Free Trade, Fair Trade – Why or Why Not?

Free Trade, Fair Trade – Why or Why Not?

A Capitol Hill Conference

Lecture by Angelos Pangratis, Deputy Head of the Delegation of the European Commission in the United States

Association on Third World Affairs

March 31st, 2006, Rayburn House Office Building, Washington, DC

The theme today – free trade, fair trade – is really vast. We could have spend all the time available talking about pharmaceuticals for developing countries, or the interesting Taiwan case, or the political considerations and trade impact of the FTAs, or the impossibility to divide freedom – the concept that if we work for more trade liberalization, we work for more overall freedom in the society etc. However, seeing the theme of today from the EU's point of view, I thought that probably the best contribution I could make is to concentrate on the two aspects of most direct concern to the EU – not necessarily that we consider them more important economically than other issues, but they are widely seen as the more important ones, for the current negotiations.

To begin with, there is the whole debate about agriculture – its importance for the developing world, the fairness in agricultural trade. We don't believe so much that the main challenge of the DDA for developing countries is in agriculture – we believe that the real challenge is elsewhere. But there is a very strong concentration on agricultural issues in the negotiations, so I think this is an obvious theme when we talk on behalf of the EU on the fairness of international trade. Second, of course, is how the developing world, and particularly the least-developed countries, are treated within the multilateral negotiations and beyond. Even these two, are very big themes, so I will try to give you only some basic concepts on each one.

First, on agriculture – clearly there is no bigger theme in terms of coverage by the newspapers of the negotiations, and in the attention surrounding this multilateral round that we are negotiating now. I believe that people in general, including sometimes within the EU, do not really measure and appreciate the extent of the changes that are going on in Europe in that area. Only those who are really affected measure the consequences, to its real extent. In other words, I think that the common agricultural policy has changed much quicker than the perceptions. In fact, very often I have this feeling that we are talking about the problems that we had some times ago, as very often in history people talked and planed for the last war.

The changes that the EU has introduced regarding our CAP are profound: we have introduced, in an autonomous way, real cuts in our support system. The support that we give to our agriculture, in terms of percentage of gross national income, is going to be halved in 2013 from what it was only a few years ago. And we are diminishing the support that we give to our agriculture in real terms. We took in a big number of farmers with 10 new member states. Our farmers increased from 7 million to 11 million with the last EU enlargement without significant increase of the support that we are providing, which means that there is now a profound trend of diminishing the real support, the subsidies, that we are supplying. And it's important to understand that this is not only shifting support from one form of subsidy to another. There's a big debate about all these reforms, including discussions concerning similar changes that we are seeing in the US system. But these are reforms that already are under implementation, which include of course shifting forms of support, but above all include real cuts that are reflected in the markets conditions. I'll give a few examples.

Our recent sugar reform: the EU historically has been the biggest sugar exporter behind Brazil, but we are becoming one of the most significant importers in the world very rapidly. Our world market share in other key products has evolved dramatically already. To give three figures: Our part of the world market of wheat between '91 and '92 and 2002 was reduced from 30 to around 4 percent. For beef, during the same period, it was reduced from 27 percent to 5 percent. In fact, our imports will further dramatically increase in the coming years. In poultry, the percentage was reduced from 22 percent to 3 percent of the world market.

I say all this to leave you with this basic concept: What is happening in agriculture in the EU means real cuts, means real consequences for the people on the ground, means real pain for those who are involved in this economic activity. And our offer in the DDA takes this process even further – I'm not going to repeat the details, but it involves, again, further real cuts, and a concept which I think is not properly appreciated and understood: that in our system, because of the system of support that we have, when we give market access we reduce domestic support. Because our entire system is based on prices, when we reduce tariffs and domestic prices we automatically reduce domestic support, which is not the case, for example, in the United States. Here, with the anti-cyclical support that you have, you can have an increase of support while you offer tariff reduction and increased market access, because the system of domestic support is not directly related to the market access. This is an important point to understand.

We have made an offer of eliminating all our export subsidies, of further reducing our domestic support, of further reducing all our tariffs – I repeat, all our tariffs – including the so – called sensitive products. You very often hear that somehow the EU is excluding a very important part of its trade from the liberalization of agriculture. That's not exactly accurate, in the sense that even for our sensitive products, we have iterated our willingness to do significant cuts in tariffs and also to give quota access to our market.

I think it's important to keep these key ideas in mind when you think about what the EU is doing in terms of agriculture, for several reasons. One is that you may have to evaluate the relative importance of our offer compared with what the US is doing. In fact, if you see the evolution of these last years in the EU, as I briefly presented it, you have a situation where the EU is profoundly, deeply, already committed – not theoretically but in practice – to diminish its supports to agriculture, while the support that the U.S offered to its agriculture has slightly increased during these last years.

It's also important for another reason. In order to understand our basic position in the WTO negotiations right now, you have to think in terms of the political feasibility of the deal. We come from a situation where we are putting on the table the real cuts that have significant political costs internally, and we are committing ourselves to further real cuts. This means we can only have an acceptable deal politically, that we can make it acceptable to our own constituencies, our own 25 member sates, if there is reciprocity from the other side, from our partners, and real market opportunities. We all believe that free trade in the long term gives a good deal to each one of us, if not, we would not be committed in this multilateral round, right? But there has to be a balance – we have to reach a situation where the degree of our ambition and of our input is somewhere adjusted. That's why we are looking at a political balance that makes the agreement achievable in agriculture, but also in the relation between AMA (Agricultural Market Access) and also NAMA – other goods, market access, services, and what we call rules.

The WTO negotiation is based on the concept of this single undertaking. That means that at the end of the day, the global balance has to be acceptable to everybody. Our Brazilian friends tell us from time to time "Despite what you offer or propose in agriculture, look at how high the protection that will remain is, and look at how low the protection that will remain on manufacturing goods will be if we do what you ask." That's true, from a certain point of view. Our American friends say "You support your agriculture too much. You start from a much higher starting point, and so you have to come down to our level before we can really negotiate." Well, we accepted that argument to some extend, and finally we found a very reasonable formula.

We use this argument too, towards our Brazilian friends. We say, "Yes, but your economy overall is much more protected than ours. Despite what you are often saying, your domestic market is much more protected, even in the agricultural sector." We say to the Americans, "Yes, but in public procurement we have an agreement which is not completely balanced. We have committed many more entities than you have, so you have to move."

So it's an argument that we hear and find all around. The important thing is not to forget that these comparisons have an only limited value because of the one basic concept, which is the concept of the single undertaking. At the end of the day, what counts is where we are and how far along in the right direction we can go, towards creating freer trade. We cannot really compare and we cannot expect to have exactly the same concessions and exactly an acceptable balance on every chapter or on every sector or on every sub – sector. It's the global balance which is at stake here, and it is the global balance that has to be acceptable to everyone in order to reach concurrence at the end of the day to make the agreement, I repeat, doable politically. This is the real challenge that we are facing now. We are extremely committed to that process because of the concessions, because of the real significant cuts in terms of market protection, that we have offered already.

Now, let me move to the second point. Particularly with developing countries, and especially with the least – developed countries, we have proof that in many situations a freer trade is not necessarily fairer trade, and does not necessarily mean equal opportunities for everybody. At the same time, of course, we remain convinced that the imperfection of this equation does not mean that there is an alternative to free trade. We have to go for free trade, but we have to be careful in order to make it as fair as we can and to create opportunities where they should exist. There are two reasons why we believe freer trade is not necessarily, automatically, creating opportunities particularly for developing countries, especially the least – developed ones. The first is the erosion of preferences, and the second is that market access alone is not enough. Let me develop very briefly these two concepts.

The least – developed countries have preferential access through bilateral agreements and autonomous measures of market liberalization. The erosion of preference means that the relative preference that the countries were enjoying is reduced. There is a huge debate about this, and plenty of studies. I think it's important to agree – at least it's our perception – that the effects of this erosion are complex and difficult to evaluate, but overall they are often enormously overstated in the public debate and even at the negotiating tables. There are some effects that we cannot ignore, but it's certainly not a problem so important that it should prevent the overall move towards further liberalization.

We have studied a bit for our own marker what are the areas where this erosion is really an issue, and basically we found that it has to do mainly with specific products: sugar, bananas, vegetables, clothing, flour and fish. And most of those sectors will be affected by trade liberalization measures other that the conclusions of the DDA. So the DDA will have relatively limited consequences in terms of erosion of trade preferences. Nevertheless, we found a small number of very poor countries where this erosion will have a significant impact, so it is important for them and we simply cannot ignore it in the negotiating process. For these countries we need to find mechanisms of compensation.

This leads to my final point: Market access is not enough for least – developed countries. We have seen this very clearly through our own experience. We have given 25 years of general trade preferences to the Africa, Caribbean and Pacific countries. Despite of this unilateral market access their market share in our market fell from 7 percent in '75 to 3 percent today.

So we came to the conclusion with these partners that you cannot just rely on free trader. Still, once again, nothing can replace free trade. This should not be misunderstood. But free trade really provides the full benefits that it can give to these countries only if we manage to put around it the right mix of internal policies, if we can support and facilitate their capacity to trade, and that is what we are trying to do through our economic partnership agreements with these countries – to put trade liberalization in the wider perspective of their development, and particularly concentrate on their ability to trade.

We are very convinced that making more free trade more fair is possible, and in fact, that the only acceptable option for international negotiations is to try together to build both a freer and a fairer trade. Thank you very much for your attention.