

How Can We Get Trade Justice?

Hilary Benn MP

Secretary of State for International Development

London School of Economics

Wednesday 29 June 2005

I'm very pleased to be able to have the chance to talk about how we can achieve trade justice. Probably the most important development challenge facing us today.

I cannot remember a time when the thing we call development was more at the centre of political debates of our age than now. We know what needs to be done. We have the means to make a difference. And we have the opportunity.

And that is why this coming weekend in Edinburgh, thousands of British citizens, through the Make Poverty History campaign, will be making their voice heard loud and clear that they want us and other governments to do more to deliver trade justice.

They are right to be angry about unfair trade rules and highly protected markets that work against the poor. They are right to be angry about rich world agricultural subsidies, and they are right to be passionate about the need for change. It is vital that we all act now, at this critical time in the Doha Round, in the run up to the ministerial meeting in Hong Kong.

Change is not easy to achieve, but with political will we can change things. One of the most striking things about this weekend is that the thousands of people in Edinburgh will not be calling for the G8 to go away, but will be calling on them to use politics to make changes for the better. For example, we have won a major and unprecedented breakthrough on aid by Europe at the Development ministers meeting.

A commitment to a doubling of aid by 2010, including to Africa.

A total of \$40bn dollars extra a year in 2010, bringing total EU aid to around \$80 billion a year, and a commitment by the richer EU countries to finally reach the long held UN 0.7% target by 2015.

And Britain has set a target of 2013.

And we have made historic progress on debt.

At the G8 Finance Ministers meeting earlier this month, Ministers, chaired by Gordon Brown, agreed a proposal to cancel up to \$55 billion worth of debts owed by Heavily Indebted Poor Countries to the World Bank, African Development Bank and IMF.

Dropping the debt once and for all.

We look to build on these successes next week in Gleneagles.

But aid and debt relief alone are not enough.

Why?

Because if we achieve trade justice, the world's poorest countries will have the chance, with the right support, to set themselves on a sustainable path to higher growth, more jobs, and increased incomes for the poor.

Trade justice will give them the means to end their dependency on aid.

The means, ultimately to end poverty.

As the Prime Minister said last week, Europe leads the world on development. It is time to demonstrate the same leadership on trade.

Now, for trade to work for poor people and for the poorest countries, we need three things:

First of all, action by developed and developing countries to reduce trade protectionism and end unfair subsidies – which is exactly what we agreed to do at Doha. Which, for the first time put the concerns of developing countries at the heart of the WTO. And not before time.

Secondly we need substantially increased aid to build the capacity of the poorest countries to trade. To earn their way out of poverty.

Third, action by developing country governments to create the right conditions for trade, growth, and poverty reduction.

So let's start with what we need to do to create more justice in international trade. Now, we need the WTO to do this.

I strongly disagree with those - thankfully, a diminishing number - who call for the end of the WTO. The truth is that the problem with the WTO is not that it is too liberal, but that it is not liberal enough, because it has not responded sufficiently to the needs of two-thirds of its members – developing countries. And it has legitimised some of the worst forms of developed country trade distortions, especially in agriculture.

Uniquely, in the WTO, all countries, even the poorest, have a vote. Advanced developing countries - like India, China and Brazil - now have real bargaining power.

Sixty-two of the poorest developing countries – the smallest players in world trade, in Africa, in Asia, and in the Caribbean, have also formed new alliances to try to identify their common interests and to make their voices heard.

Only with a strong, rules based multilateral system will we provide the gains that developing countries need. And if this system unravels, the poorest countries will lose out.

They would be pitted, like David against Goliath, in bilateral trade negotiations where they would frankly have no collective bargaining power. Unlike David, they would not win.

Next month a draft document is due to be produced outlining the shape of agreements that will be reached at December's Hong Kong Ministerial meeting.

Anyone who is concerned about making poverty history, must want this Round of trade negotiations to succeed. For that to happen we need to mobilise support internationally. And that is where all our campaigning efforts should be directed.

As the Commission for Africa noted, rich country barriers and support are “absolutely unacceptable; they are politically antiquated, economically illiterate, environmentally destructive and ethically indefensible. They must go.”

Let me now turn to some of the priorities.

Agriculture is of course crucial. And the WTO must show real ambition. Because in no other area does the unfairness of the current system serve developing countries so badly.

Rich country protectionism – the barriers, subsidies and support - mean that the world supply of agricultural goods are artificially increased, and world prices lowered.

While such protectionism continues, the poorest countries will never be able to compete in their own or any other markets around the world against heavily subsidised rich country products.

As a minister from a West African cotton producing country said, “we are happy to compete with US farmers. But not with the US Treasury”

While 70% of the population of Africa work in agriculture, only a few per cent do so in rich countries. Yet rich countries currently support their agriculture to the tune of a staggering \$279 billion a year. That's over ten times current aid to Africa. That's a sum comparable to the income of the whole of sub-Saharan Africa.

Market barriers keep out developing countries that have a natural advantage in producing agricultural goods. Average tariffs between rich countries are only 3%, but can rise to over 200% in the US for fruit and nuts, or to 300% in the EU for meat.

Through the Common Agricultural Policy (CAP), two fifths of the EU budget goes on subsidies and support to Europe's farmers who represent 5% of Europe's population, and produce less than 2% of Europe's output.

Most is not spent in the poorer parts of Europe where it is needed.

Most goes to the biggest farming companies and landowners, not small farmers.

Nor does it provide incentives for farmers to modernise and compete effectively in the global economy.

The cost to the people of Europe is high, and hardest felt by the poorest.

The cost to the average household in the UK of the Common Agricultural Policy is £832 a year. Over 800 pounds every year lost from family income, from taxes that pay our contribution to Europe's budget, and the cost of over-priced food that Europe's agricultural policies create.

In the US, support to cotton farmers of around \$3.9 billion a year, undermines employment in West Africa where cotton is produced 3 times more efficiently than in the US.

This must end.

Europe cannot lead the world on development when its trade and agriculture policies undermine developing countries' ability to trade their way out of poverty.

Agricultural reform is possible. A rapid but carefully managed transition will be good for a modern Europe, and for North America, as it was for New Zealand, where agricultural reform and an end to much of government support led a more vibrant, growing and competitive farming industry.

And it's important we recognise that some progress is being made. The EU has committed itself to agree an end date for export subsidies. Now the US and others must follow suit. The UK is committed to a 2010 timetable to end all forms of export support.

But this is only the first step.

For there to be real development gains market barriers to agricultural products must be eliminated.

Current analysis is that we need to at least halve the agreed ceilings on agricultural tariffs, if we're to make an impact on the tariffs actually applied.

In addition to this - as the Commission for Africa report recommends - our goal is to end all trade distorting support to farmers.

The EU has agreed to cut 70% of the subsidies to farmers, that are linked to levels of production. Other WTO members should do likewise, if we are to deliver real gains to farmers in the poorest countries.

In addition to safeguard the livelihoods of West African cotton producers, all trade-distorting subsidies on cotton must end with immediate effect from the end of the Doha Round.

And we need to ensure that rich countries do not misuse protection for so-called “sensitive products” to continue to exclude developing country goods. While the poorest countries should be allowed to maintain tariff protection on products that are important to food security, rural development and livelihoods. The Kenyan Trade Minister said in London this week: “I am ready to completely open our market in flowers and vegetables. But to open it now to imported maize would be suicide.”

At the same time, poor countries cannot rely only on agriculture if they are to achieve sustained growth. Diversification is key.

If countries produce a wider range of goods, then they are less vulnerable to down-turns in a particular area.

And they need to add more value, through processing, to agricultural products. UK companies, for example, have invested in Sri Lankan tea production; as a result over 90% of value-added goes to Sri Lanka. But in Kenya it is only 5%, so Kenyan tea producers get very little of the price of “English breakfast tea” on our supermarket shelves.

And it's vital that we rich countries do not undermine this stage in their development through further market barriers such as tariff peaks and escalation. Whereas there are 0% tariffs on rubber, turning it into shoes like plimsolls imposes an additional tax of 27% in the United States of America.

As for services, I believe that developing countries must be able to choose whether and what to liberalise. This is how it works in the WTO. The WTO does not force any developing country to open its service sectors. Not in water. Not in anything.

But opening up services like telecoms can make a big difference. The lives of poor people in rural areas can be transformed by access to affordable mobile phones. In India there are now more mobiles than fixed lines, opening up communications in rural areas, and increasing growth.

In Botswana, liberalisation doubled landline coverage, and mobile use increased from 0 in 1998 to 250,000 in 2001 – serving some 16% of the population. If managed well, with appropriate regulation, and under the right circumstances, opening up can be beneficial.

For WTO agreements to help the poorest countries capture the gains from trade, countries of course need flexibility in the pace and extent to which they introduce trade reforms – to plan and sequence these reforms in line with their own needs. This needs to be built in to each agreement.

Because their integration into the world economy should be managed as part of their national development and poverty reduction plans. Not forced through trade or aid conditionality. Not forced through new Economic Partnership Agreements with Europe, not forced through the WTO.

The poorest countries should not be suddenly exposed to global markets where they cannot compete. The WTO must support the inclusion of poor countries in the global trading system, not expose their weaknesses and exacerbate their vulnerabilities to change.

Nobody expects Brazil and Burundi to take on the same obligations, or China and Chad. The poorest WTO members must have the flexibility to progressively remove their tariff barriers – in a managed way. But they need to build the confidence of their trading partners by binding and regularising existing tariffs.

The purpose of special and different treatment is not to exclude them from the benefits of liberalisation, but to help the poorest countries to build the capacity to gain from them.

And we need the right mix of safeguards and support measures targeted at the poorest to help them integrate at their own pace and with the right support.

Now, progress on all these areas will be the key to success in the Doha Round.

But outside of Doha, there is more that we can do to reduce barriers.

First, while on paper many poor countries are offered preferential access to markets, this is often undermined by other barriers. Rules of origin, designed to prevent fraud, can have perverse effects and undermine the ability of countries to buy goods from competitive sources.

Yet where these rules have been relaxed, for instance by Canada, it has led to a 50% increase in imports of garments from Bangladesh. The EU is conducting a review of rules of origin now. So we can make a difference this year. And we want G8 to do same.

Another example is health and other standards which are becoming a new barrier for poor countries. It is not that these countries don't want to meet standards, but that the cost of doing so can be very high, and the design of standards takes no account of their impact on developing countries for example. African banana exports could increase by \$410 million a year if the EU used internationally accepted standards on pesticide residue, rather than their own.

There is also much that developing countries can do to remove other barriers to trade that raise their costs and make them less competitive. The delays in getting goods across borders is bad for everyone - developing country exporters and UK importers.

A trade facilitation agreement, with the right support to implement it, can help reduce transaction costs and make the goods of the poorest countries more competitive.

What could this mean? In India an exporter needs 29 documents for clearance, in quadruplicate, with 257 signatures along the way. Customs delays add almost 1% to the price of goods – and average delays in Ethiopia are over a month. That's a 30% increase in costs.

DFID support for customs reform in Mozambique, for example, has helped reduce customs clearance to 24 hours for 80% of goods. At the same time effective revenue collection has raised revenue from \$70 million to \$250 million a year.

Weak governance means that traders moving between Lagos and Abidjan, for example, encounter a roadblock every 14 km. These costs add up – the cost of moving a container between Accra and Lagos is three times the cost of moving it to Europe. Transport costs in Africa are twice that of Asia.

Secondly, even if markets are opened to the poorest countries and progress made to end rich country subsidies, the poorest countries will not necessarily gain.

Why?

Because they do not have the capacity to trade in goods and services that can compete in global markets.

Working closely with developing countries, the EC, World Bank, and other donors, the UK has led calls for increased aid to enable the poorest countries to build their capacity to trade and adjust to a more open global trading system. And our support must respond to the priorities they identify.

Aid for trade is no substitute for a round that does not achieve real benefits for developing countries. Both are necessary if we are to achieve trade justice.

The poorest countries will need investment to improve infrastructure, ports, road, rail, and in energy, water and tele-communications. Support for investment to create a healthy and skilled workforce.

The Commission for Africa estimated Africa's infrastructure needs at around \$10 billion a year, rising to \$20 billion a year necessary to achieve the 7% growth that Africa requires if it is to halve the proportion of people living on less than a dollar a day by 2015.

Infrastructure, however, is not all that is needed, other priorities for help include trade facilitation, policy reform, and adjustment to loss of preferences.

Some developing countries that are net importers of food will need help because food prices will rise when subsidies reduce.

Some countries will experience budget difficulties, since tariff income can make up to a third of their total revenue, and will reduce as tariffs are reduced.

I hope we can get all the G8 to agree at Gleneagles next week that we need increased aid to build the poorest countries' capacity to trade. And that at the September meetings of the WB and IMF we can firm up this support and agree the details of how these funds would be spent.

But, thirdly, reduced protectionism and increased aid will not achieve results without strong action by developing countries themselves to create the right environment for trade and development.

Sound policies and institutions.

An environment where the private sector – from farmers to firms – can operate with the right support; and where there's a fairer return for poor producers.

An environment attractive to local and foreign investment.

Social structures that ensure that people are provided with opportunities, through good education and health care, to take part in, and benefit from the economy. To provide for their families. And social structures which offer a safety net when times are hard.

Having set out what I think needs to be done, let us recognise that this will not be easy.

Trade is not a cure-all. Increased trade alone will not lift millions out of poverty – it must be accompanied by peace and security, by appropriate economic policies, good governance, investment in health and education. People, and above all, poor people need to be provided with the opportunities for productive employment.

For the poorest countries the challenge is greatest.

We need to back their efforts with our support, and do more to assist those in particular in fragile states, where many of the world's poorest people live, and are excluded in so many ways from development.

Nor am I advocating that poor countries should be forced to liberalise. The poorest and most vulnerable countries do face the biggest challenge, and that is why they need time and help.

We should not underestimate how hard it will be to achieve the concessions that are needed in the WTO. Those that benefit from the status quo will resist change. Change is painful.

For example, sugar reforms in Europe affect our farmers, and also vulnerable sugar producing countries. But the truth is, doing nothing would be even worse.

The surge in exports of Chinese textiles has led to a protectionist backlash. But what is good for Chinese textile workers, and good for African farmers, is also good for European and North American consumers and taxpayers. Many Asian countries rose to the challenge of diversifying into more specialist clothing before the end of the Multi Fibre Arrangement in January. But many European and US manufacturers didn't – and now want trade barriers back up again.

The progress above is going to demand one thing above all - political will. I am greatly encouraged by the efforts of Peter Mandelson, who spoke here in January, and Jose Manuel Barroso who spoke here in May, to make development and the needs of the poorest countries a priority for Europe. Political leadership is essential. From the EU, from the US, from Japan, and other big players in global trade such as Brazil, India and China.

And the poorest countries in the G90 too – to approach the negotiations clear on what they want, on their red lines, but clear on the opportunities especially if they use the strength they have in numbers.

And in the end, though, this is about the choices we make. And it is politics – I come back to the point I made at the beginning, as I look forward to the demonstrations this weekend - it is the political process which determines these choices. That's why the G8 meeting at Gleneagles next week, the UN Millennium Review Summit in September, and the WTO ministerial in Hong Kong, all matter so much.

The UK will do its utmost, working with the European Commission, with our European partners, and during our Presidency of the EU which starts on Friday, to take this forward. To engage with our developing country partners. To ensure the Doha Round meets their needs.

A Round that actually delivers the bold commitments made in Doha.

I think that many people really recognise that a Round that creates real trade justice for poor people and for the poorest countries – would really be something worth campaigning and also voting for.

And it is up to us to demonstrate that we have the capacity to deliver it.