

KEPA's trade alignment

Ratified by KEPA's board 10th December 2007

The Service Centre for Development Cooperation (KEPA) works to bring about a democratic trading system that dismantles impoverishing economic structures. Trade agreements should support the principles of the United Nations and agreements on human rights, social development and the environment.

The states of the world are committed to the so-called Millennium Development Goals, whose central aim is to halve the share of people living in extreme poverty by 2015. The European Union and Finland are also committed to policy coherence for development. Finland must act in all international for a and policies, including trade policy, to reduce impoverishment.

I PRINCIPLES

1. Ending impoverishment as the starting point

Trade is a tool – not an end in itself – for reducing poverty and increasing wellbeing. The preamble to the World Trade Organisation's (WTO) agreement states that trade is useful only in so far as it advances wider social and development policy objectives. The primary responsibility for protecting and promoting human rights lies with the states.

During the last twenty years the poorest countries have been encouraged – and partly also required – to remove restrictions on foreign trade. However, according to the United Nations Conference on Trade and Development (UNCTAD) and Food and Agriculture Organisation (FAO) for example, in many countries trade liberalization has not reduced poverty.

Though no country has developed by turning its back on foreign trade, the industrialised countries did not build their success just by liberalizing their trade. Rather, emerging economies have tended to remove tariff barriers only after their competitiveness has risen sufficiently. Institutions that foster local entrepreneurship and development strategies that utilise the opportunities of global markets seem to have been more important for development than free trade.

One of the fundamental problems facing poor countries is the lack of policy space. The selection of policy tools available for poor countries is much narrower now than it was before the establishment of the WTO. A balanced debate about different trade policy alternatives and robust empirical impact assessments would be important for poor countries which have limited resources for research and negotiation. Finland could also fund independent evaluations. No policy is equally appropriate for everyone.

Accordingly, Finland should:

- **improve the coherence of trade policy with development objectives. To this end Finland should choose a few disputed issues that she specifically seeks to resolve.**
- **support deeper special treatment for developing countries so that the poorest countries have a permanent possibility to diverge from trade rules if they prevent the implementation of human rights agreements.**
- **ensure that all trade negotiations are based on robust, independent and empirical impact assessments.**

2. Improving the balance of international agreements

Trade agreements must be aligned with other international agreements and organisations. The fact that the WTO has a functioning system of enforcement and dispute settlement makes it tempting to widen WTO-agreements further and further. There have, for example, been suggestions to include workers' rights and environmental questions in WTO's purview.

It is, however, important to restore the balance of economic, social and ecological objectives in international cooperation. Trade objectives currently carry too much weight compared to other objectives and international trade deals overshadow other agreements like those by the International Labour Organisation (ILO) or those related to the environment.

The imbalance must be reduced. The preparation and monitoring of international agreements must be carried out by the best experts in each field. This is why the WTO, including its dispute settlement mechanism, must remain a trade organisation and rules related to but not strictly about trade must be formulated in other international fora.

A prerequisite of this view is that the WTO system is reformed to take better into account the content of other international agreements, and that the status of other agreements is strengthened in relation to WTO agreements.

Finland should:

- **support the limiting of the purview of trade agreements to explicit trade issues. The position of other agreements and especially ILO and environmental agreements should be strengthened in relation to trade agreements.**
- **participate in the creation of mechanisms that strengthen cooperation between the WTO, the UN and other international organisations.**

3. Democratising trade negotiations

Trade agreements are binding on national legislation so parliamentary monitoring of trade negotiations is important, although very challenging for parliamentary institutions. All parties in trade negotiations should strive to increase the knowledge and participation of national parliaments at all stages of negotiations.

The role of civil society organizations should also be strengthened in the drafting of trade rules and in monitoring their effects. In particular, following the regional negotiations has been challenging for civil society organisations both in the North and the South due to the lack of information and opportunities for formal participation. Participation in WTO's ministerial meetings is still difficult for Southern civil society representatives and the role of accredited organizations is significantly weaker than, for example, in the meetings of the UN.

The injustices of the international trade system are partly caused by the fact that countries are not on an equal footing when decisions are made. In WTO decision-making rich countries have a much stronger position than developing countries. The negotiating resources of most developing countries are very limited and key negotiations are often held among few countries in closed groups, without representatives from poorest countries.

In regional and bilateral negotiations the negotiating position of developing countries is even more difficult than in the WTO, where developing countries can utilise the power of numbers as well as the analysis and negotiating skills of each other.

The difficulties of regional trade negotiations are compounded by the demands of the European Union and the United States that agendas must be even wider than at the WTO. Among other issues, they have demanded the inclusion of investment, public procurement and competition rules – which involve much wider sets of rules than international trade. Developing countries must be able to use their negotiating capacity according to their own needs, and they should not be pressurized to negotiate the above mentioned Singapore topics.

To facilitate the participation of political decision-makers and allow for impact assessments, the schedules of trade negotiations must be relaxed. Particularly in the regional trade negotiations, the EU has pressurised developing countries into quick decisions and refused to consider opportunities for slackening the timetable. The WTO process, on the other hand, should be rationalized by phasing

the negotiations. It must be accepted that in an organisation of almost 150 countries decisions on significant and far-reaching issues are seldom reached quickly.

Finland should:

- **seek parliamentary guidance on trade policy issues more frequently and widely, and make use of opportunities to influence the stances of the European commission during negotiations.**
- **intensify the dialogue between civil society organisations of the North and South, and promote wider civil society participation at the international level as well.**
- **emphasize the right of developing countries to participate equally in the drafting and evaluation of the schedules and agendas of trade negotiations.**
- **support the drawing up of democratic rules for WTO negotiations.**

4. Multilateralism to the core of the trade system

The European Union and the United States have initiated numerous regional and bilateral trade negotiations because the WTO-negotiations have progressed slower than they have wished for. In 1990-2006 the number of regional and bilateral trade agreements almost tripled to more than 250 agreements.

In regional trade agreements the poorest countries have not been given the same kind of special treatment as in the WTO – tariff cuts are demanded from every country. The demand is based on article XXIV of the WTO GATT treaty, which regulates trade of goods, and which was drawn up at the time when regional trade deals were only adopted by industrialized countries.

Today, one of the stated main objectives of regional agreements is to boost South-South trade. Regional integration could increase investment and competition and be important for many developing countries. The risk of whole production sectors withering away would, however, be smaller than in global competition because the technological and economic differences are relatively small among developing countries.

Yet in practice, regional trade agreements have denied developing countries the opportunity to focus on regional integration. Developing countries have little time to nurture cooperation with their neighbours, because transition periods for liberalizing trade with industrialized countries are too short. Developing countries need an opportunity to develop regional trade before opening their markets to European producers.

Finland should:

- **support the prioritisation of multilateral trade negotiations over bilateral and regional ones.**
- **support the right of the least developed countries to receive special treatment also in regional and bilateral agreements, and demand that article XXIV of the GATT treaty is reformed to this effect.**
- **emphasize the significance of South-South cooperation for poverty reduction.**

II THEMATIC OBJECTIVES

5. Prioritising right to food

Agriculture is one of the strategic issues in trade negotiations. In the WTO, developing countries see the Agreement on Agriculture (AoA) as the yardstick of development orientation. Key questions include industrialised countries' farm subsidies as well as developing countries' market access and right to protection.

Developing countries' ability to boost agriculture depends greatly on the special treatment they are given in free trade agreements. In the WTO negotiations, it has been suggested that developing countries could leave so-called special products, whose protection is important for food security, livelihoods and rural development, outside free trade. Special products should include key crops from all regions of each developing country. Countries should be allowed to select special products themselves on the basis of clear criteria and to change their choices as productive structures change.

Trade agreements should include mechanisms whereby developing countries can protect their agriculture against import surges, which have increased in the last decade, and dumping. Also, the so-called aid for trade funds should be allocated according to developing countries' own priorities, to support capacity for production, policy making and international negotiation in trade issues.

To improve market access, Northern countries need to reduce tariff escalation, ie. tariffs should not be higher for processed goods than for raw materials. Further, the right of industrialised countries to define so-called sensitive products should not excessively reduce developing countries' market access.

The EU's Everything But Arms (EBA) initiative that allows duty free and quota free imports from least developed countries to EU is a good one. Other developing countries' access to EU markets is defined by the Generalized System of Preferences (GSP and GSP+). Unfortunately, these initiatives have had little practical impact due to technical barriers and complicated Rules of Origin (RoO), among other things. Since the initiatives are not agreements but unilateral commitments by the EU, the developing countries are also concerned about their continuity.

Farm subsidies are important for the survival of industrialised countries' agriculture, especially in a farming area like Finland. Current subsidies do not, however, effectively support family farming: three quarters of European subsidies are given to just ten percent of farms. In Finland, every second farm has closed down within the last two decades and agriculture only employs four percent of the working population. Subsidies do, on the other hand, promote over-production and dumping, which weaken developing country producers' market positions at home and export markets.

Agricultural subsidies should be reformed so that they do not hinder production by developing countries. For example, it is a good direction from developing countries' perspective that industrial countries delink an increasing share of subsidies from production. Subsidies should also be tied to ecological production methods.

Individuals and organisations can send an important political signal in favour of fairer trade rules, and offer a reasonable income for some producers, by purchasing such certified products as Fair Trade products. Certification cannot, however, solve the weaknesses of the international trading system.

The participation of Southern farmers organisations in trade policy discussions has increased in recent years. Finnish politicians and officials should also aim for a closer dialogue with these organisations.

Finland should:

- **support the right of the developing countries, and especially the poorest among them, to protect and support their food production.**
- **allocate aid for trade funds according to a human rights based approach and with respect for developing countries' ownership.**
- **support changing the EBA, GSP and GSP+ protocols into agreements between the EU and developing countries and continue improving developing countries' market access.**
- **direct national agricultural subsidies and support the directing of EU subsidies to family farms and ecologically sustainable production. The share of subsidies delinked from production should be increased.**
- **support the ending of EU's export subsidies as soon as possible. The EU should also demand other industrialised countries to end export credits, guarantees and insurance.**
- **work actively to support and expand the Fair Trade system.**

6. Excluding basic services from trade negotiations

There is great pressure on developing countries to open their service markets to foreign companies. Yet, there is no evidence that opening always furthers development objectives. Under some circumstances privatisation and trade liberalisation have improved the quality and availability of services, while in others the availability for the poorest people has significantly worsened.

Among the most important services are water services. Clean water is a human right and an adequate daily supply should be guaranteed for every person. For poor people water should be free of charge. Looking to the future, there is also reason to be concerned about the adequacy of the world's resources: water use has grown six-fold in the last century and 92 percent of water is

currently consumed by commercial use, which should be charged for.

Another issue discussed in service trade negotiations is temporary migration of service workers. At the moment movement is freer for highly educated employees. Liberalising the temporary movement of less qualified employees would increase remittances to developing countries and might ease permanent brain drain from developing countries.

It should be noted that when the service negotiations were launched, there was strong emphasis on flexibility and each country being able to choose whether it wishes to negotiate service liberalisation or not. This flexibility has not been retained. Instead, industrial countries insist on a similar level of ambition in service and other negotiations.

Finland should:

- **oppose the pressurising of developing countries towards wider liberalisation of services.**
- **seek the unambiguous exclusion from trade negotiations of basic services that are central to poverty reduction and gender equality such as water, energy, education and health services to individuals.**
- **support the liberalisation of temporary migration irrespective of employee's level of education.**

7. Loosening intellectual property rights

Rules on intellectual property rights influence poverty in several ways.

For example, the WTO's agreement on trade-related aspects of intellectual property rights (TRIPS) can be interpreted to force countries to allow the patenting of plants, animals, micro-organisms and biological processes. This threatens the right of local communities to use different medicinal or nutritious plant species and knowledge which has been developed over generations as cultural heritage.

The agreement is also in conflict with the Convention on Biological Diversity and its supplementary agreement Cartagena Protocol on Biosafety, which recognise that countries have rights to their natural and genetic resources. These agreements require that commercial benefits be shared between communities and companies, and grant countries the right to limit imports of genetically manipulated organisms in order to protect biodiversity.

Further, intellectual property rules affect the price of medicines. According to the Doha declaration the TRIPS agreement must not prevent countries from protecting public health, but the licensing system created to implement the declaration is complicated and has not been used much. The availability of medicines should be guaranteed for everyone regardless of wealth or geographic location.

Tightening intellectual property rights are also increasing the cost of new technologies to developing countries and slowing down the development of local production. The majority of developing countries have already signed more stringent intellectual property agreements than Europe, North America or East-Asian countries did in the early phases of their industrialisation.

In its regional trade agreements, the European Union is trying to agree even tighter intellectual property rules than in the WTO (ie TRIPS+ rules). According to experts at the Copyright Commission, such rules are probably not in developing countries' interest as they shift the balance of rights in favour of innovators at the expense of users.

Finland should:

- **support a permanent amendment to the TRIPS agreement so that**
 - **all countries can freely decide whether to allow patents on genetic resources, living organisms and biological processes.**
 - **developing countries can speed up technology transfer and boost productive capacity**
 - **a user-friendly and effective solution is reached for making medicines available in developing countries.**
- **demand that the Convention on Biological Diversity and the Cartagena protocol on Biosafety are also respected in agreements and laws on intellectual property rights.**
- **oppose the inclusion of TRIPS+ demands in regional trade agreements.**

8. Widening policy space in investment policies

Private foreign investments are very important for many developing countries. They can bring capital, jobs, technology, knowhow, new production methods, an access to international production chains and a route to foreign markets. During the last 15 years the majority of developing countries have liberalized their economies and reduced investors' responsibilities. Yet the benefits are not automatic. Many investments have also brought pollution, layoffs and merely nominal tax revenues, while restricting local investors' markets.

National investment rules are governed by the WTO investment agreement and over 5500 other international agreements. Most of these agreements emphasise investors' rights instead of the rights of the people and states, and restrict developing countries' policy space. The WTO agreement, for example, prevents countries from asking foreign investors to use local subcontractors, which is what the East-Asian countries did during the early period of their economic growth.

Many developing countries do not have adequate resources to identify and negotiate home-grown, pro-poor investment rules. In particular, the commodity price boom of 2002 – 2007 revealed biases: many developing countries benefited very little from the boom.

Investment issues are also addressed in the corporate social responsibility norms of the Organisation for Economic Cooperation and Development (OECD) and the UN. The monitoring mechanisms of these norms should be strengthened.

International cooperation in investment issues has not succeeded in curbing tax competition or tax avoidance. These practices reduce public revenues and, consequently, public services. One challenge is that companies do not publish their tax payments country-specifically. An increasing number of international corporations are also avoiding taxes by establishing subsidiaries in tax havens and using "creative" transfer pricing in internal trading and lending.

Finland should:

- **stop pressurising developing countries into international investment agreements**
- **support the loosening of the WTO investment agreement so that it allows industrial policies that are not proven to significantly distort trade. Poorest countries' policy space should not be restricted at all.**
- **support initiatives to increase transparency in tax regulations and payments.**
- **lead in ethical public procurement by making purchases conditional on adherence to the ILO and UN human rights and environmental agreements.**
- **actively contribute to the creation of legally binding and prosecutable guidelines for corporate social responsibility.**

9. Towards a climate friendly trade policy

The effects of climate change are most severely felt by poor communities. KEPA participates in discussions about the linkages between climate change, trade policy and poverty in the South. Trade rules need to be revised so that they support conservation of natural resources and favouring of climate friendly products.

One of the fundamental problems in merging economic and environmental objectives is that market prices do not reflect the importance of natural resources in blocking climate change or providing other environmental services. Often natural resources bring individuals, countries and corporations most income when they are used – for example, when a forest is cut down and water used in agriculture.

Biofuels are not a miracle cure for climate change. When the whole production chain is taken into consideration, biofuel production often causes more emissions than it saves. In addition, many raw material plantations and farms have poor working conditions and bring few benefits to the local economy.

Environmental organisations in the South and the North have a great deal to contribute to this political debate.

Finland should:

- **actively support the changing and interpreting of trade rules so that policies can favour energy and resource efficient products.**
- **develop taxation, subsidies and statistics so that the interests of the society and of those consuming natural resources converge, and it is no longer profitable to weaken environmental services.**
- **promote balanced debate on biofuels and other forms of energy both in Finland and internationally.**