EU's aid for trade

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The Committee on International Trade adopted by a very large majority the own-initiative report by Mr. David **MARTIN** (PES, UK) on the EU's Aid for Trade (AfT).

In its introduction, the report states that opening up trade is one of the most effective drivers of economic growth. However, trade openness alone is an insufficient condition for harnessing trade for development and reducing poverty. In many developing countries, “behind-the-border” domestic policies and deficient economic and investment environments are powerful constraints on the ability to reap the benefits from greater trade opportunities and to be really effective trade policy has to be accompanied by the necessary flanking domestic policies, including redistribution and social policies and a real improvement in the capacity for good governance.

The 2007 Joint European Strategy on Aid for Trade: Members welcome the emerging consensus that increased and more effective AfT is needed to enable all developing countries to better integrate into the multilateral, rules-based trading system. They consider it of the utmost importance that Parliament be appropriately involved in the preparation and adoption of the 2007 Joint European Strategy on AfT. This would involve: i) establishing the general principles for the EU’s AfT, ii) setting a work programme with specific recommendations for the EU to reach and eventually improving the EUR 2 billion target for trade-related assistance by 2010, iii) establishing the modalities for coordination and actual implementation at the different levels of AfT in keeping with the WTO Task Force recommendations and, iv) defining mechanisms for improving transparency, monitoring and control.

Scope and Definition of Aid for Trade: Trade-related assistance has traditionally fallen into two basic categories: trade policy and regulation and trade development. However, the Committee notes that the WTO Aid for Trade Task Force has added three further categories (trade-related adjustment, trade-related infrastructure, and productive capacity). Although these overlap with the existing two, they are valuable in that they reflect well the wide-ranging trade-related needs of developing countries and should therefore be used in countries' development and poverty reduction strategies.

Beyond the Scope, within the Cause: The importance of the wider AfT agenda: independently of the precise definition of AfT, Members believe that the EU must contribute significantly to the wider AfT agenda in the following sectors:

- **trade adjustment**: trade-related adjustment costs cover a wide range of issues, and mainly include: firstly, the costs of preference erosion, which particularly affect countries dependent on exports of textiles and agricultural commodities, secondly, loss of revenue from trade tariffs and, thirdly, costs resulting from increases in food prices which are likely to affect net food importing countries and which will mainly affect the poorer sectors of the population. According to Members, trade adjustment should not be understood as mere 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. They recommend that the Commission and the Member States, in the absence of new multilateral mechanisms to address trade-related adjustment costs, assess the scope, efficiency and effectiveness of current assistance, making in particular a quantitative assessment - both descriptive and analytical - of the impact of this assistance and promote a **new TIM (trade integration mechanism)** by the International Financial Institutions

(IFIs). In addition, Member States would have to develop concrete initiatives to address adjustment costs and that the Commission would clarify the budget lines that could be utilised to fund trade-related adjustment assistance.

§ **infrastructure**: having drawn up a clear picture of current assistance, Members urge the Commission to make specific proposals on building productive capacities, trade-related infrastructure and the adjustment challenges arising from trade liberalisation;

- **other related issues**: Members would like to see specific actions developed in regard to **regional integration** and **South-South trade**, in **agriculture** (because this is the main source of revenue and employment in most developing countries), trade in **services** (so that developing countries strengthening their potential to manage and regulate their services sectors and export services), core **labour standards** and **environmental legislation** (insofar as they are a vital component of action in AfT), **fair trade** (e.g. initiatives facilitating female participation in the labour force and creation of producer organisations and representative structures).

The principles of the EU´s Aid for Trade: in the second part of the report, the Committee lays down the main principles of the EU's Aid for Trade:

- **rationale and geographical scope**: AfT is a necessary complement to trade liberalisation and domestic policy reforms carried out by developing countries themselves; it should prioritise LDCs and the most vulnerable developing countries;

- **the Doha Development Agenda**: AfT is not a substitute for the DDA negotiations and the development benefits that will result from improved market access; AfT cannot be linked to any outcome of the negotiations or used to compensate for lack of market access;
- **commitments for more Aid for Trade and its implementation**:increased AfT must be proportional to the magnitude of the identified challenges – but not replace – existing development aid. AfT must be recipient-driven and be designed and implemented as an integral part of developing countries' own economic and developmental strategies. AfT should be pursued following a differentiated approach depending on specific development contexts and needs. A key element of AfT and aid effectiveness is the timeliness and predictability of the delivery of funding.

Scaling up Aid for Trade: Members recall that the EU has committed to increasing its overall ODA to 0.56% of GDP by 2010. Because the AfT package should be additional to existing development aid, new AfT pledges should not lead to the shifting of resources already earmarked for other development initiatives. They urge the EU and the Member States to fully implement as soon as possible their respective commitments as regards AfT and stress the EUR 1 billion pledges by both the Commission and the Member States should be implemented without resorting to either the relabelling as AfT of aid formerly classified as aid for infrastructure or the double-counting by Member States of bilateral aid and contributions to the EU's external aid. They also call on all major international donors to clarify the exact nature and scope of their pledges. The Commission is requested to complete, as soon as possible, a funds assessment for horizontal trade-related assistance initiatives.

Economic Partnership Agreements (EPAs): The Committee calls for a review of the existing AfT programmes of the Member States insofar as they concern EPA-related adjustments, so as to identify the most efficient mechanism for delivering effective support in the processing of EPA-related adjustments. It stresses the urgency of getting to grips with the challenge of efficiently delivering effective AfT to ACP countries already engaged in preferential trade with the EU (for instance Botswana, Lesotho, Namibia and Swaziland, which are half-way through eliminating tariffs on trade with the EU).

The Integrated Framework (IF): Considering that an Enhanced IF should become *the* key tool in assisting LDCs to mainstream trade into their national development plans and to improve their capacity to

formulate, negotiate and implement trade policy, Members point out that US$ 400 million of Indicative Costing for the Enhanced IF would amount to an average of 1-2 million per country per annum. They call for better coordination and consistency among various aid donors, as well as for more transparency regarding the aid allocated through trade-related assistance. They urge the EU to devote specific attention to increasing opportunities for women to participate in trade.

Monitoring, evaluation, review and Parliament's role in scrutiny and oversight: Members call on the Commission to submit to Parliament and the Council a bi-annual report (starting in 2008) on implementation and the results obtained and, as far as possible, on the main outcomes and effects of the AfT assistance. They also call on the Commission to submit, no later than 31 December 2010, a second report evaluating the implementation of and results obtained with the AfT assistance, if appropriate, together with a proposal to increase the budget for AfT and to introduce the necessary modifications to the AfT strategy and its implementation.