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LECTURE

TRADE AT THE SERVICE OF DEVELOPMENT

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TRADE AT THE SERVICE OF DEVELOPMENT : AN ACTION PLAN FOR 2005 FOR THE EU TRADE COMMISSIONER

I am grateful to you all for turning up at this stage of a Friday to attend this lecture. Notice - I was careful not to say 'listen'! Roy Jenkins always said of lectures: "more boring than a speech – and longer". I shall do my best to prove him wrong.

This evening I want to deliver a lecture, not a sermon. On this subject, sermons and prophets have an important place. The appalling conditions under which many hundreds of millions of our fellow human beings live; the needless loss of life to infant mortality and disease; the entirely avoidable misery into which large parts of the continent of Africa have sunk poses – all pose - a grave moral challenge to our sense of common humanity. As Tony Blair put it in his Labour Conference speech in 2001, "the state of Africa is a scar on the conscience of the world".

There is still a place for prophets of our time who use truth to stand up to power, who prick complacency with conscience, and who expose the hypocrisy of the comfortable and self interested. I pay tribute to these modern prophets – Bob Geldof, Bono, the stars who campaign to Make Poverty History - but also the ordinary people who often write to me from religious communities up and down the country with their personal plea for 'something to be done' – and in a quiet and unassuming way do something themselves.

But I am not a prophet. I am the European Commissioner for Trade and External Competitiveness, to be precise. I do have a moral commitment on this subject dating from the year I spent in the early 1970s, in Tanzania, working on

a farm, in a hospital and a primary school. But my current job is to "get things done". **My ambition is to help make 2005 a breakthrough year for the world's poor. The year when we use the combined power of the European Union to put trade at the service of development.**

2005, it is becoming clear, is a "once in a generation" chance. In part this is a lucky coincidence of events: Britain's G8 Presidency with its clear focus on Africa and climate change; the UN review of the world's feeble progress towards the Millennium Development Goals; and the WTO's Hong Kong Ministerial meeting in December, which is the crucial staging post of the Doha Development Round.

But it is more than a lucky coincidence of events. **One can feel in the air a gathering of international political will.** The shock of the Tsunami still reverberates round the world. Our immediate thoughts may have been with the tragedy that destroyed the lives of European holiday makers. But through this our eyes were opened to the fragility of the human existence of millions. It has made us more conscious, not less, of the daily Tsunamis that destroy life in our world: the 3,000 children a day who die in Africa as a result of malaria: the 6,000 people a day that die from HIV and AIDS. These daily Tsunamis are stoppable within a few short years, if only together the world community can gather the will to act.

These chances don't come round that often. I am a little too young to remember the sense of excitement stirred by the Kennedy inauguration, but it was in part in response to the post-colonial idealism that he inspired that I made my journey to Africa thirty years ago. Then, in 1980, we had the Brandt report with its eloquent call for a new North- South global compact. In Britain this was

followed by the success of the Live Aid appeal in 1984 in response to the Ethiopian famine.

Every so often hopes have been raised – only for the follow through to disappoint. The attention of the richer nations has been distracted by international tensions and economic crises. The response of the poor has too often been dissipated in corruption, bad governance and civil war.

In 2005 there is a decent chance things will turn out different. **The task of political leadership is to seize the moment.** So I am encouraged that Jacques Chirac and Gerhard Schröder are rallying behind Britain's proposal for new financing and debt relief initiatives. I hope that when President Bush visits Brussels in three weeks' time, he will recognise that, essential to his laudable mission to advance the cause of democracy, is a common effort to tackle the most glaring injustices in today's world. **Today's meeting of the G7 Finance Ministers is an important milestone in mobilising aid and tackling debt – and I wish it every success.** Although aid and debt relief is not a panacea, it is a vital part of the solution and we need much more.

But today I want to concentrate on trade. Trade is the third leg of this development triad. Actions on trade, aid and debt need to complement each other. But how? To note that there is a fortunate coincidence of events, even a gathering convergence of political wills, does not mean there is as yet **a coordinated plan of action**. My purpose this evening is to set out what in my view this plan of action should be.

Of course, trade is about more than development. Indeed until the Uruguay Round in the 1990s it was seen as largely separate from development. It was basically about dismantling the walls of protectionism, erected in the inter war

years, that destroyed the pre-1914 model of globalisation based on Free Trade and the Gold Standard. The Common Market successfully demolished these protectionist walls within Europe. GATT steadily knocked chunks off them between the more developed countries. Together - the Common Market and GATT - helped deliver a large part of the prosperity we have enjoyed in the past half century.

The old GATT accommodated the rise of Japan as a great productive power. But it did go through a period of upheaval, when protectionist forces temporarily strengthened within the United States with the decline of traditional 'rust belt' manufacturing. But GATT recovered its balance and facilitated the integration of the so-called Asian Tigers into the global trading system.

The establishment of the World Trade Organisation was a notable culmination of decades of progress towards more open trade. It **represented the acceptance by the industrialised world of a multilateral system of rules - based order, including a unique international arbitration system for settling trade disputes**: a remarkable step, given that the US Congress had been unwilling to ratify a similar proposal at the high point of US internationalism in the immediate post-war area, when the other Bretton Woods institutions were established.

The establishment of this inclusive rules based system brought the issues of trade and development together in perhaps an unforeseen way. The WTO membership expanded in total from 90 to nearly 150 in a decade, of which three quarters are developing countries. Yet most developing countries joined, only to react, in a short space of time, against what they saw as the biased rules of the old club.

With help from campaigning NGOs, increasingly articulating trade injustice as an issue, they latched on to the longstanding Cairns Group's campaign against agricultural protectionism. I don't blame them for this. They criticised intellectual property rules – sometimes justifiably - that were seen to deny access to necessary medicines to treat the new scourge of HIV and AIDS. They rejected the concept of core labour standards that they attacked – wrong in my view - as covert protectionism by developed countries. And they insisted on the withdrawal from the Doha Round of three of the so-called "Singapore issues", designed to extend international rule making over an economic agenda of investment, competition and public procurement. They misinterpreted Europe's enthusiasm for Singapore as an attempt to deny developing countries the policy space to make their own domestic choices. This was a pity – I would argue that developing countries, no less than developed countries, benefit from transparent procurement rules, a predictable climate for badly needed foreign investment, or effective competition authorities that level the playing field. But what is done is done – for the Doha Round at least.

One of my biggest challenges as the EU's Trade Commissioner, negotiating as I do on behalf of the Union and its 25 Member States, is to overcome these hesitations and doubts about the rules-based, multilateral trading system. I firmly believe this is in the interests of the developing world. **Fundamentally the rules based system of the WTO protects the economically weak against the strong and powerful. It is often forgotten that this is why all members of the GATT agreed to establish a new, binding system for settling disputes and to outlaw all unilateral measures. This must surely be better for the poor than the law of the jungle.** So for that overriding reason, we must complete the Doha Development Round on a basis from which all gain some benefit, but which has as its driving purpose the promotion of sustainable development for developing countries. And if we can re-commit the developing

world to the WTO system as core to their interests, then in future it will be possible to address with more objectivity the so-called “trade and” issues, which are also relevant to development.

To summarise my approach in a simple sound-bite, I am “pro-growth in Europe and pro the poor in the world”.

I am on the side of growth in Europe because the renewal of growth is our only route to full employment, social cohesion and long term sustainability. Open trade is a significant factor in raising Europe’s productivity and growth potential. It is a vital component of the revamped ‘Lisbon’ agenda of economic reform that President Barroso launched this Wednesday. And of course, my primary responsibility is to the people of Europe. My ability to pursue a pro-poor agenda is dependent on delivering outcomes that they support and benefit from.

Renewal of growth in Europe helps us to be on the side of the poor in the developing world. In a more rapidly growing economy, with decent levels of social protection, it is easier to accommodate the more rapid pace of job destruction and new job creation that market opening will generate. And a more prosperous Europe will be a more outward looking and generous Europe, not least in its policies on aid and debt relief, which are already, it is worth reminding ourselves, the most generous of any region in the world.

But how in practice should and can Europe’s trade policies work to help the poor? Answering this question requires a model of how trade and aid can work together for successful development.

A small historical digression illustrates my own approach. I'm afraid it's a British example – which perhaps reflects what used to be wrong with history teaching in our schools and ancient universities! But as for most British progressives, free trade instincts flow powerfully through my veins. A commitment to free trade did, after all, unite politicians in the British radical tradition as diverse as Cobden and Keir Hardie: it united economists from Adam Smith to Maynard Keynes.

But I also know enough, I think, about British economic history to understand that it wasn't free trade that made the Industrial Revolution a success. Certainly the acceptance of free trade principles reinforced Britain's industrial dominance in the middle of the nineteenth century. But the reasons why the Industrial Revolution happened in Britain are complex and much debated. They include the 'can do' success of British (including Scottish) innovators in incrementally turning workshop inventions into productive machinery; the availability of capital for industrial development, due to the success of the earlier agricultural revolution in generating surpluses from the land; a ready supply of landless labour; a maritime tradition that enabled raw materials to be imported and finished goods exported; an abundance of natural resources that led to the exploitation of first water power, then coal and iron. I am not trying to give you an economic history lesson. I hope rather that I'm saying something that's still relevant about the conditions for successful development today.

For open trade cannot be a magic wand. Growth will only result if the opportunity to trade is combined with the necessary capacities to participate in trade. What are these capacities?

Here I want to question a current received wisdom – or at least argue it is not enough. For more than a decade, the policy consensus has stressed the

importance of the intangible of “good governance”. This is seen as the decisive factor that has separated the ‘sheep’ from the ‘goats’ in terms of development.

This emphasis on good governance is of course correct, up to a point, but we must be careful of the extent to which it enables rich countries to absolve themselves of responsibility in defiance of the facts. On the one hand, some countries with spectacular growth performance have also experienced severe governance problems – in particular the unhealthy relationships between industry, banks and governments that contributed to the Asian crisis in 1997. On the other hand, very poor countries will almost always, by definition, have weak public administrations. But a weak administration is not inevitably a hopeless administration. It need not be headed by a governing elite, without public spirit, determined to enrich themselves at the expense of their own people. In the last decade, there has been political reform in many African countries: there is a willingness to accept peer review and the principle of mutual responsibility. Our mission should be to assist those administrations to become stronger. **Where a country’s governance offers hope, we should move heaven and earth to help and mobilise maximum support.** The best way of spreading good governance is to demonstrate by example how success can breed success.

Tangible support for development is as important the intangible of good governance. **Poor countries with good governance potential, and they do exist, need tangible help with capacity building.** You cannot for example trade if you cannot get your goods to market at reasonable cost. And it is not only the landlocked that face problems. Lack of properly functioning port facilities is a major obstacle. Countries cannot trade without the necessary investment in infrastructure. Nor can they thrive without a work force with basic levels of education and health. That is why it is crucial to maintain the emphasis in the UN Millennium Development Goals on human development targets for

the world's poorest. However, more of the new resources we need to generate in aid must be spent on more directly growth enhancing investments, including infrastructure which became less fashionable in the 1990s.

Trade will not promote development without parallel investment in the supply side. In a poor country much of that investment can only come from external aid, effectively used. It is unrealistic to think, for example, that it is possible to solve infrastructure problems at ports or in building new roads and railways by the private sector alone. The same is true in the first instance of water and energy supplies. Poor people simply lack the money to pay user charges. So, in addition to encouraging conditions that attract private investment, we need to design public/private partnerships, so that developing countries can make use of private sector skills, while a key role is played by investment funded by overseas aid.

The Sachs report for the UN estimates that "in a typical low income country with an average per capita income of $300 in 2005, external financing of public interventions will be required of the order of 10-20% of GNP". In total the report estimates the funding gap for LDCs to be of the order of 0.3% of OECD GDP. Aid is presently meeting a little over a quarter of these countries' funding needs if the MDG goals are to be met.

For all these reasons, I very much hope that Gordon Brown is successful in persuading others to establish a new International Financing Facility that will enable money to be borrowed now against repayment of debt in future. This will help frontload our efforts so that lives can be saved today, rather than action postponed to the indefinite future. Clearly, however, if the money available for aid is not to be reduced in the years ahead, by interest and debt repayments on the IFF bonds, then new sources of revenue for international

development have to be found. Jacques Chirac raised this issue at Davos. It will need to be addressed.

The Sachs Report argues that developing countries themselves have a tendency to exaggerate the role that trade can play in solving their development problems. My view is that we should distinguish clearly between different types of developing country. **For the very poorest countries, market access cannot in itself be enough.** Many of those countries, especially the ACP, have enjoyed special preferences in European markets for decades: yet these preferences have failed to raise the ACP share of EU trade.

Quota regimes for special products such as sugar and bananas have been the lifeblood of several vulnerable economies, but the protectionist European market regimes that facilitated them – by sheltering them from competition **-** are frankly unsustainable – and we need to find new solutions to lift these countries out of desperate poverty. We have had the EU's own General System of Preferences as well as the Lome and Cotonou Agreements with the ACP countries. The GSP is currently being revised to make it more favourable to developing countries like Bangladesh and Sri Lanka. As a result of WTO rulings, we are in the process of transforming our ACP relationships into regionally based Economic Partnership Agreements with some of the world's poorest countries. EPAs are controversial with some. My firm belief is that they represent the best way forward for smaller, weak economies. By encouraging, and actively supporting with aid and assistance, a process of regional integration with their close neighbours, Europe can help set our ACP partners on a more successful growth path than they have experienced in the last three decades – but more of this later.

Three years ago the European Union dramatically extended tariff and quota free access for all LDCs with its "Everything But Arms" initiative. All LDC

products, including all types of agriculture, will enter the EU entirely tariff and quota free. Though there remain issues about how these preference regimes might be made more effective, Everything But Arms was by any measure a very radical step.

So there is market access in Europe for the poor, perhaps not enough but substantial none the less. **The fundamental point is that without investment in capacity building, the poorest cannot use the preferences they already have.** Aspects of EU policies are open to legitimate criticism, but it is wholly unfair to shift responsibility onto Western countries for denying developing countries access to their markets when their real problem lies in supply side capacities at home.

Trade can however make a huge development contribution, once the capacity to participate in the global trading system is established. A long intellectual debate has raged about whether countries that have pursued a "strategic" approach to trade – the Korean model - have been more successful in promoting economic development than those who have let market forces prevail – the Singapore model. I am not a neo-liberal dogmatist about this. Infant industry protection may be necessary for a time. The risk is that the protectionism it offers becomes entrenched; vested interests defend it; and as the newly nurtured industries mature into adolescence, they cannot withstand fair global competition.

I am however certain of this truth. **Countries that have adopted a closed approach to the world economy have not been successful.** As a young man I was optimistic about the prospects of Ujamaa socialism in Tanzania, but harsh experience taught me otherwise. Similarly, India's attempt at state industrial planning under Nehru and since simply did not work. What has been a success

in India is the gradual opening of their economy to the outside world in the last 15 years. This has raised India's growth rate with the consequence that 300 million people have been lifted out of extreme poverty in a generation. Of course there are still a further 300 million people who are forced to live on less than a dollar a day. But domestic liberalisation, reinforced by greater openness to the outside world, has put India on a sustainable growth path that offers India's poor a realistic hope for the future.

In the case of countries like India, it is **the potential for greater South - South market opening that offers the greatest immediate development gain.** On industrial tariffs, some of the greatest barriers are no longer between North and South: they are between the most advanced developing countries. I did not realise this fact until I took this job. Bringing down these South – South barriers is where the Doha Round offers the greatest opportunity for the Indias and Brazils to promote their own development. Already growth in South-South trade is running at 11% a year. The interesting question is whether because of fear of China's burgeoning industrial power, they will be prepared to make the bold leap of faith towards further radical liberalisation: I hope they will.

These reflections lead to a tough conclusion for developing countries that in theory they accept, but it is often politically convenient to ignore. They cannot all be treated the same. **There has to be – in fact, if not in name - differentiation. Some countries are better able to thrive in the global trading system than others. The weak by definition need more assistance than the strong**. There is a world of difference between Brazil and India, on the one hand, and Bukina Faso and Lesotho, on the other. The more rapidly developing countries, if they wish to play a stronger global role befitting their new economic weight, cannot indefinitely shelter behind the moral high ground

of a mythical united “ South”, even those countries that still contain lots of poor people.

In most cases (except for countries rich in natural resources) the goods that poor countries are most likely to be able to sell on world markets are agricultural produce and textiles and clothing. These old faithfuls remain the first steps on the ladder of successful economic development. Yet it is in these sectors of agriculture and textiles that the richer countries have tended to impose the highest barriers. We need to bring down these barriers, but at the same time we need to recognise that doing so can be complex and double-edged.

Take the case of textiles. The final removal of all important quotas in January this year, after years of argument and gradual phasing out, was an important step forward for developing countries. It does however presage a world revolution in textile production. Chinese exports are expected to account for half of world production in five years time. Developing countries like Bangladesh and Sri Lanka, that have up till now benefited from quota access to European markets, are facing a new source of competition. Frankly, they find it terrifying. Were the removal of textile quotas to cause disruption and social mayhem in some of the world’s poorest countries, I have not ruled out the introduction in the EU of safeguard measures to help them. But I am extremely cautious about re-imposing controls in a sector which has suffered from artificial distortions for so long – and where these distortions have in themselves damagingly widened the competitiveness gap between developing countries.

Similarly in agriculture, Europe has accepted the case for radical reform of the CAP. Last July, the EU offered to phase out all agricultural export subsidies as long as other developed countries follow suit. However, we must be honest. This will not be the unqualified bonus for developing countries that some

believe. These subsidies depress food prices on world markets. Once they have gone, food prices will on balance rise, making life more difficult for net food importers, which include many African countries. But in the medium to longer term, this major reform will create the right incentives for developing countries to become successful agricultural exporters themselves, though it is more advanced countries like Brazil that will gain immediate benefit.

We are also tackling within Europe artificial incentives for over production - at least to an extent. There was a time when our agriculture policy was founded on the principle of self-sufficiency, for reasons of security as well as sentiment. Gradually, subsidies for production have been curbed, indeed largely eliminated. The mid-term review of the CAP decouples payments to farmers from production for at least 70% of their output. Nobody can deny that there are still problems with our dairy and beef regimes. Nor can we say with confidence at this stage what will be the impact on production of the CAP in the new Member States. But as the CAP reforms that have been adopted largely eliminate the incentive to over produce and Europe is opening up new market opportunities for agricultural exporters elsewhere in the world.

My mantra then as Trade Commissioner is progressive market opening – helping countries at the same time to build the capacities to become full participants, step by step, in the global trading system. I believe this is the best guarantee that they have of sustainable development for the future. It is patronising and unrealistic to think that all we need to do is organise more effective redistribution to the world's poor so that they can stay where they are, mostly as farmers eeking a living on the land, continuing to do what they have done for centuries. The aim – to use the Malaysian proverb – is not to give people a fish, but to teach them how to fish. Of course, the modernisation of agriculture will remain central to many poor countries' development. In Africa,

70% of the population lives on the land, but agriculture accounts for only 30% of African GDP. The Kenyan Minister for Trade recently explained to me that the only way his country could hope to attain the Millennium Development Goals is by moving up the value chain in agriculture, selling higher value products overseas and raising agricultural productivity. Kenya is starting to do this successfully. But the implication of this, as it was in 18th and 19th century Britain, is a movement of population from the land and a process of industrialisation in burgeoning cities.

The only way to make poverty history is to allow developing countries to pursue this path of progressive change and industrialisation. This makes the question of sustainability unavoidable. Some people argue that the British Presidency of the G8 is refusing to make a tough choice between priority for climate change and priority for Africa. I do not accept this: the two go together.

Progressive market opening is bound to cause problems of restructuring both within the European Union itself and within the wider world. Within the EU we have social systems and welfare states that cushion the impact of economic change. At European level we have the Structural Funds that help badly affected regions and redundant workers to adjust. Within the agriculture policy increasingly we have set aside large resources to help farmers retire or diversify – and a good thing too.

Developing countries by contrast, because of their poverty, have few of these policy instruments available to them. **One of the tasks ahead is to develop the policy tools for adjustment in developing countries.** The EU is assisting with this on a limited basis where, under domestic and WTO pressure, we are being forced to reform our special preference regimes, for bananas and sugar. In January I was in the Caribbean where some small countries face an economic

Tsunami, if the preferential quotas which have allowed them safe access to EU markets are suddenly swept away. Europe has promised help with adjustment and I am determined Europe will deliver. **I am also launching a programme with the ILO this year to help developing countries that liberalise cope better with the impact of liberalisation on employment and decent working standards.** But this is relatively little by comparison with what is needed world wide to ease the pain of a process of progressive market opening.

Following on from these principles, then, what is my plan of action for 2005?

First let me give you **my multilateral ambitions for the Doha Round and the Hong Kong Ministerial** at the end of the year.

1. Delivering development through market access.

Uppermost in my mind, we have an opportunity in the Round to consolidate a major reform of the CAP and to make great strides towards open markets and away from trade distorting subsidies. This is the most concrete contribution that developed and developing countries together can make. Progress depends however on the willingness of others to match what we have undertaken to do. This is not simply a matter of persuading the Americans and Japanese to follow our example on agriculture. Only a limited number of already advanced developing countries will benefit to any great extent from the potential for greater agricultural exports to the developed world. It is also important that we open international trade in goods and services between North and South and between developing countries themselves. So it is also an issue of whether advanced developing countries are willing, in turn, to open their markets, not

only to us but also to the smaller developing countries, by cutting their high industrial tariffs and removing barriers to services.

2. Action to convince the poorer developing countries that Doha offers them a good deal through the maximum use of special and differential treatment.

Europe will demand practically nothing from the poorest G90 countries in terms of market access, apart from some binding of tariffs. Last July's Geneva framework is clear with regard to LDCs. By Hong Kong, we need to be clear too on what the developed countries are offering to all weak and vulnerable WTO members, who remain weak because of their dependence on preferences or their national Treasuries' fears of loss of tariff revenue on which they depend. There must be real flexibility about the market opening commitments they are asked to enter into. Some should probably not be required to commit at all.

Special attention will have to be paid to the vulnerabilities of some countries. The most obvious example is some of the small island economies of the Caribbean, but there are other legitimate cases. In principle the WTO recognise the need for this, but progress is stalled by an argument over definitions. In my view a "small, vulnerable economy" could be a country with a very small share of world trade, with a small population, which is at an early stage of development (i.e. not Singapore) and whose people have low incomes, which is highly dependent on factors beyond its control such as climate and commodity-dependence, and could be an island or land-locked in the middle of a continent. It is time for this definitional log jam within the WTO to be unlocked, not by trying to categorise countries but by understanding better the problems and the solutions.

Each of the principal negotiating areas should therefore be looked at separately, taking each country's particular circumstances individually into account. That is what I mean by real and effective differentiation. It needs to be linked to more substantial aid and technical assistance programmes, without isolating individual countries or putting them into a preference dependent box from which in future they would have no easy escape. The EU needs to do more here. But so do all other richer countries.

3. Priority for the South-South agenda.

The meaning of this is unambiguous. It requires the G20 to accept the necessity of an ambitious market access agenda in the DDA. And it also means that advanced developing countries need to be prepared to extend preferences to the weaker part of the WTO membership, as Brazil is starting to do. Difficult – but it has to be said.

4. A pro-development rules and standards agenda.

Trade rules are inherently pro development. Meeting international rules and standards helps countries achieve comparative advantage. Take the example of trade facilitation. The cost for example of getting a container from Uganda to a port is eight times higher than in Europe. Simpler trade procedures help exports by reducing the cost and time of doing business and allow governments of the poorest countries both to save money and increase revenue collection from duties. But it is no good giving countries lectures about how good rules are for them. They recognise this already. The point is that they need our help to implement international rules and meet international standards – and for this we have to offer significant aid with technical assistance and capacity building. Where appropriate we, the richer countries, have to be prepared to review rules

in the light of their compatibility with development goals. And we should not shy away from a debate on the standards we impose on the acceptability of their goods in our markets.

5. An open debate on rules exemptions

My intention is to widen the debate about the legitimacy of special treatment for poor countries in the implementation of WTO rules. Since Uruguay, this debate has become more highly charged with developing countries demanding exemptions and more space for pursuing their own autonomous policies. There is no easy solution here. Blanket exemptions, and permanent carve-outs, will be counterproductive if they end up isolating countries from the world economy. The logic of my position is to allow breathing space for countries on a case by case basis until they are in a position to comply. Differential flexibility, not permanent opting out.

6. We must meet legitimate concerns on preference erosion.

I want to put some fresh thinking into this. Everybody can help in this: Europe in “activating” better the preferences that will remain: other rich countries in extending new preferences. Also, the vulnerability of the countries most affected is concentrated in a limited number of sectors. Because of this, I am convinced that if the will is there, the problem can be resolved, through enhanced trading opportunities and through readjustment assistance.

That’s the developmental approach in Doha. Now second, let me outline what Europe can do on its own and bilaterally in cooperation with developing country partners.

1. Introduce a much stronger development focus into Economic Partnership Agreements.

I have already announced my determination that in future EPAs will have a clearer development focus. They should no longer be conceived as trade agreements in the conventional sense where both sides are seeking mutual advantage. The EU is not pursuing an equal bargain in relation to our EPA partners. The purpose of EPAs is to promote regional integration and economic development. We are ready to see their trade barriers come down for EU goods and services gradually, when liberalisation is in the interest of our EPA partners themselves as part of their development agenda. The key question is what progress the EPA countries are making in their capacity to trade, including with each other, and how we in Europe can help advance this.

2. New mechanisms for monitoring the effectiveness of development assistance within the EPAs.

I have agreed with my colleagues in the Commission, particularly Louis Michel, the Development Commissioner, that we will introduce a new monitoring mechanism for the capacity building efforts we are making as part of these agreements. This monitoring mechanism will require the Commission to coordinate all the different efforts that Europe is making in relation to these countries. It will require an assessment of whether the level of resource they are being offered is sufficient to meet their needs and whether our existing efforts are being well directed and effective in terms of building trade capacities.

3. Better coordination of Europe's overall aid effort between the EU and Member States.

My own instinct is that this coordination may need to go further still. If we are serious in Europe about making trade and aid work hand in hand, then Member States will have to coordinate their own aid efforts much more closely with the trade policies we are pursuing bilaterally at EU level. There is still too much 'particularism' in the way Member States pursue their national overseas development objectives. We need more of a common approach. The EU's own efficiency in this area will improve radically with the ratification of the Constitutional Treaty and the 'communitisation' of the European Development Fund. We need to have a debate about this.

4. Greater transparency on Europe's trade and development record

The results of the monitoring of development progress under the EPAs should be public information. But I want to cast the net wider in benchmarking our policies against development goals. I propose that we should publish an annual White Paper to the European Parliament monitoring the take up of our trade preferences. We need to see what progress is being made in expanding our share of imports from weak and vulnerable countries and whether tariff and quota free access is proving effective.

That's the bilateral trade developmental agenda. Third, let me set out how I hope the decisions of the G8 can contribute to the success of our trade policy.

The G8 has no powers of its own to negotiate deals on trade. What it can do however, is set a climate that will condition the success of the trade negotiations in the remainder of the year.

1. The "Everything but Arms" initiative should be adopted by the United States, Japan and Canada.

In terms of market access, a crucial gesture would be for the G8 to offer tariff and quota free access to all G8 markets for LDC exports within a couple of years. Essentially this means an extension of the 'Everything But Arms' initiative by the United States, Japan and Canada.

2. Support for the necessary reforms to Rules of Origin that will improve poor countries' abilities to make better use of their existing preferences.

"Rules of Origin" define the proportion of local content required in any good, before it can obtain quota or tariff free access. America and Europe set different rules and their impact can be restrictive. This needs to change – but in a way that avoids the rules simply being circumvented by producers who are not entitled to preferential access. I want to see origin rules designed as a way to help development, not impede it. I am for simplification and harmonisation of the rules so that ultimately the same rules apply in all markets and they are easy to use. I want Europe to bring forward proposals for new rules by the time of the Gleneagles G8 Summit. And I want the neglected WTO work on global harmonisation of origin rules also to pick up speed.

3. A push for greater international regulatory convergence of health and consumer standards for key developing country exports such as food and flowers.

The cost of compliance with the standards of developed countries, including the EU, is high for poorer countries. Of course the EU has to protect its citizens'

health and well being and our standards are designed to do this. But we must ensure that this does not have unintended, disproportionate side effects. EU sanitary and physosanitary standards have not prevented us from becoming the world's largest market for food exports from developing countries. At the same time, developing countries raise these issues with me constantly and the EU must listen to their concerns. I will support collegiate debate within the Commission on this. These issues are at the heart of modern trade policy.

4. New funds for Aid to help the poor trade more effectively and ease the social costs of adjustment.

The G8 has a historic opportunity. It needs to determine how much additional finance it is prepared to pledge to help build poor countries' capacity to trade and enable them to cope with the costs of adjustment to liberalisation. We need new funding for investment in trade capacities that goes beyond the ability to meet the MDG targets on malaria, tuberculosis and HIV Aids, important though these are.

There is an urgent need for the world's richest countries to establish a special Trade Adjustment Fund. Existing efforts by the IMF and World Bank are inadequate. If the G8 is unwilling to make such a move, then it will fall to the EU to consider what it can do on its own. If the G8 fails to deliver, the EU should consider its willingness to adopt the model of the International Financing Facility as an EU instrument of its own.

Conclusion

There we have it then: an action plan for progress. If it sounds complicated, it is because it is. It is the price of acting in a sophisticated and differentiated way.

But the goal is incredibly simple and compelling. **To use all our cooperative efforts in Europe as well as the power of our trading muscle in order to make our multilateral trading system work at long last in the interests of the world's poor. Recognising, at the same time, that only if we do this will it continue to operate in the interests of the developed world.** I am convinced; all in all, we can make a breakthrough for trade and development in 2005. By doing that, we can do our own bit to make poverty history. That is itself would be no mean achievement for the European Union and a good reason in itself why every citizen of conscience should be prepared to give Europe a chance. Thank you for being so patient.