24]

Before the Uruguay Round, agriculture escaped GATT disciplines. Various waivers were introduced in the 1950s which reduced the applicability of GATT's provisions to agricultural products. Although agriculture figured in the Kennedy and Tokyo rounds, it was dealt with on the understanding that GATT disciplines could not be applied.

Agriculture was included on the Uruguay Round agenda because farm spending in the Northern industrialised countries, particularly the USA and EC, had reached record levels, with high costs to consumers and tax-payers. The need to bring it under control and reduce surpluses had become a pressing policy issue on both sides of the Atlantic – so pressing that the USA made it clear from the outset of the round that it would walk out of the GATT, jeopardising the future of world trade, rather than accept a failure to reach agreement on this issue.

The inclusion of agriculture on the agenda made the Uruguay Round of critical importance to the developing world. Agriculture is of far greater significance to Third World countries than it is to the industrialised world. It accounts for an average of 20 per cent of their GDP (compared to only 3 per cent in the North), for two-thirds of employment and, in many countries, the bulk of their foreign-exchange earnings.[25] As we have seen in Chapters 3 and 8, Northern agricultural protectionist policies have resulted in low prices and loss of markets for agricultural exports from developing countries.

The agriculture negotiations have proved the most difficult area to resolve in the Uruguay Round. Failure to reach an agreement in this area caused a break-down in the talks at the end of 1990. It was eventually agreed to extend the talks for a further two years, with the latest date for completion being mid-1993. This time the problem is not one of a North-South divide, but of a split between the European Community, supported by Japan and the Nordic countries, and the United States, supported by the Cairns Group, a coalition of fourteen developed and developing countries.[26] The disagreement between the two groups is not on the need to deal with the problem, but on how to deal with it.

The arguments, which are complex and technical in nature, boil down to what constitutes a subsidy. The USA has been demanding the withdrawal of all *direct* export subsidies within five years. This constitutes a frontal assault on the EC's Common Agricultural Policy, which could not survive in its present form without them. But it also leaves untouched the US system of Deficiency Payments, which is the main source of US export subsidies. These, at least in the US view, are 'general income support' measures, rather than a direct export subsidy.

It is likely that the USA and EC will eventually find some way of accommodating their differences, and an agreement that liberalises agricultural trade will be reached. But while welcoming a reduction in agricultural support policies in the North, developing countries fear the implications that this may have for their own food-security policies.

GATT AND FOOD SECURITY

As the spectre of famine haunts sub-Saharan Africa, Oxfam's main concern is that any GATT agreement should foster, and not inhibit, efforts by developing countries to become food-secure. To be food-secure, there must be enough food available in a country to feed everyone. In addition, it must be possible to distribute the food to the people who need it, and for them to have enough income to purchase that food. In ensuring that there is sufficient food available, countries have a choice: they can either buy in their food supplies with money earned from their exports, or they can try to become self-sufficient in food. If neither of these is possible, the outcome is either hunger, or dependence on food aid, or both.

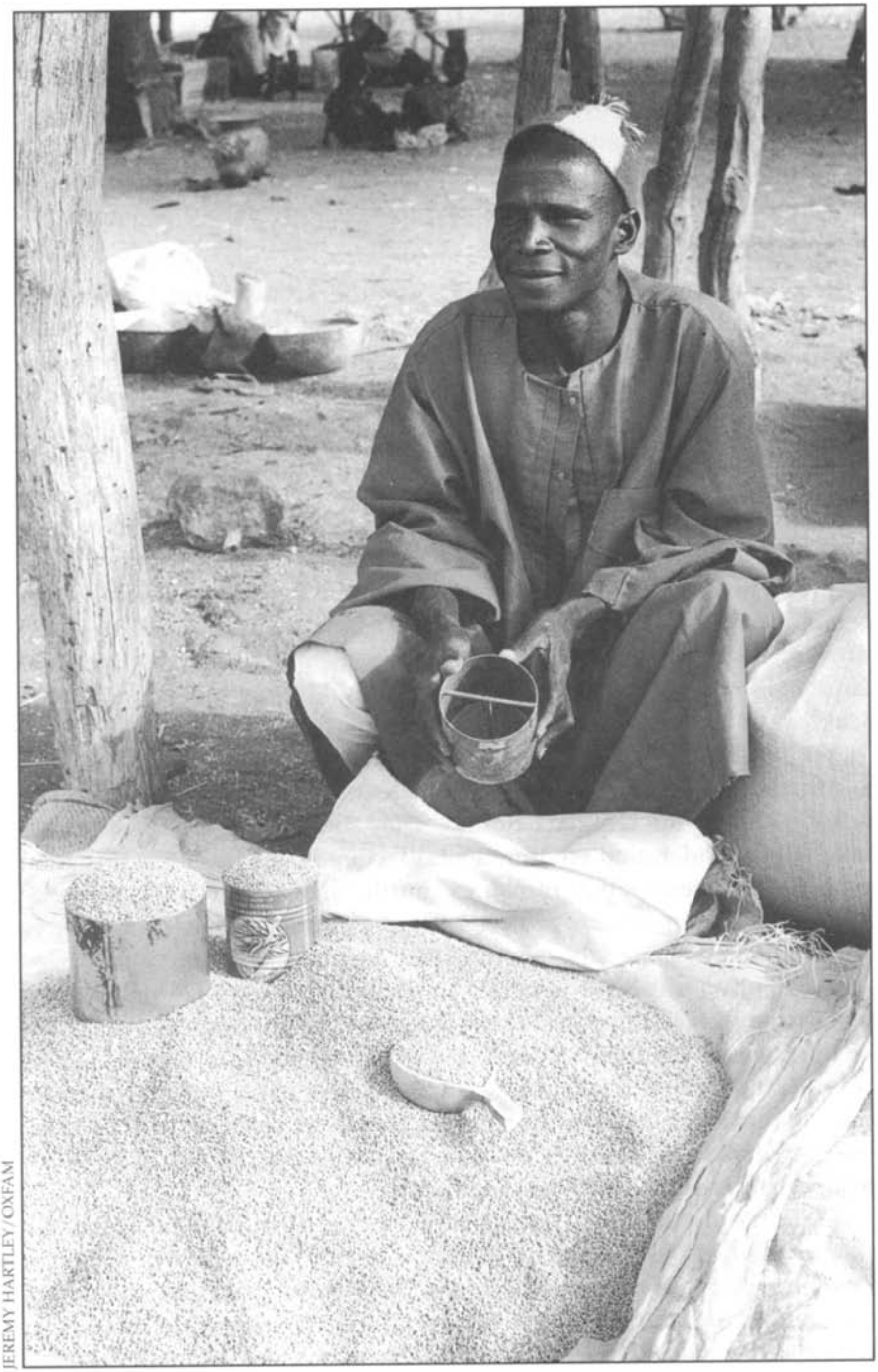
For most developing countries, reliance on food imports is risky. As we have seen, many developing countries export only a few products, which are at the mercy of low or unstable commodity prices. In many cases these countries are also under pressure to pay off debts, so food imports become an added burden on their balance of payments. A further problem is that owing to unbalanced income distribution and high transport prices, imported food often does not reach people in the more remote areas.[27]

The alternative to relying on world markets is food self-sufficiency. One of the most effective ways of increasing domestic food production is to pay food producers realistic prices. The government of Zimbabwe, for example, increased the farm-gate price of maize by 80 per cent between 1979 and 1981, and production tripled over the following five years.[28] Of course, realistic prices are not a sufficient condition for raising output and increasing food security. Farmers also need access to land, credit, and other resources. Infrastructural invest-ment in the transport and storage equipment needed to facilitate the smooth marketing of foodstuffs is also important. However, most economists would agree that remunerative prices are a necessary condition for releasing the productive potential of small peasant producers.

In recent years world cereal prices have slumped. This is because both the USA and the EC have been producing huge surpluses, which are being dumped on world markets at below-production costs. These cheap cereals are then purchased by food-deficit developing countries at knock-down prices. However, this depresses prices for local staple foods (such as millet, beans, and sorghum), lowers household incomes, and reduces the incentive to invest in agriculture. In Europe and North America, farmers have been protected against the effects of this type of food dumping by the trade restrictions outlined earlier. Oxfam is concerned that it should also be possible to protect peasant farmers in food-deficit developing countries from this type of food dumping. To do this, it is vital that a distinction is made between the type of subsidies (such as those used to protect farm production in the USA and the EC) which distort world markets, and subsidies which help countries to reduce their dependence on world markets. If this distinction is not taken into account in a Uruguay Round settlement, Third World food security could be threatened.

The agricultural negotiations illustrate a wider problem faced by developing countries in the Uruguay Round: the erosion of the principle of Special and Differential (S&D) treatment. Granted under a mid-1960s amendment to the GATT treaty, S&D waives the obligation on Third World countries to reciprocate liberalisation measures where this would be 'inconsistent with their development, financial and trade needs'. But the status of S&D treatment has become very unclear in the course of the Uruguay Round, with different interpretations being given to it by North and South. The USA and EC have both indicated that concessions given should be phased out over time. The developing countries argue that a time frame is not acceptable, and that concessions should be available to them for as long as they are needed. What this means is that developing countries may no longer be able to rely on S&D treatment to avoid having to take damaging liberalisation measures.

The issue of food security is central to Oxfam's concerns. For Oxfam, therefore, a 'successful' outcome to the GATT's agricultural negotiations will be one that fully supports the efforts of developing countries to achieve food security, both by enabling them to support their own agricultural production, and by ending the dumping of subsidised exports on world markets. Anything less could, indeed, 'sound the death knell for Africa', as Ambassador Ogada predicted.



JEREMY HARTLEY/OXFAM

Burkina Faso: Selling locally-grown millet in the market at Gorom-Gorom. Millet is a staple food in this area of West Africa.

GATT AND THE ENVIRONMENT

> There are extensive and significant linkages between international trade and the environment. Trade relationships and trade agreements substantially influence, and can undermine, national and international efforts to address ecological problems. Unfortunately, trade-environment linkages are rarely recognised and poorly understood.[29]

Oxfam project partners in all corners of the Third World understand, only too well, the links between environmental degradation and trade. In Chile, Peru, and the Philippines they witness daily the effects of over-fishing, by national and foreign-owned fleets of trawlers, on the lives of the small fishing communities that are scattered along their coastlines.

In many parts of the developing world people are forced off good land into more marginal environments to make way for cash-cropping geared to the export market. In an effort to survive, they find they must over-exploit these marginal lands, thus leading to further impoverishment. In Brazil, for example, landlessness and land disputes are major causes of the destruction of Amazonia. But the reason for the land problems is the concentration of land in some parts of the country into large holdings, producing trading surpluses. Mining, timber, and large-scale agriculture also cause significant destruction of the forest.[30]

Yet, until recently, GATT negotiators have viewed the environment as a strictly non-economic factor which has little to do with the negotiations in the Uruguay Round. They did not see it as their job to take into consideration environmental factors in the trade liberalisation process. Yet liberalisation measures can threaten efforts being made by national governments to protect their environments. For example, in 1985 Indonesia banned the export of raw logs, to encourage value-added manufacturing and thus generate more foreign exchange for less raw material, and take the pressure off the Indonesian rainforest. A number of other countries followed suit. If GATT introduces a ban on export controls that does not take into account the need for countries to protect their fragile environments, it will mean that these countries will be faced by potentially ecologically devastating free trade in raw timber, or comprehensive GATT-backed sanctions.[31]

The attitude of GATT negotiators to the environment gradually thawed during the Uruguay Round, thanks largely to the vigorous lobbying efforts of concerned groups. The Nordic countries and others have called for the activation of the GATT Environment Committee, which was convened in 1971 but which has never met. Many developing countries are reluctant to see any extension of GATT powers into other areas, and are not so enthusiastic about this move. They would rather see trade and environment discussed in a more open forum, such as UNCTAD or in the UN Conference on Environment and Development (UNCED) process. Those calling for the convening of the GATT Environment Committee are hoping that it would comprehensively examine the Agreement's effects on the environment.

Environment had been officially 'recognised' by the GATT by the end of 1990 to the extent that it is now possible to recognise environmental protection as a mitigating factor in the dismantling of trade restrictions.[32] Articles of GATT grant exemptions to allow trade measures to 'conserve exhaustible natural resources'. But they can be applied only inside the country applying the measures, and a recent GATT ruling reinforced the limitations of these exemptions.

In August 1991 a GATT dispute committee ruled that a US law banning imports of yellow-fish tuna from Mexico was contrary to international trade rules. The ban had been imposed as a punitive measure to prevent the death of dolphins who swim above the tuna and get caught in the Mexican industry's drift nets. This was the first test of whether environmental considerations, extending beyond a country's jurisdiction, can be a factor in restricting imports. The GATT's answer was 'no'.[33] This ruling could mean that any attempt to conserve habitats or resources in other countries, or in the global commons (the sea, for example), cannot rely on trade sanctions. It puts into jeopardy existing agreements such as the International Convention on Trade in Endangered Species (CITES), the Montreal Protocol on ozone protection, and others painstakingly developed since the beginning of the 1980s which rely on trade sanctions. It raises questions over the development of future agreements, such as conventions on biodiversity and climate change due to be signed at the UNCED or 'Earth Summit' in June 1992.

But the dispute panel ruled, in addition, that countries may not raise barriers against goods which are produced in environmentally unfriendly ways. The point here is that the cost of timber, for example, produced in sustainable ways will be greater than that produced in unsustainable ways, because the costs of replanting or regeneration will be included or 'internalised'. Unsustainably produced timber would obviously have more ready market access because it is cheaper than sustainably produced timber – unless barriers are erected against it. Hence, for example, Dutch efforts due to come into effect in 1995, aimed at supporting the sustainable logging of tropical forests by the use of trade measures, could be challenged in the GATT. When environmental costs, of whatever kind, involved in production are not 'internalised', because they are supposedly 'free', goods are artificially cheap and are, in effect, subsidised. But GATT does not even recognise this type of 'subsidy', let alone try to remove it, and thus in practice encourages the continued exclusion or 'externalisation' of environmental costs of production. And artificially cheap, environmentally 'subsidised' goods will clearly dominate the market unless the 'subsidies' are removed or trade measures are erected against them.

All this seems a far cry from the people with whom Oxfam works, such as the dispossessed peoples of sub-Saharan Africa, or the destitute fishing communities of poor Third World countries, yet their plight underlines the complexities of the issues. The overturning of the US ban represents a blow to the global environment yet, for Mexico, it represents a boost to its economy. As noted above in relation to the convening of the GATT Environment Committee, developing countries are ambivalent about the inclusion of environmental concerns in the GATT. On the one hand it offers opportunity, as in the Indonesian timber case. On the other hand, for many people in the South, the power of the Northern environmentalist lobby represents a new form of imperialism and a threat to their development efforts. People in the South stress that any concern for the global environment necessitates tackling poverty and North/South inequality. If debt burdens were eased and commodity prices improved, then pressure to over-exploit natural resource systems would be reduced. A significant reduction in poverty in the South would benefit both the global environment and world trade.

THE IMPORTANCE OF THE GATT

The GATT is often accused of being a club that regulates world trade to suit the interests of its most powerful members, particularly those of the USA and the EC. Hence it is criticised for its lack of democracy and also for its lack of transparency, in that negotiations take place behind closed doors. The evidence to support these criticisms is overwhelming.

In recent years a number of proposals have been put forward to create a new trade organisation. The model favoured by the South is a new International Trade Organisation (ITO), with broad economic objectives, to replace the GATT and UNCTAD. A proposal by the European Community for a new Multilateral Trade Organisation (MTO) is more limited in scope. The MTO would be a kind of 'Super-GATT', which would incorporate the new areas discussed in the Uruguay Round, such as services and intellectual property, but would not deal with the broader economic objectives envisaged by the South in its proposals.[34]

Yet while there are powerful arguments to support the need to reform the GATT, to take account of the interests of its weaker members, it is equally important to preserve its key underlying principle: that of a multilateral world trading system. The next chapter looks at some of the consequences for developing countries of unilateral trade arrangements, and the emergence of new trade blocs.

10

GOING BANANAS: The impact of trade blocs on developing countries

Every year between June and October, farmers in the Caribbean Windward Islands of St Vincent, St Lucia, Dominica, and Grenada listen anxiously to the weather reports. For this is hurricane season, and their livelihoods are at stake. If one happens to strike, they are in grave danger of losing their banana crop. The almost rootless banana tree, mainstay of the islands' economies, has little chance of surviving winds that sometimes reach 140 miles per hour and regularly lash these rugged little islands.

In some years the farmers are lucky, but 1989 was a bad year. That September Hurricane Hugo swept through the islands, knocking out most of their banana crops. A week after the storm, Ingort Jab Jacob sat in his small off-licence on the edge of the dusty pot-holed road that winds its way through the mountainous island of Dominica, reflecting on his good fortune. For although Hugo had destroyed 75 per cent of his banana crop, it had left unharmed his yam, dasheen, and other root crops, referred to as 'ground provisions' in the Caribbean. He also had his off-licence, a wise investment following a good banana harvest one year. He and his family would be able to survive the nine months or so that it takes for a new banana crop to produce fruit.[1]

But not everyone was so fortunate. The devastation caused by Hugo meant that Oxfam became involved in a major relief operation to provide shelter, food, and medical assistance to victims of the hurricane, and help with the longer-term work of crop rehabilitation. Relief operations of this nature are almost seasonal occurrences in the Eastern Caribbean. But despite this, Ingort was in little doubt about the fact that he would be growing bananas again next year. Hurricanes are an occupational hazard of banana production in the Windward Islands, but they are not a deterrent. More than 5,000 farmers grow bananas in Dominica, and the vast majority of them do so on fewer than five acres of land.[2] The picture is similar on the other islands. Furthermore, bananas contribute substantially to the Windward Islands' economy. Ninety-one per cent of St Lucia's foreign-exchange earnings come from bananas. Dominica relies on bananas for 71 per cent of its foreign-exchange earnings, while St Vincent and Grenada respectively rely on them for 28 and 13 per cent of their earnings.[3]

Such a high degree of dependence on a single crop is entirely due to a special trade arrangement in force between these islands and Britain. Under the European Community's Lomé Convention, bananas from former British colonies have preferential access to the UK market. So long as they can deliver agreed quantities of the fruit, farmers such as Ingort are paid a guaranteed and fixed price.

THE HISTORY OF THE LOMÉ CONVENTION

Sixty-nine Third World countries from Africa, the Caribbean, and the Pacific, known as the ACP Group, have special trade links with the European Community through the Lomé Convention. Nearly all these countries are former colonies of the EC countries, mainly France and Britain. Lomé could be seen, therefore, as the concrete expression of Europe's responsibility to its former colonies.

When the Treaty of Rome was signed in 1957, establishing the European Economic Community (EEC) of six (Belgium, France, Federal Republic of Germany, Luxembourg, Italy, and the Netherlands), Europe's relations with the Third World were of a distinctly unilateral nature – that of colony and colonial power. The Treaty provided for existing trade and aid links with these countries to be maintained.

During the 1960s many of these colonies were granted independence. Not wanting to lose their ties with the Community, but indeed to extend them, 18 countries, nearly all former French colonies and all on the African continent apart from Madagascar, formed the AASM (Association of African States and Madagascar). In 1963 they formalised their continued relationship with the European group of six through the Yaoundé Convention. The convention was to last for five years. Its provisions included preferential trade agreements, notably access for raw materials to Europe, as well as financial and technical assistance to be financed by the European Development Fund. A second Yaoundé Convention was signed in 1969, for a further five years.

In 1973 Britain, Denmark, and Ireland were granted membership of the European Community. Britain already had its own trade preferences, with twenty Commonwealth countries, which extended beyond Africa to the Caribbean and Pacific. Provision was made for these preferences to be continued when Britain joined the Community, and the same opportunity was offered to other independent African states. These countries, together with the AASM countries, formed themselves into one group: the African, Caribbean, and Pacific (ACP) Group. When the second Yaoundé Convention expired in January 1975, it was replaced by the first Lomé Convention (Lomé I), as an agreement between the ACP group of 44 countries, and the newly expanded European Community of nine countries.[4]

The Convention was signed in a mood of optimism among the ACP countries and pessimism in the industrialised countries. It was signed just after the first 'oil shock' in 1973/74, and the subsequent rise of OPEC as a major commodity cartel. The industrialised countries feared that the same could be done for other commodities. Many commodity prices were high, and the South seemed to be on the brink of wielding some economic power. As a result, Lomé I was seen by some to be the nearest any North-South agreement had ever been to a partnership of equals.[5] However, the bubble soon burst. Between 1961 and 1973 per capita GDP in sub-Saharan Africa, which had been growing, fell on average by 0.1 per cent a year.[6] Then came the second 'oil shock' in 1979, and commodity prices began to tumble. As they did, Lomé II was negotiated, and came into effect in January 1980 for five years. Lomé III (1985) was also for five years, while Lomé IV (1990) was signed for a ten-year period. By 1990 the ACP group had grown to 69 countries.

Membership of the ACP group and the European Community

Between them, the inhabitants of the 69 ACP States and the 12 member states of the European Community account for 14.1 per cent of the world's population. The total population of the EC member states is 324.7 million; that of the ACP States, 439 million. The composition of the ACP group is as follows:

Africa

Angola
Benin
Botswana
Burkina Faso
Burundi
Cameroon
Cape Verde
Central African Republic
Chad
Comoros
Congo
Côte d'Ivoire
Djibouti
Equatorial Guinea
Ethiopia
Gabon
Gambia
Ghana
Guinea
Guinea Bissau
Kenya
Lesotho
Liberia
Madagascar
Malawi
Mali
Mauritania
Mauritius
Mozambique
Namibia
Niger
Nigeria

Rwanda
São Tome and Principe
Senegal
Seychelles
Sierra Leone
Somalia
Sudan
Swaziland
Tanzania
Togo
Uganda
Zaire
Zambia
Zimbabwe

Caribbean

Antigua and Barbuda
Bahamas
Barbados
Belize
Dominica
Dominican Republic
Grenada
Guyana
Haiti
Jamaica
St Christopher and Nevis
St Lucia
St Vincent and The Grenadines
Suriname
Trinidad and Tobago

Pacific

Fiji
Kiribati
Papua New Guinea
Solomon Islands
Western Samoa
Tonga
Tuvalu
Vanuatu

The European Community is composed as follows:

Belgium
Denmark
France
Germany
Greece
Ireland
Italy
Luxembourg
Netherlands
Portugal
Spain
United Kingdom

LOMÉ'S TRADE PROVISIONS

Lomé's central trade provision is the granting of duty-free access to the EC market for most ACP exports. As a permitted exception to the GATT rule of reciprocity, the ACP countries are not required to grant corresponding preferences to the European countries. However, there are two main limitations. The first is that agricultural products which compete with EC products falling under the Community's Common Agricultural Policy are not granted free access to the Community. In these cases the ACP countries have preferential access over non-ACP countries, but not uncontrolled access. Sugar, for example, is catered for by a special protocol under which ACP countries (and India) have guaranteed duty-free access for specified quantities. In the case of beef, sales by ACP exporting countries are controlled by quota.

The second limitation is that ACP exports are subject to 'rules of origin' criteria. These establish the minimum local content requirement. This means that products are allowed duty-free access to the Community only if one third of their value originates from an ACP country. These rules are designed to prevent non-ACP countries from diverting their exports to the EC so that they can take advantage of the duty free-access afforded to the ACP countries. But this raises a number of problems for the ACP countries. First it inhibits them from establishing simple export-oriented assembly operations, if the goods to be assembled come from non-ACP countries. Secondly, in the case of textiles EC rules stipulate that although the yarn may come from non-ACP sources, the cloth must, which pre-supposes the prior existence of a substantial textile industry of the type which does not exist in most ACP countries.[7]

Critics of Lomé have blamed these limitations on its failure to achieve one of its main stated aims: to promote the performance of ACP countries in EC markets.[8] Since 1975 the share of ACP exports to the EC has fallen. In 1989 they accounted for 3.8 per cent of the Community's imports, down from 8 per cent in 1975. This even compares unfavourably with the fall experienced by developing countries as a whole, down to 14 per cent, from 20 per cent.[9] Other critics point out that exports are concentrated among a small number of beneficiaries. Coffee, copper, and cocoa account for 40 per cent of all non-oil exports to the EC from the ACP countries. Of this, 30 per cent of the coffee is exported by Côte d'Ivoire, nearly all the copper comes from Zaire and Zambia, and 80 per cent of cocoa comes from Côte d'Ivoire, Ghana, and Nigeria.[10] The picture is similar with sugar. Although 17 countries have import quotas under the Sugar Protocol, the sizes of the quotas are unevenly spread, with the result that only five countries, Mauritius, Fiji, Guyana, Jamaica, and Swaziland, account for 80 per cent of the total quota, while Mauritius alone supplies more than one third of the ACP's export allowance to the EC.[11]

In part due, perhaps, to its rather marginal trade concessions and uneven application, Lomé has been unsuccessful in shielding the ACP countries from the negative external environment of the 1980s: falling commodity prices, rising interest rates, and the slump in investment. Economic growth and living standards in many ACP countries have deteriorated, and many people are poorer than they were in the mid-1970s. Not one ACP country has joined the ranks of the newly industrialising countries, and some are even more dependent on primary commodities than they were in 1975. Yet for all its inadequacies and inconsistencies, as a contractual agreement between developed and developing countries, based more on dialogue than dictate, Lomé remains a unique and important instrument of trade and development cooperation.

Lomé trade preferences will be affected by both the outcome of the Uruguay Round and the completion of the Single European Market. The ACP countries fear an erosion of their trade preferences once the Uruguay Round has been completed, because it is likely to result in a widespread reduction in GSP rates. The EC has stressed that the Lomé Convention will have to adapt to the post-Uruguay multilateral trade regime. However, detailed studies have shown that the impact of reduced GSP rates is likely to be marginal.[12] Of much greater concern is the impact of the European single market, which does carry very distinct dangers for the ACP countries.

BANANAS, LOMÉ, AND EUROPE 1992

Bananas are grown for export in a number of ACP countries. Under Lomé they are allowed into the EC duty-free. Taking advantage of old colonial ties, the Windward Islands and Suriname supply the UK market. Somalia exports its bananas to Italy, while Cameroon and Côte d'Ivoire send theirs to France. In all, these countries supply the EC with around 20 per cent of its bananas. The EC also has a number of domestic banana producers. Bananas grown on the Greek island of Crete are given preferential access to the Greek market. Likewise bananas grown in Madeira and the Canary Islands have preferential access to the Portuguese and Spanish markets respectively, while those grown in the French Overseas Departments, of Martinique and Guadeloupe, rely on the French market.

Together, ACP and domestic bananas meet only about half the EC's requirements. The other half is met by producers in Central and South American countries, mainly Colombia, Costa Rica, and Honduras. Their bananas are known as 'dollar bananas', and face a common external tariff of 20 per cent unless they are destined for West Germany. If they are, they are allowed in duty-free, under a special protocol of the Treaty of Rome.[13] All this will have to change once Europe has completed the formation of its single market at the end of 1992.

The goal of the Single European Market is to create 'an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured'.[14] What this means is that ACP suppliers and domestic banana producers will lose the preferential access they have enjoyed in their traditional markets. Instead they will have to compete for EC markets with the dollar bananas. The problem with this is that the production costs of both the ACP and the domestic suppliers are much higher than those of the Central and South American suppliers.

ROSHINI KEMPADOO/OXFAM

St Vincent: harvesting bananas.

Here bananas are grown on large plantations, spread over relatively flat land with good soil and a high degree of mechanisation. Most of them are owned or indirectly controlled by three giant US transnationals: United Brands, Standard Fruit, and Del Monte. While trades unions in many of these countries have managed to negotiate improved pay and conditions, wages on many plantations remain low.

The banana trade in the Windward Islands is also under multinational control, in this instance the British company Geest. But, unlike countries in Latin America, bananas here tend to be grown by farmers such as Ingort Jab Jacobs, on small plots of land. Their reliance on bananas is a direct result of UK policy to help to build up their industries so that they could supply the British market. As a result, these small islands are overwhelmingly dependent on bananas for export earnings, yet their production costs are between 30 and 50 per cent higher than in Latin America.[15]

Studies have shown that due to these higher production costs, completely free trade in bananas within the European Community could result in the ACP and domestic suppliers losing as much as half their current share of the EC market. Even if they maintain their tariff preference, many of them will not be able to compete with the cheaper dollar bananas, and their exports to the EC will decline by an estimated 28 per cent.[16] This is particularly worrying for the Windward Islands, because of their high production costs and heavy reliance on bananas. The problems that they would face as a result have prompted European Commission officials and member-state politicians to make repeated commitments to maintain preferential access for the traditional suppliers after 1992. Mr David Curry MP stated in the UK Parliament in April 1991: 'We are making it clear to the Commission and other member states that any new arrangements [for bananas] must fulfil our commitments to Commonwealth Caribbean suppliers ...'.[17] How this will be done is not yet clear, as the shape of the arrangements for bananas after 1992 is still under discussion. However, what is clear is that the present system will not continue indefinitely. It would be a derogation from the Single European Act, which will lay the legal basis for the Single European Market, and will therefore be subject to legal challenge.[18] The task for the EC member states is, therefore, to design measures which will enable banana producers, such as Ingort Jab Jacobs, to make a decent living for themselves and their families. Unless they do, there will be major economic upheavals, with political and social implications.

In the view of the World Bank, it would be better to remove all market preferences and replace them with direct aid payments. The aid money could then be used either to improve the long-term efficiency of the banana industries or to diversify their economies.[19] Oxfam has been supporting diversification efforts in the Windward Islands for some years. The Chateaubelair Multi-Purpose Co-op, which was established in 1986, has been encouraging its farmer members on the island of St Vincent to plant some of their banana land out to vegetables, with the help of a revolving loan.[20]

While farmers are happy to be involved in this type of small-scale diversification, mainly for domestic production, they are resistant to more ambitious diversification plans. In November 1990 Oxfam helped to fund a symposium for the Windward Islands' Farmers' Association (WINFA). It was to provide a forum in which farmers could discuss their options for the post-1992 period. At the symposium the farmers made it clear that while they are aware of their need to diversify, they are reluctant to switch to alternative crops until alternative markets have been found. Many remember a time when they were advised to grow turmeric as an alternative to bananas. But then the turmeric market collapsed, and they were unable to sell their harvest. In their view bananas remain their safest option.[21] There is little doubt that opportunities for diversification are very limited in that region. Tourism is the most obvious alternative but, for social and political reasons, there is a reluctance to replace dependence on bananas with dependence on tourism.

BEYOND BANANAS: EUROPE 1992 AND DEVELOPING COUNTRIES

In one sense 'Europe 1992' is a less dramatic enterprise than is sometimes portrayed. In a nutshell, all that the members have committed themselves to do is to take steps towards the creation of a customs union – steps that the original group of six had promised to take 35 years before, when signing the Treaty of Rome. However, the outcome will be the creation of a very large trade bloc. It will consist of an internal market of some 320 million people, with an annual GDP of US$2.7 trillion, exports worth US$860 billion, and imports of US$708 billion.[22] The sheer size and economic strength of this market has raised fears that Europe post-1992 will become a 'fortress' – and that countries outside will find it increasingly difficult to do business with the Community.

Community officials have gone to great lengths to reassure countries outside the EC that they have no intention of creating a fortress. Indeed, they maintain that the effect of creating a single market will increase opportunities for trade, as it will stimulate economic activity within the Community. GDP is expected to increase between 4.5 to 7 per cent, which will increase demand for imports, particularly of primary products, while the removal of internal barriers will make it easier for third-party exporters to exploit the full potential of European demand.[23]

However, there is another side to this. It has also been argued that the creation of more efficient production units within Europe will tend to increase the competitiveness of domestic supplies relative to imports. So the share of the EC market supplied by imports may decline. Whether or not the absolute level of imports falls depends on whether this trade-diverting effect is larger or smaller than the trade-creation effect of predicted faster economic growth within the EC.[24] Numerous studies have been carried out in an effort to gauge the impact of 1992 on external trade. The analysis is normally of the 'on the one hand' and 'on the other hand' type. While there is broad agreement that there will be changes, the precise nature of these changes, and their impact on individual countries, or categories of exports, is generally inconclusive, with a few exceptions.

The case of bananas is one such exception. Bananas have assumed particular prominence, because of the severe effect that the Single European Market will have on certain countries. But it also illustrates how decisions taken in the 1992 context could undermine the EC's existing agreements with the South. On this score the ACP countries have a particular worry about 1992. It arises from the fact that their present pattern of exports to the EC, of bananas and other products, is determined by market regulation with individual members of the community. Once internal barriers have been removed, they will have to compete within the much larger European market. This may, as in the case of bananas, result in their exports being substituted by exports from other developing countries. In the view of one OECD official: 'However one turns it, the ACP countries stand to lose. There will be trade diversion away from them.'[25]

Non-ACP developing countries also have their concerns about the completion of the Single European Market. Countries which export textiles to the EC, under the Multi-Fibre Arrangement (MFA), may also be affected by the removal of internal barriers to trade. Under the MFA the EC regulates its textile imports to protect domestic producers. But the Community's MFA is particularly complex, because Community quotas are sub-divided into member states' sub-quotas. With the establishment of the single market, these will have to be dismantled. It has been argued that this may lead to increased opportunities for developing countries' textile exporters, as some of the sub-quotas are under-utilised. Under the present arrangements these cannot be redistributed to countries that fill their quotas, but after 1992 it will be possible for exporters to exploit the full EC quota.[26]

However, all this depends on discussions taking place in the Uruguay Round on the future of the MFA. As already seen, there is a commitment to phase it out. However, this is unlikely to result in free trade in textiles, as the main importing countries will still demand restrictions. Whether or not the new measures will be more or less liberal than the current MFA has yet to be seen. It is likely that those countries within the Community which are heavily dependent on their own textile industries, such as Portugal and Greece, will lobby hard to restrict imports into the Community as a whole.

All developing countries will be affected by the harmonisation of technical standards under Europe 1992. Some fear that this will restrict their exports, because the new EC standards may be higher than those currently in force in member states. The main product groups which could be affected are plants, fish, meat, and toys. In the case of plants, each consignment cleared at the EC border will be issued with a 'plant passport', which will guarantee free circulation throughout the Community. For meat products, slaughterhouses and processing plants will have to be licensed by EC inspectors before their products enter the Community. Likewise fish and fish products will have to meet certain standards, through the compulsory licensing of fishing vessels and processing plants, before they are allowed to export to the Community. Toys, which mainly come to the Community from South-East Asia, will have to meet harmonised EC standards of toy safety.[27] In addition to these health, sanitary, and safety standards, it is likely that environmental standards will be set on a range of developing countries' exports.

There is little doubt that it will be the poorer countries that suffer most from any raising, or extension, of technical standards. They are likely to lack the investment required to up-grade standards. Concern has also been expressed that these measures could be used as a veiled form of protectionism. It is often hard to define where the legitimacy of standards ends and protectionism sets in.[28]

But for all this, there could be some good news for some developing countries too, provided that the EC pushes ahead with its plans to abolish excise duties on coffee, tea, and cocoa. In some member states these are substantial. In West Germany, for example, excise duties on coffee and tea are more than 50 per cent. The effect of the abolition will be to make the products cheaper. It has been suggested that this could raise consumer demand and result in an increase in world imports of coffee, by 3.8 per cent in value terms, and 1.9 per cent in volume. As standards of living in the Community are expected to rise overall it has also been suggested that this will increase the demand for higher quality, mild 'arabica' coffee. Therefore the main gain from this increase in consumption will be for the arabica-producing countries, such as the Central American producers, Kenya, Rwanda, and Tanzania, at the expense of the 'robusta' producers such as Zaire, Cameroon, and

Uganda. Cocoa and tea would also benefit. It has been estimated that volumes of EC cocoa imports would rise by 1.4 per cent, benefiting Côte d'Ivoire, Nigeria, Cameroon, Ghana, and Malaysia. Tea imports would increase by 0.2 per cent and benefit Kenya, India, and Sri Lanka.[29]

The effects of 1992 are difficult to identify, and even more difficult to measure. There is no consensus among economists on the impact of the single European market on developing countries. Some say it will bring overall benefits.[30] Others say its impact will be negative.[31] Some studies show that the Newly Industrialising Countries will stand to gain most from Europe 1992 and that the poorer countries will lose out. Others maintain the opposite to be true. In truth, no one knows, except in very specific cases, such as bananas.

Clearly the EC will have to monitor the impact of its single market on developing countries carefully, and assist where the effects are negative. Direct aid disbursements could be used, for example, to help poorer countries to meet more stringent technical standards. Aid could also be used where product-displacement occurs, such as in the case of bananas. Whatever shape the banana regime takes after 1992, the EC will have to ensure that there are funds available for the Windward Islands either to diversify away from bananas, or to upgrade production.

There are other factors, apart from the completion of the internal market, which could affect the position of developing countries in the EC market. The most important of these is competition, both for markets and investment, with Eastern European countries. With the emergence of these countries from the socialist bloc, there is much talk of enlarging the Community to include them. Whether or not they actually become integrated into the Community, there is little doubt that they will be helped by EC funds to adapt their industrial structures, and by EC trade regimes to improve their trade performance. Both could easily happen at the expense of developing countries.

FREE TRADE IN NORTH AMERICA

Zenaida Ochoa's home is a small hut, pieced together out of bits of wood and cardboard. There are many others like it in the shanty town where she lives, a ramshackle collection of makeshift shelters just outside Mexico's northern-most town, Tijuana. Tijuana lies on the shores of the Pacific Ocean, bordering the USA at the top of the southern Californian Peninsula. Head north up the coast from Tijuana, and you reach San Diego. Keep going, and you will find yourself in Los Angeles and, eventually, San Francisco.

Zenaida will probably never get that far. She has already travelled some distance north to reach Tijuana. Her family are farmers. She is the eldest of six children and wanted to escape her life of rural poverty. She needed a job, so set off for Tijuana, where she had heard that there was plenty of well-paid work in the *maquilas*, or assembly plants. Tijuana was not quite the glamorous city she had expected. A cloud of yellow smog hung over the town, and the busy roads were little more than dust tracks. But undeterred, she signed up for work in a clothing factory, where she discovered that she would earn the equivalent of US$60 a week for working a nine-hour day. It was more than many people get paid (most workers only earn the Mexican peso equivalent of $6.50 a day), and seemed like a small fortune to Zenaida, even though a chicken in Mexico costs a tenth of that.

Six months later she was wondering how long she could carry on in her job. Her health was beginning to suffer from the effects of being hunched over a sewing machine all day in the tin-roofed *maquila*, which sizzles in the summer sunshine. She was plagued by back pain and was having trouble with her eyesight. She had a long walk there and back, and shanty-town living was much worse than conditions on the farm she had left. Each morning she picked her way through raw sewage on the journey to work, and on her return she faced the daily task of fetching water from one of the few taps that served the area. She could see little prospect for improvement. A fellow worker had tried to organise a union to get better pay and conditions, but had been sacked. Her friends in the shanty town had told her that conditions in the other *maquilas* were just as bad. Either she stuck with it, or returned to unemployment and her family farm. Either way her dreams of prosperity had been shattered.[32]

Zenaida is one of around half a million people, Mexicans and other Central American migrant labourers, who work in the *maquiladora* sector. *Maquiladoras* are assembly plants. There are about 1500 of them, mostly US-owned, ranged along the 1,550 mile Mexico-USA border. They import nearly all their raw materials from the USA, assemble them, using cheap Mexican labour, and export them back to the USA. The finished products range from sun-glasses to car-parts. All the border transactions are duty-free, under special arrangements negotiated in the mid-1960s. Apart from creating jobs, the sector has also made a substantial contribution to the Mexican economy. Having tripled output in the last ten years, *maquiladoras* now rival tourism and remittances from émigré workers as Mexico's biggest hard-currency earner, after oil.[33]

As the US and Mexican governments negotiate a free-trade agreement, both advocates and opponents of the proposed treaty look to the *maquiladora* sector as the best indication of its potential for economic growth and abuse, alike. Under the proposed North American Free Trade Agreement (NAFTA), Mexico will be absorbed into the existing USA–Canada Free Trade Agreement, effectively creating a free-trade zone 25 per cent larger than the European Community.[34] The NAFTA trade bloc will be of a very different nature from that of the single European market. The major distinction between the two is that while negotiations in Europe have been based on the idea of creating a community of equal status, the attraction of the NAFTA, to both US and Mexican governments, is that their economies are very different.

For Mexico it offers an opportunity to attract new investment, and speed up the process of export-oriented industrialisation. Economic stagnation in the 1980s and the debt crisis have discredited old models of import substitution, and the Mexican government is now committed to developing new export industries as an alternative strategy. Attracting foreign investment is vital, particularly as the banks are reluctant to lend directly to the government, which is still burdened by debt.[35]

For US corporate interests, the main attraction is a ready supply of unskilled or semi-skilled labour. Slow population growth in the USA, combined with an increasingly service-oriented economy, means that its diminishing labour force will be drawn into the highly-skilled service jobs, leaving a dearth of unskilled labour for its manufacturing sector.[36] Furthermore, Mexican labour is cheap, and un-unionised. The average hourly wage is only US$0.98, one tenth of that paid in the USA.[37]

Advocates of the proposed treaty point to the booming *maquiladora* sector to prove their point. So do the opponents. They argue that the very success of the sector has turned much of the border region into a cesspit of abysmal living conditions and environmental degradation, and that such costs are simply too high.

Cheap, unorganised labour is only part of the attraction of Mexico to US corporate interests. By moving south, they also escape compliance with US environmental and workplace safety standards. Similar laws exist in Mexico, but enforcement is weak, with the result that the border area has been described as an 'environmental calamity'.[38] By law Mexican companies are supposed to ship their toxic waste back across the border to the USA. But the heavily polluted local rivers and contaminated water supplies are powerful evidence that many are not doing so. Air pollution is as bad. Cars lack air-pollution control devices and travel on unmade-up roads, throwing dust into the atmosphere. Added to this is industrial pollution, some of it coming from US furniture makers who fled Los Angeles to escape new restrictions on the emission of solvents. Still more comes from local residents who, in the absence of any other way of getting rid of it, burn their rubbish.[39]

The irony is that pollution does not respect national boundaries. Miles of some of California's most beautiful beaches south of San Diego are closed because of the pollution that flows into the Pacific from Tijuana. Water supplies in Arizona are being contaminated by the river that flows across the border, bringing a particularly stubborn strain of hepatitis-A. In El Paso, the rates for gastro-intestinal diseases are four times higher than in other parts of the USA, due to the lack of a good water supply.[40]

But it is not only the environment that is affected. In the USA workers fear a further loss of jobs as industries move south. Thousands have already been lost to the *maquiladoras*. Some predictions put further losses as high as 40 per cent in key industries as a result of the proposed NAFTA.[41] Yet there are also hopes that a free-trade pact would create jobs inside Mexico and stop the cross-border flow of illegal migrant workers. An estimated 9 million Mexicans work illegally in the USA.[42]

The impact of the NAFTA will be felt in all sectors of Mexico's economy, and nowhere more so than in agriculture. Advocates of the pact, especially in the USA, argue that free trade in farm produce between the USA and Mexico will bring benefits to both sides. They point to the large US market for Mexican tomatoes, avocados, and other fruits and vegetables, and to the vast quantities of cheap US maize which could be exported to Mexico if existing trade restrictions were lifted. Mexico, the argument runs, could most efficiently feed its population with American maize purchased with foreign exchange earned from its vegetable exports.

The problem with this argument is essentially a distributional one. There are over 2.25 million farmers in Mexico, farming fragile soils with limited capital resources. They are protected from US maize imports by a government minimum-price programme and a 70 per cent border tariff. Under free-market conditions, there can be little doubt that they would be swept aside and forced from their land, because Mexican maize farmers are six times less productive than their US counterparts.[43] Their choices would be stark: migration to Mexico City, unemployment and poverty, or illegal migration to the USA. Conversely, the benefits from the boom in vegetable exports will be based in relatively few hands. This is a large-scale, capital-intensive sector dominated by Mexican big business and US TNCs. While agro-exports will generate the dollars which *could* import food, they are more likely to be used to import luxury goods. Even where they are used to import food, there is little prospect of that food finding its way to those who need it (such as the displaced maize farmers). Once again, the real question which agencies like Oxfam have to ask is, 'Who benefits from trade?'

Getting it right

Mexico already depends on the USA for 75 per cent of its trade, so it has been argued that the NAFTA will merely formalise, and speed up, a process of integration which is already well underway.[44] The key issues concern the basis on which the agreement is made. A pact that helps US industry to evade US labour and environmental law and assigns Mexico to the status of permanent supplier of low-cost labour to the US market is clearly in no one's long-term interests.

In the USA, opposition to the pact has come from a powerful coalition of environmentalists, consumer groups, unions, small businesses, and civil rights campaigners. As a result, Congress is now under pressure to include a Social Charter in the agreement which would address issues such as labour rights and health and environmental standards.[45] The stakes are high. An agreement that fails to deal fully with these issues will serve to exacerbate regional inequalities and deepen the North-South divide. An agreement that does could serve Mexico well and promote genuine development for its people, setting the stage for a fairer continental partnership.

Whatever shape the agreement finally takes could set the pattern for similar agreements between the USA and other Latin American countries. In June 1990 President Bush announced his plan to extend the free-trade area, dubbed his 'Enterprise for the Americas' initiative, 'from Alaska to Argentina'. This is a long way from becoming a reality, but within the region it has sparked a series of initiatives aimed at removing trade barriers and promoting intra-regional trade.

The Andean Pact countries (Bolivia, Colombia, Ecuador, Peru, and Venezuela) are seeking to revive their agreement, reduce tariffs, and increase regional trade. Mexico and Chile are planning a bilateral free-trade agreement, while Mexico, Colombia, and Venezuela plan to establish a three-way free-trade zone by mid-1994. The Southern Cone countries, Brazil, Argentina, Paraguay, and Uruguay, have formed a new alliance, 'Mercosur', to promote regional trade, while similar initiatives are being taken by the Central American countries. The flame of free trade gives every appearance of sweeping through the continent.

Free trade in Asia

President Bush's 'Enterprise for the Americas' initiative has been interpreted as a response to the emergence of the more integrated trade bloc that Europe 1992 will produce, and a reflection of his dissatisfaction with progress in the Uruguay Round. A similar interpretation was offered for plans for a third regional free-trade initiative, this time in Asia.

Following the breakdown of the GATT talks at the end of 1990, Mr Mahathir Mohamad, Malaysia's Prime Minister, proposed plans for an East Asian Economic Grouping (EAEG). On the assumption that all hopes for resuscitating the Round were gone, he argued that an East Asian free-trade arrangement, to stretch from China to New Zealand, would act as an insurance policy against future trade hostilities.[46]

However, the idea was spurned by the USA and treated with indifference by Japan, and has languished as a result.

More recently members of the Association of South East Asia Nations (ASEAN) (Brunei, Philippines, Singapore, Malaysia, Thailand, and Indonesia) have put forward proposals for an ASEAN Free Trade Area. But this will be difficult to adopt for a number of reasons, not least because, with the exception of Singapore, they all depend heavily on commodities, especially crude oil, palm oil, rubber, and tin. ASEAN members, therefore, all compete heavily with one another for the same export markets. They also compete for capital investment and technology from the same sources: Japan, Europe, and the USA and, more recently, Taiwan and Hong Kong.[47]

A tri-polar world

The conjunction of the European single market and the USA–Canada Free Trade Agreement has created an expectation that the world trading system is moving towards regional blocs, as distinct from GATT-wide multilateralism. However, the two were prompted by wholly different motivations. For the USA, a free-trade agreement with Canada, and subsequently with Mexico, is a wholly trade-expanding operation. Europe 1992, on the other hand, was prompted by the goal of making the Common Market commoner, taking the last and most difficult steps towards the unification that the Treaty of Rome had already adopted as its objective.

The fact that they are happening at the same time is coincidence, yet has tended to produce a sense that the world is fragmenting into trade blocs. As if to fulfil this prophecy, yet in fact to defend itself against its consequences, Asia has responded by producing plans for its own trade bloc. This has simply served to heighten fears of a tri-polar world trading system, with three impregnable trade blocs centring round Japan, the EC, and the USA. The implications for weaker economies excluded from those blocs, particularly African states, are worrying.

To counter these fears it is essential that the USA, EC, and Japan strengthen their commitment to multilateralism through the GATT. Yet perhaps the most potent force against the threat of a bloc-infested world are transnational corporations. In the last few decades their operations have become truly globalised, with their investments criss-crossing countries throughout the world. A more protected world trading system would threaten these investments – a situation they would be unlikely to tolerate.

The main problem of the trade bloc phenomenon is the impact that it could have on weaker countries. With NAFTA, there are very real dangers of high social and environmental costs, a further marginalisation of the poor, and a deepening of the North-South divide. The inclusion of a strong Social Charter in the Agreement will be essential for ensuring more equitable development. With Europe 1992, the concern is the way in which this alliance of strong economies will affect weaker trading partners. There will be a need for constant monitoring of trade or investment diversion from these countries, combined with generous aid disbursements to assist restructuring where necessary.