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WORKING DOCUMENT

on "The EU's Aid for Trade"

Committee on International Trade

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I. The Case for Aid for Trade (AfT) and the virtuous triangle: improved market access, sound domestic policies and increased and more effective aid for trade

Over the past 40 years LDC's share of world trade declined from 1.9% to less than 1% despite the expansion, over the last years, of bilateral Duty Free and Quota Free access schemes for their products (of which the Community Everything But Arms scheme is the largest);

1. Underlines that, while trade and trade liberalisation are not ends in themselves, opening up trade is "one of" the most effective drivers for economic growth, which is indispensable for reducing poverty, as well as an important catalyst for sustainable development;
2. Insists however that trade openness alone is an insufficient condition for harnessing trade for development and reducing poverty, a complex and multidimensional problem without simple solutions;
3. Underlines that in many developing countries "behind-the-border" domestic policies and deficient economic and investment environments are powerful constraints on the ability to realize the benefits from greater trade opportunities; Notes therefore that growth and trade cannot reduce poverty without the necessary flanking domestic policies, including redistribution and social policies;
4. Concludes that if developing countries are to fulfil the potential of trade liberalisation, then market access, particularly in their most competitive sectors, must be complemented by both sound domestic policy reforms and substantially increased and more effective aid for trade;
5. Stresses that AfT is no panacea but is indeed necessary to both realise the potential gains from international trade and mitigate its potential costs;

II. The 2007 Joint European Strategy on Aid for Trade

6. Welcomes and strongly supports the emerging consensus reflected in the Council Conclusions of 16 October 2006 that increased and more effective Aid for Trade (AfT) is needed to enable all developing countries, particularly LDCs, to better integrate into the multilateral, rules-based trade system;
7. Considers of the utmost importance that following the example of the "European Consensus of Development" the European Parliament is appropriately involved in the preparation and adoption of the 2007 Joint European Strategy on AfT;
8. Notes that the EU's 2007 Joint Strategy should mainly: 1) establish the general principles for the EU's AfT; 2) set a work programme with concrete recommendations for the EU to reach and eventually improve the EUR 2 billion target on trade-related assistance by 2010 and deliver more effective AfT; 3) establish the modalities for coordination and actual implementation at the different levels of AFT in keeping with the recommendations of the WTO TF; 4) define concrete mechanisms for improving transparency, monitoring and control;

III. The Scope and Definition of Aid for Trade

9. Notes that one of the most contentious issues surrounding AFT relates to its very definition since AFT is often used to describe an extremely wide range of trade related assistance measures to developing countries;
10. Recalls that as defined by the OECD/DAC and recorded in the DAC / WTO DDA database trade-related assistance has traditionally included two basic categories: 'trade policy and regulation' and 'trade development';
11. Stresses however that the WTO Aid for Trade Task Force (WTO AFT TF) has added three further categories of AfT to the two existing categories: "Trade related adjustment", "trade related infrastructure", and "productive capacity";
12. Notes that as these three AfT categories overlap with the existing two, and therefore risk being indistinguishable from general development cooperation, they cannot be part of the existing quantitative targets and commitments from the Commission and Member States until there is an international consensus on the definition, since this "wider" AfT area risks being open to unclear reporting and double counting;
13. Believes however that the extra three categories contained in the broad and ambitious definition of the WTO AFT TF are valuable in reflecting well the wide-ranging trade-related needs of developing countries and should therefore be used in countries' development and poverty reduction strategies in order to promote the effective inclusion of all relevant trade-related priorities;
14. Recommends the creation of an inclusive process at the country-level with the appropriate institutional structure that brings together domestic agencies, relevant ministries, including the Ministries of Trade (which traditionally have only limited domestic 'clout' in policy development), donors and the private sector as the starting point to identify the real needs and priorities of AfT and for information sharing and policy dialogue;
15. Notes that AfT initiatives should devote greater attention to the crucial involvement of the private sector, especially SMEs, both in the identification of needs and in the implementation of assistance;

Beyond the Scope, within the Cause: The importance of the wider AfT agenda

16. Stresses that independently from the concrete delineation of AfT, the EU must decisively contribute to the wider agenda of AfT;

Trade Adjustment

17. Notes that while trade adjustment is not explicitly mentioned in the WTO Hong Kong Ministerial Conference declaration, it should be included as an important element of the wider AfT agenda;

18. Notes that trade related adjustment costs cover a wide range of issues but mainly include:
1) costs of preference erosion, which particularly affect countries dependent on exports of textiles and agricultural commodities; 2) loss of revenue from trade tariffs; 3) costs resulting from increases in food prices likely to affect net food importing countries and which will mainly affect the poorer sectors of the population;
19. Stresses that trade adjustment should not be understood as a simple compensation to be paid for the erosion of preferences or the wider effects of liberalisation but as a mechanism to facilitate the difficult transition to a more liberalised environment;
20. Believes that adjustment assistance to trade shocks is indispensable to facilitate acceptance of freer trade since in the absence of any adjustment assistance and social safety nets, trade liberalization will be resisted or reversed;
21. Recommends that the Commission and EU member States, in the absence of new multilateral mechanisms to address trade related adjustment costs: 1) explore the scope and effectiveness of current assistance to help trade related adjustment and devise, within the framework of the 2007 EU JS on AfT, specific recommendations in this regard; 2) promote a more ambitious IMF Trade Integration mechanism both in funding and scope that becomes more widely utilised; 3) develop, within the framework of its own national and regional programmes, concrete initiatives to address adjustment costs, particularly those which like preference erosion are to be resolved mainly between the recipients and the granters of preferences as well as those which are not properly addressed by the IMF's TIM;

Infrastructure

22. Asks the Commission, EU Member States and the EIB to provide a clear overview of the current assistance and planned initiatives with a clear trade infrastructure component;
23. Urges the Commission to make concrete proposals on how to address the recommendations by the WTO AfT Task on areas that may fall beyond the boundaries of the more narrowly defined EU's AfT, in particular: building productive capacities, trade-related infrastructure and the adjustment challenges resulting from trade liberalisation;

Other related issues

Services

24. Stresses that the targeting of ODA and AfT funds in the area of services is essential to strengthen the potential of developing countries to manage and regulate their services sectors and export services;

Labour and environmental standards

25. Stresses that specific assistance for putting in place legislation for the effective compliance with the core labour standards as set out in the ILO conventions, as well as appropriate and effective environmental legislation is a necessary component of the AfT agenda;

Regional integration

26. Notes that regional or cross-country AfT needs are often insufficiently addressed under country based programming practices; Calls therefore on the Commission, MS and IFIs to propose specific recommendations to improve existing mechanisms to address regional and cross country AfT;

IV. The principles of the EU's Aid for Trade

27. Stresses that the 2007 Joint EU AfT Strategy, in line with the OECD Paris Declaration, should establish the following general principles:

As regards the rationale and geographical scope

- a) AfT is no panacea for development but is indeed a necessary complement to trade liberalisation and domestic policy reforms by developing countries themselves;
- b) A successful AfT requires the effective integration of trade and development strategies;
- c) AfT should prioritise LDCs and most vulnerable developing countries;

As regards the DDA

- d) AfT is not a substitute for the DDA negotiations and the development benefits that will result from improved market access, but is a valuable and necessary complement; AfT is not part of the DDA single undertaking and is necessary in its own right, independently from progress in the Doha Round,
- e) Increased and more effective AfT should be expeditiously implemented regardless of the conclusion of the Doha Round.
- f) AfT is cannot be linked to any outcome of the negotiations or used to compensate for lack of market access;

As regards the commitments for more AfT and its implementation

- g) Increased AfT must be proportional to the magnitude of the identified challenges, predictable, stable and complementary to existing development aid; It should also be additional and therefore supplement, not replace, existing aid commitments;
- h) Country ownership is crucial: AfT must be recipient driven and be designed and implemented as an integral part of the developing countries' own economic and developmental strategies;

V. Scaling up Aid for Trade

28. Recalls that at the Hong Kong Ministerial Conference the EU and its Member States, jointly pledged to increase collectively AfT to € 2bn; Notes that this pledge should concern and be monitored on the basis of the traditional EU trade related assistance

categories of “trade policy and regulation” and “trade development” as defined by OECD/DAC and recorded in the DAC / WTO DDA database;

29. Reminds that the EU has committed to increase its overall ODA to 0.56% of GDP by 2010 which corresponds to € 20 bn additional aid money and notes therefore that additional funding for AfT should be widely available within the margins of this increment and not at the expense of other development priorities;
30. Stresses, that the EUR 1 bn pledges by both the Commission and the EU MS should be implemented without resorting to either the relabelling as AfT of aid formerly classified as infrastructure or the double-counting by Member States of bilateral aid and contributions to the EU's external aid;
31. Asks the Commission to clarify the needs for funding horizontal trade-related assistance initiatives, including bilateral, regional and multilateral initiatives such as the IF; Underlines, in this regard, that the EP has proposed a new budget line already included in the 2007 EU Budget to fund multilateral programmes and initiatives in the field of trade related assistance;

Economic Partnership Agreements

32. Believes, notwithstanding other EPA related concerns, that AfT to ACP countries is a necessary complement if ACP are to take full advantage of the opportunities arising from the international trading system;
33. Welcomes the commitment that a substantial share of the EU and Member States' pledge to increase their trade-related assistance to EUR 2 billion by 2010, will be devoted to the ACP countries as a collective contribution additional to EDF resources but urges the Council and the Commission to clarify the magnitude of this commitment;

The Integrated Framework

34. Welcomes the recommendations of the Integrated Framework Task Force and urges donors and the EU in particular, to clarify their pledges so that the enhanced IF be immediately, adequately and predictably funded and effectively implemented as soon as possible;

VI. Monitoring, evaluation, review and the European Parliament's role in scrutiny and oversight

35. Believes that the OECD/DAC should monitor the global AfT agenda but agrees with the recommendation of the WTO TF to incorporate AfT as part of the donor's and/or recipient's WTO Trade Policy Reviews;
36. Reiterates that the Commission should examine the progress made in implementing the measures taken in the area of Aid for Trade and should submit to the European Parliament and the Council a bi-annual report (starting on 2008) on the implementation and results and, as far as possible, main outcomes and impacts of the Aid for Trade assistance; Current commitments and objectives should be reviewed in 2010;