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REPORT

on trade and development for poverty eradication and food security (2001/2175(INI))

Committee on Development and Cooperation

Rapporteur: Nirj Deva

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PROCEDURAL PAGE

At the sitting of 15 November 2001 the President of Parliament announced that the Committee on Development and Cooperation had been authorised to draw up an own-initiative report, pursuant to Rule 163 of the Rules of Procedure, on trade and development for poverty eradication and food security and the Committee on Industry, External Trade, Research and Energy had been asked for its opinion.

The Committee on Development and Cooperation had appointed Nirj Deva rapporteur at its meeting of 13 September 2001.

The committee considered the draft report at its meeting of 20 November and 18 December 2001, 17 April, 27 May and 11 June 2002.

At the last meeting it adopted the motion for a resolution unanimously with 5 abstentions.

The following were present for the vote: Joaquim Miranda, chairman; Margrietus J. van den Berg, Marieke Sanders-ten Holte and Anders Wijkman, vice-chairmen; Nirj Deva, rapporteur; Richard A. Balfe, Yasmine Boudjenah, John Bowis, John Alexander Corrie, Fernando Fernández Martín, Colette Flesch, Vitaliano Gemelli, Richard Howitt, Karin Junker, Bashir Khanbhai (for Luigi Cesaro), Glenys Kinnock, Karsten Knolle, Paul A.A.J.G. Lannoye, Miguel Angel Martínez Martínez, Hans Modrow, Ulla Margrethe Sandbæk, Inger Schörling (for Didier Rod), Maj Britt Theorin, Jürgen Zimmerling.

The opinion of the Committee on Industry, External Trade, Research and Energy is attached.

The report was tabled on 13 June 2002.

The deadline for tabling amendments will be indicated in the draft agenda for the relevant part-session.

MOTION FOR A RESOLUTION

European Parliament resolution on trade and development for poverty eradication and food security (2001/2175(INI))

The European Parliament,

– having regard to its resolutions of 11 April 1997 on regional economic integration efforts among developing countries[1], of 4 May 1999 on multilateral commercial relations: the European Union and the developing partner countries of the European Union[2] and of 25 October 2001 on openness and democracy in international trade[3],

– having regard to the ACP-EU Joint Parliamentary Assembly resolutions of 1 November 2001 on WTO negotiations[4] and 21 March 2002 on negotiations between the ACP-EU on trade, rules of origin and sanitary and phytosanitary measures[5], as well as its declaration of 21 March 2002 on the forthcoming ACP-UE negotiations with a view to new trading arrangements[6],

– having regard to the UN report on food security in the developing countries, presented by the UN Special Rapporteur to the UN Commission on Human Rights in March 2002,

- having regard to the undertaking, given at the World Food Summit held in Rome in 1996, to guarantee every individual access to sufficient, high-quality food and to reduce the number of people suffering from hunger by half between now and 2015,

– having regard to the resolutions adopted at the Jubilee of Government Leaders, Members of Parliament and Politicians held in Rome in November 2000,

– having regard to the long-standing United Nations target of committing 0.7% of GNP to Official Development Assistance (ODA) as recommended in the 1974 UN Resolution on the New International Economic Order,

– having regard to the undertakings of the European Union in the European Councils of Göteborg (June 2001) and Laeken (December 2001), to reach this target, and the agreement by Member States (March 2002) to reach an average of 0,39 % of GNP to ODA by 2006 as a concrete first step to achieving the target,

– having regard to the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions signed on 17 December 1997 by the 30 OECD Member countries and Argentina, Brazil, Bulgaria and Chile, which entered into force on 15 February 1999,

– having regard to the United Nations Global Compact launched by Kofi Annan in 1999 at the World Economic Forum in Davos inviting TNCs (Trans National Corporations) to

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[1] OJ C 132, 28.4.1997, p. 316.
[2] OJ C 279, 1.10.1999, p. 37.
[3] Texts Adopted, Item 14.
[4] OJ C 78, 2.4.2002, p.70.
[5] Notice to Members APP/3399. Not yet published in OJ.
[6] Notice to Members APP/3399. Not yet published in OJ.

engage with its 9 principles of good corporate citizenship in human rights, labour standards and environmental protection,

- having regard to the OECD Guidelines for Multinational Enterprises adopted by the governments of the 30 Member countries of the OECD and of Argentina, Brazil and Chile in Paris on 27 June 2000,which provide a robust set of recommendations for responsible corporate behaviour worldwide, and Parliament's resolution of 15 January 1999 on EU standards for European enterprises operating in developing countries towards a European Code of Conduct,

- having regard to Article 177 of the Treaty establishing the European Community, as well as the Joint Council and Commission declaration on EC development policy adopted on 10 November 2000 and Parliament's resolution of 1 March 2001[1] on this issue which recognise the strong link between trade and development,

- having regard to the ACP-EU Partnerships Agreement signed in Cotonou on 13 June 2000 and in particular Title II on economic and trade co-operation, as well as the forthcoming negotiations on the regional economic partnership arrangements under the Cotonou Agreement due to start on 27 September 2002,

- having regard to the DAC Guidelines Strengthening Trade Capacity for Development (OECD Development Assistance Committee, 2001),

- having regard to the programme of action for the least developed countries (LDCs) for the decade 2001-2010 adopted by the Third United Nations Conference on the LDCs in Brussels on 20 May 2001, and in particular its commitment 5 enhancing the role of trade in development,

- having regard to the new EU scheme of generalised tariff preferences (GSP) for the period from 2 January 2002 to 31 December 2004[2],

- having regard to the conclusions on 14 November 2001 of the 142 members of the WTO at Doha to launch a new WTO round - the Doha Development Agenda - comprising both further trade liberalisation and new rule-making, underpinned by commitments to strengthen substantially trade-related technical assistance and capacity-building in developing countries,

- having regard to the WTO Doha Development Agenda Global Trust Fund, where the EU contribution makes up almost 60 % (over € 9,4 million) of the total amount pledged for 2002,

- having regard to the consultations made by the rapporteur in writing to all the Governments of the developing countries on what they wanted out of the WTO Millennium Round (PE 286.829),

- having regard to Rule 163 of its Rules of Procedure,

[1] OJ C 277, 1.10.2001, p. 130.
[2] Council Regulation (EC) N° 250/2001 of 10 December 2001 (OJ n° L 346, 31.12.2001, p. 1).

– having regard to the report of the Committee on Development and Cooperation and the opinion of the Committee on Industry, External Trade, Research and Energy (A5-0230/2002),

A. whereas globalisation is an ongoing and unstoppable process that presents opportunities and challenges but also raises the risk of marginalisation of countries, in particular the poorest countries, as well as the marginalisation of the most vulnerable groups within those countries, notably where income gaps within and among countries remain wide and there is an increasing number of people living in poverty,

B. whereas no country has developed successfully by turning its back on international trade and long-term capital flows, but it is equally true that no country has developed simply by opening itself up to foreign trade and investment without protecting the vulnerable sectors of its economy; the successful cases have combined the opportunities offered by world markets with a domestic investment and institution-building strategy which stimulates the spirits of domestic entrepreneurs,

C. bearing in mind that the key to successful development models, in particular East-Asian, is a coherent strategy of raising the opportunities to private investment, through a range of policies that included credit subsidies, credit to large business groups at negative real interest rates, and tax incentives, educational policies, establishment of public enterprises, export inducements, duty- free access to inputs and capital goods, and actual government co-ordination of investment plans,

D. stressing that today's rich countries had once embarked on economic growth behind protective barriers, that only once their capacity and infrastructure had been developed had they introduced low trade barriers, and that the absence of a robust positive relationship between open trade policies and economic growth may come as a surprise in view of the widespread claim that trade liberalisation promotes higher growth,

E. noting that market economies rely on a wide array of non-market institutions that perform regulatory, stabilising and legitimising functions, the quality of a country's public institutions, measures to combat corruption and better regulation being critically determinant of a country's long-term development,

F. whereas the WTO Doha Development Agenda Trust Fund is a central instrument designed to fund trade related technical assistance and capacity building to help countries to participate in trade negotiations in the WTO, implement their outcome and realise their wealth-creating potential for the benefit of their population; whereas the EU and the Member States have pledged contributions to this Fund of about 14 million € which amounts to 63 % of the total contributions to the Fund for 2002,

G. whereas it is essential that Community agricultural, commercial and development cooperation policies should be coherent if any one of those policies is to prove effective, and whereas that process must be guided by the ultimate objectives of food security and the eradication of poverty

H. whereas the Commission has presented a request for the Council to authorise it to negotiate Economic Partnership Agreements with ACP countries and regions; whereas such recommendation for a Council Decision will be the subject of a resolution and a report of the Committee on Development and Cooperation,

I. whereas the illegal global trade in natural resources such as diamonds, vanadium, cobalt, titanium, gas, oil, timber and gold in many cases fuels corruption, undermines the rule of law, encourages unsustainable environmental exploitation, prolongs conflict and deprives citizens of much needed funds for development,

J. regretting that illegal trading, prolongs and sustains conflicts; and that the products of these illegal trades have as their ultimate end user the consumers in the European Union and the United States, so that those countries have a particular responsibility for monitoring such trading and the multinational companies involved,

K. noting the dominant role of Trans National Corporations (TNCs) in multilateral trade (responsible for 70 % of world trade activity) and that the top 200 TNCs have a combined turnover greater than a quarter of the world's economy activity amounting to some 28,3% of world GDP, and regretting that there is a lack of recognition by political decision makers of the decisive role that could be played by them,

L. noting the crucial role played by women in production in developing countries, as they account for around two-thirds of food production, make up about one third of manufacturing workers and 70% of workers in export-processing zones,

M. noting that integration through trade is creating opportunities, but that those opportunities are biased towards those with access to productive assets, infrastructure and education and that the rural poor - and in particular women - face acute disadvantages in their access to education, one of the key requirements for acquiring the skills needed to take advantage of market opportunities and the growing demand for skilled labour,

TRADE AND DEVELOPMENT

1. Considers that an open, rules-based, non discriminatory and equitable trading system is essential in order to promote pro-poor economic growth, employment and sustainable development world-wide;

2. Acknowledges that the following issues are areas of concern for developing countries in respect of trade:

   - trade barriers and trade-distorting subsidies, in sectors of special interest to developing countries, like agriculture and food products, textiles and footwear and labour intensive sectors;

   - preferential trading systems which as a result of a number of factors including: a lack of security of market access, non-trade related conditionalities, the application of technical standards and sanitary and phytosanitary measures, stringent rules of origin requirements for products which countries with a relatively poor scientific and technological infrastructure find difficult to comply with and complex customs documentation and procedures; have not always delivered significant benefits for developing countries,

- the trade-related aspects of intellectual property rights (TRIPs), and in particular how TRIPs relates to access to essential medicines in developing countries;

- the inclusion of legal migrant workers in the negotiations on services;

- the transfer of knowledge and technology to address the supply constraints facing those countries economies and promote their structural transformation to allow them to diversify their production and exports with more dynamic demand prospects and make the most of their comparative advantages;

- the need for special and differential treatment provisions for developing countries in trade agreements to be effectively targeted and transparent;

- the lack of capacity in ICT, which prevents developing countries from fully making use of the opportunities offered by these technologies in terms of eCommerce, marketing, etc.;

3. Welcomes the new Regulation on Generalised Tariff Preferences, in particular the widening of product coverage, the greater simplicity, and the increase in tariff preferences, but regrets that the criteria to justify temporary withdrawal have been extended and that more stringent requirements have been set which mean that developing countries wishing to benefit from extra preferences under the special incentive arrangements now face additional difficulties in order to benefit from them;

4. Advocates, in this regard, the strengthening of Special and Differential Treatment of specific countries and regions to enhance their rural businesses and SMEs to develop high value added products that meet the requirements of northern markets and which should only cease when real results have been achieved;

5. Points out that economic development should not be done on the basis of a completely open liberalised laissez faire market logic, many instances of successful development having been based on promoting local producers, manufacturers and industries;

6. Takes the view that the private sector, which bears both social and ecological responsibility, can contribute to sustainable development and the eradication of poverty; stresses, further, that the developing countries have a responsibility to adopt appropriate rules to protect and develop their own industries and to open up their markets on a selective basis, in a manner consistent with their economic circumstances, without, however, undermining the local private sector;

7. Notes the wide discrepancies which exist in terms of human and institutional capacity between the EU and developing countries, and considers that capacity building and technical assistance must be essential elements in all future development, economic cooperation and trade arrangements between the EU and developing countries;

8. Insists that trade policies oriented towards the reduction of poverty, promotion of employment, creation of wealth and overall economic, social and cultural development

must be matched by development policies supportive of competitive supply capacity to enable developing countries to exploit market opportunities; considers that capacity building must be accompanied by transfers of technology, investment, as well as the establishment of national policies in favour of the poor (elementary teaching and healthcare, creation of jobs, land reforms, emancipation of women, and others);

9. Considers that fundamental institutional changes should be promoted in developing countries and must include building capacity for the provision of: technical assistance, bodies which encourage social reforms, such as agrarian reform, legal security, measures to combat corruption,protection of property ownership and rights, properly functioning courts, particularly for small claims, and access to justice, a banking network with easy access to opening bank and savings accounts for small account holders, the empowerment of SME's through the easy formation of limited liability companies, limited partnerships, accounting, auditing and bookkeeping functions, the availability of incubator, micro credit, venture, and development capital and loans, the establishment of an information technology sector, training centres and schools for basic computer operations and the establishment of technical colleges and business schools;

10. Calls on the Member States and the EU to confirm their commitment to increase the funds for technical assistance and capacity building (TA/CB) and, to enable the EU's trade-related TA/CB to have a higher profile and be more effective;

11. Insists that a comprehensive trade policy and capacity building should empower women, removing barriers to access to land, water, credit, markets, education and information technologies and promoting equal rights and elimination of wage discrimination;

12. Calls for any new emphasis on capacity building to enhance rather than act as a substitute for maintaining and increasing resources for development;

FOOD SECURITY

13. Calls for access to food in sufficient quantities and of a sufficient quality to be recognised as a fundamental human right for the peoples of the developing countries, and, in that connection, issues an appeal for the implementation of the Universal Declaration of Human Rights regarding the right to food and well-being and takes the view that national governments have a duty to honour that obligation;

14. Takes the view that the fight against poverty and food insecurity must incorporate an attack on the structural causes of poverty in the developing countries, and, accordingly, calls for: measures to foster access to land, water and the resources of biodiversity; measures to foster a policy of local support for sustainable agricultural smallholdings; the discontinuation of export subsidies which disrupt local markets; and the cancellation of the debt which swallows up more than 40% of the GNP of the least developed countries (LDCs);

15 Calls on the United Nations, at the FAO Summit and the Johannesburg Rio+10 Summit, to declare water and biodiversity world public goods; water and genetic resources must be managed in a sustainable fashion;

16 Calls for the ending of exports to developing countries of pesticides which are banned in the European Union and which endanger the health of the peoples of the developing countries, pollute the environment, contaminate groundwater and water in general and thereby undermine sustainable development;

17 Calls for the high degree of food security demanded for European consumers to be applied to foodstuffs and feedingstuffs intended for export to the developing countries (BSE-contaminated beef, dioxin-contaminated chicken, etc.) and calls for foodstuffs exported outside the EU to be labelled so as to provide consumers in the developing countries with full information;

DOHA

18. Notes that WTO Members at Doha committed themselves to a comprehensive strategy for trade-related capacity building; that this could provide the basis for bilateral and multilateral donors to ensure that market access, trade related technical assistance, special and differential treatment is well integrated into the all EU's current and future technical assistance/development cooperation programming as a matter of the highest priority;

19. Recalls that Doha was just the start of a process of negotiation comprising both further trade liberalisation and new rule making that will last until January 2005 and therefore its impact depends on the forthcoming negotiations;

20. Takes the view that, if the problems in the areas of social injustice, development and the environment caused by the untrammelled liberalisation of trade and deregulation are to be resolved, a serious assessment of the Uruguay Round agreements and their implementation must be drawn up, as promised to the developing countries in Marrakech;

21. Calls for the WTO to be extended to include the environment as an essential element in its decision-making;

22. Notes that the Doha Declaration refers to comprehensive negotiations on agriculture aimed at the reduction of all forms of export subsidies implying an EU commitment to reducing export subsidies provided that export subsidies by others (export credits, abusive use of food aid and non transparent pricing activities of state trading bodies) are also addressed; calls for the launching of new reforms from 2004, beginning with the reduction by 50% of all export subsidies in one year and the abolition of all the other subsidies as soon as possible by the EU and the USA;

23. Regrets the decision taken by the House of Representatives on 6 May 2002 to approve the US Farm Bill and believes that this could destabilise the hard-won agreement which was reached on agriculture at the Doha Ministerial Meeting; believes that this decision should not prevent the EU from respecting the commitment agreed in Doha to reduce with a view to phasing out all forms of export subidies and trade distorting support mechanisms for agriculture and insists that the US also does so;

24. Notes that in some developing countries, government procurement contracts remain one of the only ways to steer economic development by enabling local industry to develop; regrets that the Trade-Related Investment Measures (TRIMs) Agreement comprehensively bans any laws, policies or administrative regulations promoting

domestic products which runs contrary to the EU's declared intention to help build capacity in the developing countries; notes that this ban includes government incentives to encourage corporations to use domestically made products as a way of creating or protecting local jobs; stresses this has serious ramifications for industrial policies designated to support the development of domestic capacity, secure flow-on benefits from foreign investment supplying both the local and export markets and limit the effects of foreign competition;

25. Takes the view that Community policies, particularly in the areas of trade liberalisation, agriculture, fisheries, the environment and public health, must be revised with a view to taking greater account of their impact on poverty, food security, sustainable development and the links between these phenomena;

26. Calls for trade rules to support, rather than undermine, efforts to achieve environmental, social and health objectives; takes the view that trade must actively foster the production and exchange of goods and services under ecologically sustainable conditions, by means of direct incentives and technical and institutional assistance provided to the developing countries;

27. Notes that the Doha Declaration sets the objective of establishing a multilateral framework aimed at improving the conditions for Foreign Direct Investment, and, more particularly, bilateral investment treaties, world-wide and calls for this framework to include provisions for capacity building in developing countries, as well as strengthening import substitution policies and local content provision with the aim of fostering partnerships between foreign investors and local manufacturers to produce goods domestically rather than import them; takes the view that the negotiations on Foreign Direct Investment must be completely transparent, must incorporate dialogue with civil society and social movements and must also provide for full participation by appropriate United Nations' institutions;

28. Welcomes the sensitivity of the Financial Services Agreement which does not oblige countries to fully open their markets from the start allowing them to file specific reservations thus enabling them to build the appropriate local infrastructure and capacity to compete totally openly later; stresses, however, that the agreement does 'lock-in' liberalisation and market access, banning new protective measures;

29. Calls on the Member States to require national bodies providing aid for exports and foreign investment to fund only those projects which fully respect human and minority rights and the environment and which are implemented in a manner entirely consistent with the development cooperation policies of the country concerned;

30. Supports the Doha Ministerial Declaration on the Trade-Related Aspects of Intellectual Property Rights (TRIPs) Agreement and Public Health which confirms that the TRIPs Agreement can and should be interpreted and implemented in a manner supportive of WTO Members' right to protect public health; this represents a balance between the interests of the research-based industry and Members' public health concerns and shows that intellectual property rights do not stand in the way of access to medicines in developing countries;

31. Points out that the issue of developing countries which do not produce generic medicinal products has not been dealt with by the Doha Ministerial Declaration;

32. Calls for a reassessment of the link between the TRIPs Agreement and global agreements to protect biodiversity, recognising that sustainable development and consumers' rights come before those of business in the field of access to medicines, patenting life forms, biotechnology and biodiversity and that the rights of farmers in the developing world should also be protected;

33. Calls on the EU to support developing country governments' demands for any amendments to Article 27.3(b) of the TRIPs Agreement to safeguard the relevant provisions under the Convention on Biodiversity and the International Undertaking on Plant Genetic Resources, and considers that TRIPs amendments should support, rather than negate, efforts to ensure that living organisms and their parts cannot be patented; that the right of traditional farmers to use, exchange and save seeds is protected; and that indigenous and local farming community innovations are likewise protected;

34. Notes that bribery, corruption, and instability are global issues that require global approaches to prevent the problems simply shifting to the next weak link in the chain and welcomes the OECD Convention on the action program to deter bribery in government-supported export credit transactions;

35. Recognises that developing country Governments rather than lowering standards to attract multinationals should instead create infrastructures - institutional, physical, and human - that would allow knowledge-intensive firms to leverage their environmental and sustainable development competencies;

36. Calls on the WTO to help the LDCs set up local committees, consisting of representatives of business and civil society, officials and trained local experts, who should assess for themselves whether the trade and financial rules meet their real needs;

37. Calls on the EU Member States to use their influence in the World Bank and the International Monetary Fund to persuade those institutions to relinquish its involvement in structural adjustment programmes and conditions governing the financing of large infrastructure and energy projects and to focus instead on supporting more funding of grassroots health and education services, the needs of village microentreprises and cooperatives and measures to sustain local capacity-building;

38. Calls for the International Monetary Fund to desist from its now discredited fixation of opening up economies and their capital accounts before their financial sectors, public institutions, industries and civic societies are robust enough for global competition;

39. Calls for the criteria on debt relief for LDCs to be redefined in order to give priority to meeting the financing requirements of national poverty eradication programmes, and to stipulate that only residual state revenue be used for debt servicing and the repayment of loans;

REGIONAL COOPERATION

40. Fully recognises the role of regional and sub-regional trade agreements as well as free

trade areas in the establishment of a more equitable world trading system and also in building the required infrastructure for the region; fully supports regional and sub-regional integration among developing countries and calls on them to reduce trade barriers among themselves;

41. Considers that fostering regional integration is one way of integrating developing countries into the world economy as the regional context will stimulate political and economical cooperation and provide a framework to mitigate the adjustment problems resulting from globalisation; also considers that regional integration should put more emphasis on cooperation rather than competition which is more conductive in the initial stage to the competitive and social development of less advanced economies;

42. Outlines its main priorities and concerns about the conduct and outcome of the forthcoming negotiations on the Economic Partnership Agreements with ACP countries and regions, which relate in particular to:

- the importance of conducting such negotiations in an open, transparent and inclusive manner,

- the need to ensure that poverty reduction and the promotion of sustainable development are the central focus ,

- the need to ensure that no ACP State is left worse off in terms of market access than it is at present,

- the need to address supply side constraint issues in ACP countries and contribute to the structural transformation of their economies,

- the importance of addressing the external effects of the common agricultural policy,

- the commitment of the parties to respect human rights, good governance, rule of law and democratic principles;

TRADE AND CONFLICT

43. Recognises that small arms trade is responsible for 90 percent of conflict-related deaths since World War II and regrets that the regions with the steepest rise in military expenditure in the past two years are Africa—an increase of 37% in real terms—and South Asia—23% in real terms;

44. Notes that the current EU export licensing system for arms and related products is lacking in clarity and transparency;

45. Calls on the Member States, Commission and Council to take concrete action towards EU based firms, brokers and individuals involved in illegal trade in diamonds, gas development, oil and gold and to ensure that all goods being exported from the EU, or under arrangements by EU-based brokers or EU citizens who are brokers based abroad, to non-EU military, security or police forces or armaments-manufacturing bodies, should be made subject to export licensing controls;

46. Calls upon the Member States, the Council and the Commission to prepare legislation, in line with current EU thinking, that makes EU based firms, brokers and individuals of small arms (hand guns, pistols, sub-machine guns, mortars, landmines, grenades and light

missiles), legally responsible for the end usage of such products. This legislation should be such that it becomes an entry requirement for the applicant nations;

47. Calls on the Council and the Commission, in co-operation with the United Nations (UN), to providefinancial and technical assistance to developing countries to collect and destroy surplus weapons from communities, tighten controls on weapons stockpiles and destroy surplus government stocks***;***

48. Affirms that re-deploying military budgets and providing alternative security structures are the sina qua non and bedrock of sustainable development;

49. Calls on all States to implement the UN Programme of Action to Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons in All Its Aspects;

50. Urges the EU to make the sale or import of illegally sourced timber or timber products an offence, and calls on the governments of the EU Member States to introduce new legislation which prohibits the sale or import of timber which has been sourced in contravention of the laws of another state, or legislation which establishes external standards which products would be required to meet;

A NEW ARCHITECTURE - "ENTERPRISE DEVELOPMENT"

51. Takes the view that the faster liberalisation of trade has given rise to new problems, particularly in connection with issues concerning social rights, employment, the environment and the balance of power among the various international organisations; in order to address the problems, action is required to ensure that trade rules and rules concerning social rights, employment, the environment, etc. are compatible and mutually reinforcing;

52. Calls for the EU to adopt the OECD Guidelines for Multinational Enterprises as ***a*** cornerstone of future trade and development policies;

53. Notes that new proposals are also needed to advance ethical investment, enterprise development, socially-responsible investing and consumption, full-cost prices, life-cycle costing and all the other ways of promoting sustainable human development;

54. Further emphasises that indigenous peoples and their communities should benefit from such proposals, recognising their important role for sustainable development and considering that multinational companies often operate on their ancestral territories;

55. Calls for companies and shareholders' companies which fall under the category of Trans National Corporation (TNC) to set up Ethical Investment Committees similar to the Audit Committee and Remuneration Committees which now exist in such companies; advocates that these Committees should report to the board of directors, the shareholders and those directly affected by the activities of the TNC on the implementation of the OECD Guidelines for Multinationals in the developing countries;

56. Calls for such Ethical Investment Committees also to be tasked to identify Enterprise

Development projects as Offset projects which these companies can invest in each country in which they operate in conjunction with NGOs and other civil society actors so that these projects are tied to local social, industrial and service capacity building, which will lead to poverty eradication and foster food security, clean water and sanitation, education, health and gender equality;

57 .Regards respect for key social rights and the basic conventions adopted by the International Labour Organisation (ILO) as fundamental and, in that connection, calls for the ILO to be granted increased powers so that it can better enforce the standards it has laid down, powers which may incorporate the right of the ILO to propose penalties;

58. Calls on TNCs to adopt transparency rules requiring corporations to report information about their investment activity and their environmental, social and employment impact in each country where they do business, based on the well-developed concept of “disclosure”;

59. Calls for international accounting standards to be expanded along the lines of the Global Reporting Initiative which promotes “triple bottom line” accounting and corporate annual reports: (i.e., economic, social and environmental accounting);

60. Encourages each TNC to commit as a minimum investment at least 0.7% of their gross turnover or up to 5% of their net profit (which ever is the smaller) into new investments as Offset projects each year in that country; stresses that such Offset investments should have a high component of social, educational or environmental capacity building and should be undertaken jointly or severally with local SME's and business groups;

61. Welcomes the United Nations Global Compact initiative and calls for a European Forum of Enterprises for Sustainable Development to be instituted holding two meetings per year rotating in locations corresponding to the Presidency in the Council of the European Union;

62. Calls for this European Forum of Enterprises for Sustainable Development to be attended by the directors of Ethical Investment Committees of TNCs together with MEPs of the European Parliament and Members of the Select Committees of the National Parliaments involved with trade, development and cooperation policies and all those directly affected by the activities of TNCs;

63. Recognises that this Forum will constitute the cornerstone of a new and additional approach to development and co-operation augmenting and supporting existing mechanisms and institutions, and that there remains a crucial need for a greater volume of aid which must be better managed;

64. Calls for the new delivery mechanism to be through an open tendering process wholly transparent to the international community, civil societies and host countries and open to NGOs, registered and accredited consultants and even in-house divisions of the TNCs themselves; recognises that the Commission will have an auditing, monitoring and reporting back role to play;

65. Recognises that the delivery of such new funds for new development enterprise promotion projects should be outside the existing arrangements for development and

cooperation which have clearly demonstrated their weakness.

66. Instructs its President to forward this resolution to the Council, the Commission, the governments and parliaments of the Member States, the United Nations, the World Trade Organisation, the World Bank and the International Monetary Fund.

EXPLANATORY STATEMENT

1. GLOBALISATION

"The central challenge we face today is to ensure that globalisation becomes a positive force for all the world's people, instead of leaving billions of them behind in squalor. Inclusive globalisation must be built on the great enabling force of the marked, and market forces alone will not achieve it. It requires a broader effort to create a shared future, based upon our common humanity in all its diversity"- (UN Secretary General's Report to the Millennium Assembly, April 2000).

Globalisation has enriched our planet from an economic, social and cultural point of view. A few centuries ago hardly, poverty and miserable life dominated the world except for rare pockets of abundance. By controlling this shortage modern technology and economic exchanges brought enormous progress. Over the past 50 years, world trade has increased nineteen fold, world production has more than quadrupled, and world per capita income has doubled, but we know that the most stripped do not share the enormous benefits of contemporary technology, trade and international exchanges.

The *Human Development Report* 2001 indicates that the world's richest 20 % account for 86 percent of world GDP, 82 % of exports, 68 % of FDI, and 93 % of Internet users. Of the 175 countries ranked in the first 30-40 are the prosperous, democratic, developed countries, in Europe, North America, Japan, and Australia, joined by several others such as Israel and Singapore and probably Chile. They belong to the group of 64 countries which the report describes as having 'high human development'.

The next 60 listed countries are placed in the 'medium' category. This group face environmental, population, structural, and social challenges, but they also have some educational and infrastructural resources, plus considerable (if unpredictable) access to capital. These include small nations such as Costa Rica and Jamaica, but also large, populous countries such as India, Pakistan, Brazil, Mexico and Indonesia. With China, they amount to about 60 % of the world's population, and the future of the world will depend largely on how they overcome their current challenges.

At the lower end of the human development index, there are 51 chronically low-income countries, chiefly in Africa but also in Asia and Central America; the poorest of the poor unable to rescue themselves and without private international capital inflows. They are now totally dependent on aid to survive.

The EU aid including EDF funds are allocated so that social infrastructure and services, including government and civil society, health and education, get 22 %; economic infrastructure and services, including transport and storage, energy and communications, get 13%; production sectors, including agriculture forestry and fishing, industry, mining and construction and trade and tourism, get 7 %; multi-sector including general environmental protection and women in development, gets 8 %; commodity aid and general programme assistance, including structural adjustment with World Bank/IMF and developmental food aid/food security, get 20%; action relating to debt gets 12 %; and emergency assistance, including emergency food aid, gets 11 %. These funds are geographically allocated as 52 % to the 77 countries of the ACP; 13 % to the countries of the Mediterranean and Mid East; 8 % to Asia ; 4 % to Latin America, 11 % to the Balkans; 7 % to the ex Soviet Countries; and 5 % to multi-regional areas.

Globalisation which merely increases the advantages of the most advantaged (Pareto Optimality) is immoral and unethical; there is evidence that the greatest good of the greatest number (Utilitarianism) cannot simply be obtained by unfettered globalisation; that a Rules Based System must necessarily be underpinned by a set of ethical norms which increase equality of opportunity and equality of capacity for all; and that such a rules based system must be based on the notion of "maximising the advantages of the least advantaged section of the global community" (Rawls) - if it is to have the support of the whole international community including that of civil society.

2. CHANGING PATTERN OF WORLD TRADE

The EU is the world's leading trading block, with 20% of world trade in goods and services, the world's leading exporter of goods: €760 billion in 1999, almost 19% of the world total; the world's leading exporter of services: €240 billion in 1999, with 26% of the world total; and the world's leading source of foreign direct investment (€298 billion in 1999).

Developing countries account for 42% of EU imports, a total of €432 billion in 2000; their volume share growing faster than that of developed countries, rising by 15% a year since 1995 and doubling over a ten-year period. In 1999 the EU was the world's biggest importer of goods from Least Developed Countries, with 55% of LDC exports coming into the EU with 97% of these imports free of duties.

The changing pattern of world trade demonstrates that:

- International trade has increased significantly faster than world GDP over the last two decades, with the relative importance of high technology goods increasing and the importance of agricultural and basic resources diminishing;
- The nature of production activities has changed to facilitate tightly integrated global supply chains; as a result, parts and components account for a growing portion of trade from the developed countries to be assembled in developing countries;
- Trans National Corporations (TNCs) account for a growing share of world trade, with involvement in 70% of trade activity and controlling one-third within their own networks;
- In the now developed Western countries, a century ago trade liberalisation and mercantilism within nation states during and immediately after the industrial revolution led to conditions being created within nation states which correspond to the extremes of poverty and wealth now obtaining in LDCs and developing countries;

Within Western nations issues such as disparities of living conditions, poverty eradication, housing, educational opportunities and citizens welfare in the immediate aftermath of the Industrial Revolution were addressed and ameliorated by a mixture of legislation in partnership with the substantial wealth creators of those times (the then equivalence of TNCs) such as Andrew Carnegie, Andrew Mellon, Howard Pew, the Guggenheim family, the Gettys (in the USA) Miss Octavia Hill, Sir Robert Hunter and Canon Hardwicke Rawnsley, George Peabody, George Cadbury in Birmingham, Titus Salt in Bradford and Lord Leverhulme on the Wirral (in the UK), Wallenberg, Ferrero, Landolt, Kamprad, Wilsdorf, Persson and Amancio Gaona Ortega in other countries.

3. SUCCESSFUL DEVELOPMENT GROWTH MODELS

There are three distinct development models which at various times have been used in developing countries with varied degrees of success viz- import substitution policies, export led growth policies and the "Twin Track" policies.

Almost all of the outstanding cases- East Asia, China, India since the early 1950s involved a partial and gradual opening- up to imports and foreign investment as domestic capacity expanded to meet a growing internal and export market.

Until the first oil shock hit in 1973, no fewer than 42 developing countries grew at rates exceeding 2.5% per capita per annum with incomes doubling every 28 years. These countries followed Import Substitution Policies (ISI) and spurred growth by creating protected, and therefore profitable, home markets for domestic entrepreneurs increasing capacity.

Contrary to received wisdom, ISI-driven growth did not produce technological lags and inefficiency on an economy-wide scale. Average total factor productivity (TFP) growth (at 2.3) was significantly higher than in East Asia (1.3 %)! The list includes twelve countries in South America, 12 in the Middle East and North Africa, and even 15 in Sub-Saharan Africa. In fact, there were no less than six Sub-Saharan African countries among the 20 fastest-growing developing countries in the world prior to 1973: Swaziland, Botswana, Côte d'Ivoire, Lesotho, Gabon, and Togo, with Kenya ranking 21st.

The experience of the East Asian tigers is often presented as one of export-led growth, through outward-oriented industrialisation in which opening up to the world economy unleashed powerful forces of industrial diversification and technological catch-up but your rapporteur notes that the conventional account overlooks the active role taken by the Governments of Taiwan, and South Korean (and Japan before them) in shaping the allocation of resources. None of these countries as is now the case with India and China was there significant import liberalisation early in the process of growth. Most of their trade liberalisation took place in the 1980s, when high growth had already been firmly established.

A less well-known instance of a successful two-track strategy is that of Mauritius. built on a combination of orthodox and heterodox strategies. An export processing zone (EPZ) operating under free-trade principles, enabled an export boom in garments to European markets and an accompanying investment boom at home. The island's economy had combined the EPZ with a domestic sector that was highly protected until the mid-1980s. Mauritius is essentially an example of an economy that has followed a two-track strategy not too dissimilar to that of China. This economic strategy was in turn underpinned by social and political arrangements that encouraged participation, representation and coalition- building.

Your rapporteur points out that the richer developing countries, and those with a better skills base and capacity , including China, most of South and South East Asia, and parts of South America, have benefited from the Uruguay Round and that the real losers have been the least developed countries, including most of Africa. with sub-Saharan Africa losing approximately

US$ I.2 billion a year.

4. THE NEED FOR A RULES BASED WORLD TRADING SYSTEM TO ASSIST SUSTAINABLE DEVELOPMENT

In all developed countries, economic rules are codified as regulations or laws, and enforced by the national government where they:

- require all financial disclosures by companies,
- govern competition and prevent monopolistic behaviour,
- oversee financial markets, proven insider trading or investor collusion,
- require banks to hold reasonable reserves, engage in fair lending practices,
- provide mandatory social insurance, the right of workers to organise, anti-discrimination laws, laws protecting working conditions and hours,
- protect the consumer and ensure environmental standards and
- they form the core social compact that defines the life of all citizens.

It seems imminently reasonable that in the context of a Global Trading environment that these same rules would be increasingly applied on an international basis. Market economies rely on a wide array of non-market institutions that perform regulatory, stabilising, and legitimising functions. Cross-national econometric work shows that the quality of a country's public institutions is a critical, and perhaps the most important, determinant of a country's long-term development.

5. THE ROLE OF TRANSNATIONAL CORPORATIONS (TNCs)

We have seen that TNCs are involved in 70 % of multilateral trade activity. The world's top 200 TNCs that combined sales are far greater than a quarter of the world's economic activity amounting to some 28.3 percent of world GDP, while directly employing 20 million people worldwide. These combined sales are bigger than the combined economies of all countries minus the biggest 9; thereby surpassing the combined economies of 182 countries. The top 200 corporations have almost twice the economic clout of the poorest four-fifths of humanity, but absolutely no political clout in the development partnership between EU politicians, the Commission and civil society.

According to the United Nations, some 85 % of the world's GDP is controlled by the richest 20% of humanity; only 15 % is controlled by the poorest 80%.[5] with the poorer 4.5 billion people in the world accounting for only $3.9 trillion dollars of economic activity; compared the combined revenues of the top 200's $7.1 trillion. Some 63,000 TNCs and their foreign affiliates control two-thirds of global trade in goods and services and investment, with the triad (US, EU and Japan) continuing to dominate inward (71%) and outward (82%) foreign direct investment.

Foreign direct investments exceeded US$ 1.1 trillion in 2000 up 14% over 1999, representing a doubling in just three years. About two-thirds of foreign direct investment flows within developed countries *with comparable environmental and labour laws,* that most multinational corporations focus on knowledge-intensive areas which often have low-pollution intensities;

to maximise their comparative advantages. This goes against the commonly held view that TNCs are comprehensively abetting races-to-the-bottom and therefore leading to competitive lowering of environmental and labour standards in developing countries with their investments.

Given the present dominance of the TNCs in world trade, it is absurd for Governments and politicians to ignore the substantial contribution the TNCs could make to enterprise development in the developing countries in partnership with local enterprises, civil society and the international community in creating a NEW Enterprise development framework in the global economy to eradicate poverty, ensure food security and promote sustainable development.

The OECD Guidelines for Multinationals should be made an intrinsic part of EU trade relations where enterprises should take fully into account established policies in the countries in which they operate, and consider the views of other stakeholders. In this regard, enterprises should:

1. Contribute to economic, social and environmental progress with a view to achieving sustainable development;
2. Respect the human rights of those affected by their activities consistent with the host government's international obligations and commitments;
3. Encourage local capacity building through close co-operation with the local community, including business interests, as well as developing the enterprise's activities in domestic and foreign markets, consistent with the need for sound commercial practice;
4. Encourage human capital formation, in particular by creating employment opportunities and facilitating training opportunities for employees;
5. Refrain from seeking or accepting exemptions not contemplated in the statutory or regulatory framework related to environmental, health, safety, labour, taxation, financial incentives, or other issues;
6. Support and uphold good corporate governance principles and develop and apply good corporate governance practices;
7. Develop and apply effective self-regulatory practices and management systems that foster a relationship of confidence and mutual trust between enterprises and the societies in which they operate;
8. Promote employee awareness of, and compliance with, company policies through appropriate dissemination of these policies, including through training programmes;
9. Refrain from discriminatory or disciplinary action against employees who make bona fide reports to management or, as appropriate, to the competent public authorities, on practices that contravene the law, the Guidelines or the enterprise's policies;
10. Encourage, where practicable, business partners, including suppliers and sub-contractors, to apply principles of corporate conduct compatible with the Guidelines;
11. Abstain from any improper involvement in local political activities;

When developed countries have privatised their national assets and utilities they have required investors to also invest in Offset projects in those countries where "Offset" is the umbrella term for a broad range of industrial and commercial "compensatory" practices required of outside suppliers or investors as a condition of purchase in either government-to-government sales or commercial sales under public agency procurement programs.

Your rapporteur proposes in the relevant articles of the resolution *an entirely new way* to augment and further fund assistance and co-operation world-wide through Enterprise development in collaboration and partnership with other actors through trade based initiatives. These proposals and, in particular, the proposed European Forum of Enterprises for Sustainable Development will constitute the cornerstone of a *new and additional* approach to development and co-operation augmenting and supporting existing development and co-operation mechanisms and institutions.

22 May 2002

OPINION OF THE COMMITTEE ON INDUSTRY, EXTERNAL TRADE, RESEARCH AND ENERGY

for the Committee on Development and Cooperation

on trade and developmentin view of eradication of poverty and food safety (2001/2175(INI))

Draftsman: Philippe A.R. Herzog

PROCEDURE

The Committee on Industry, External Trade, Research and Energy appointed Philippe A.R. Herzog draftsman at its meeting of 18 December 2001.

It considered the draft opinion at its meetings of 26 February, 25 March and 22 May 2002. At the last meeting it adopted the following conclusions unanimously.

The following were present for the vote: Carlos Westendorp y Cabeza, chairman; Peter Michael MombaurandYves Piétrasanta, vice-chairmen; Philippe A.R. Herzog, rapporteur; Nuala Ahern, Sir Robert Atkins, María del Pilar Ayuso González, Guido Bodrato, David Robert Bowe, Massimo Carraro, Gérard Caudron, Giles Bryan Chichester, Willy C.E.H. De Clercq, Concepció Ferrer, Francesco Fiori, Christos Folias, Glyn Ford, Michel Hansenne, Hans Karlsson, Bashir Khanbhai, Bernd Lange, Werner Langen, Caroline Lucas, Marjo Matikainen-Kallström, Eryl Margaret McNally, William Francis Newton Dunn, Angelika Niebler, Reino Paasilinna, Paolo Pastorelli, Elly Plooij-van Gorsel, Samuli Pohjamo, Godelieve Quisthoudt-Rowohl, Paul Rübig, Konrad K. Schwaiger, W.G. van Velzen, Alejo Vidal-Quadras Roca, Dominique Vlasto, Anders Wijkman, Myrsini Zorba, Olga Zrihen Zaari.

SHORT JUSTIFICATION

While the last 25 years have seen an almost universal opening to world trade, inequality has increased. The GDP per capita of the least developed countries (LDC) was 10% of that of the rich countries (in PPP) in 1970 and 6% in 2000. The number of LDCs has doubled - Botswana alone has managed to change category. Worldwide, with the exception of China, in the 1990s the number of people living in absolute poverty increased.

The widely held belief that before a country can be included in the world trade system, trade must first be liberalised, and that such inclusion must inevitably lead to growth and to a decline in poverty, is belied by the facts. The biased nature of the studies underpinning this belief has now been brought to light by numerous economists and international institutions (e.g. UNCTAD, the World Bank).

The rapid integration of South-East Asian countries, China and India into the world markets is the result of development strategies and policies firmly based on national and regional circumstances. These countries have used unorthodox policies (nationalisation of numerous industrial and banking sectors, high tariffs, export subsidies, appropriation of new technologies with no concern for patents, minimum national content and no over-specialisation). While they might have linked growth to the opening of their markets, they did not begin to liberalise trade and the financial area until later, whilst retaining control. These policies have been very dissimilar and no 'best practice' can be held up as a model. Hence, a priority and prerequisite for successful liberalisation appears to be the capacity to steer national growth policies.

Moreover, where there is a clear positive link between market opening and growth, the relationship between growth and poverty reduction is not so clear. Two countries with the same GDP per capita can have very different proportions of poor people. As Nobel prizewinner A. Sen demonstrated, poverty equals incapacitation. Its sole criterion is not merely income (living on less than $ 1 a day), but also concerns issues such as access to essential public facilities (education, health, etc.), access to a decent job, participation in social life, and security. Hence true poverty largely affects women and children, and mass poverty still exists in high-growth countries such as India. It has also doubled in the 'countries in transition' of Eastern Europe and Central Asia. It does not therefore merely concern sub-Saharan Africa and other LDCs.

After being subjected to strong criticism, the policies of the international institutions are now beginning to include more numerous and complex concerns regarding the relationship between trade, development and poverty. In the Doha agenda, the review of a number of WTO rules and the space given to technical assistance and exemptions for LDCs are to be welcomed, as are the aims to improve market access.

In 1999 the international institutions launched a major campaign to reduce poverty by half by 2015. It is now becoming less common to make aid conditional upon structural adjustment and aid is now beginning to support social development policies. The Monterrey Consensus stresses the need for a diversified supply capacity and for the participation of civil society.

However, it will not be easy to ensure consistency between objectives and action, or to meet the real requirements. It is clear that there is a serious lack of funding, in particular for the capacity building, and that proposals to develop LDCs are weak. In this report, we put forward a number of proposals with the following aims:

- to ensure that trade rules and policies are more tailored to development objectives and poverty reduction ;

- to make financial policies more consistent with requirements relating to inclusion in the trade system and development.

CONCLUSIONS

The Committee on Industry, External Trade, Research and Energy calls on the Committee on Development and Cooperation, as the committee responsible, to incorporate the following points in its motion for a resolution:

1. Considers that the Development Agenda should give priority to helping LDCs to create a diversified supply capacity such that rural populations can plant or design, harvest or craft, process or finish, store, present and package agricultural or commercial products in order to gain real access to northern markets; welcomes the Commission's 'Anything But Arms' initiative and asks for its rapid evaluation and, if suitable, extension;

2. Advocates, in this regard, the strengthening of Special and Differential Treatment of specific countries and regions to enhance their rural businesses and SMEs to develop high value added products that meet the requirements of northern markets and which should only cease when real results have been achieved;

3. Believes that development programmes and policies should be assessed in order to gauge their impact on poverty-related issues;

4. Calls for the incorporation into the technical assistance objectives of: the strengthening of supply capacity, the formation of regional common markets and the offsetting of losses from customs receipts in LDCs, especially revenue loss from taxes imposed on imported inputs and export taxes on final products for the country where goods are produced; assistance with providing training for those engaged in WTO and similar negotiations on behalf of LDCs;

5. Calls on the Member States and the EU to confirm their commitment to increase the funds for technical assistance and capacity building (TA/CB) and, to enable the EU's trade-related TA/CB to have a higher profile and be more effective;
6. Calls for any new emphasis on capacity building to enhance rather than act as a substitute for maintaining and increasing resources for development;

7. Believes that the development of small enterprises and cooperatives should be promoted by facilitating their access to credit and aid for training and marketing of their products;

8. Calls for TA/CB to be pursued within a multilateral framework; maintains that, if it is to be effective, the terms of reference of the Integrated Framework for Trade-Related Technical Assistance must on the one hand be redefined in order to establish genuine cooperation among agencies and, secondly, the conditions must be created for the LDCs, making use of the lasting links that they will need to forge, to develop a real capacity for initiative enabling them to approach agencies directly with their requirements and to assess and adjust those requirements as their institutional machinery is put in place and information is disseminated on TA/CB programmes;
9. Calls for specific means to be provided to promote fair trade and remove every obstacle preventing it;

10. Calls on the WTO to play its part in the world anti-poverty programme:
    - by establishing that neither forced labour nor failure to recognise the fundamental social rights enshrined in the 1998 ILO declaration is (deletion) an acceptable comparative advantage;
    - by negotiating trade-related social measures, TA programmes in particular, for populations vulnerable to the impact of liberalisation;
    - by including the issue of migrant workers in the negotiations on services;
11. Calls for the following measures with a view to combating financial fragility:
    - a review of the prudential reserve annexed to GATS;
    - the drawing up of rules in respect of state bankruptcy implicating the responsibility of private interests;
    - consideration of the Stiglitz proposal to attract direct investment into the LDCs;

12. Calls for consideration as to how the EU, and the developed world, can work in partnership to ensure mutual energy security in the coming decades;

13. Calls for specific commitments from States and from the EU to increase TA and development aid funds, but also to enhance their effectiveness, in particular by cooperating with regard to public assets and technology transfers and by combating the tax dumping which is afflicting the LDCs;

14. Believes that support should be given to measures to encourage the use of state-of-the-art technologies, especially in the fields of hygiene, water treatment, waste processing and recycling, small-scale irrigation, and cottage industry;
15. Calls for the EU stance with regard to the future WTO negotiations on investment to include the issue of greater FDI in the LDCs and the steps to take to combat the tax dumping afflicting the LDCs;
16. Calls on the WTO to help the LDCs set up local committees, consisting of representatives of business and civil society, officials and trained local experts, who should assess for themselves whether the trade and financial rules meet their real needs;

17. Points out that, if aid is to be effective, it is very important for LDCs to have sound, solid institutions, since they will then be able to draw up their own development policies and support from donors can be provided not by cumbersome bureaucratic procedures or in accordance with ineffective conditionality undertakings, but on the basis of credible commitments by the countries concerned regarding tangible results;

18. Maintains that the principle of corporate social and environmental responsibility must be properly defined and internationally recognised ;
19. Recognises that democracy and respect for human rights are both immensely valuable underpinnings to economic success; calls for EU assistance for development to be targeted to these two key objectives.