



“Aid for Trade”: another missed opportunity to make trade work for development?

Contribution from the Fair Trade movement to the EU debate on “Aft”

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The European Union is currently developing a joint EU strategy on “Aid for Trade”, to be adopted in the second half of 2007. On 4th April 2007, the European Commission published the Communication ‘Towards an EU Aid for Trade strategy - the Commission’s contribution’ [COM (2007) 163] and invited stakeholders to contribute to this discussion.

The international Fair Trade movement¹ wants to express its concerns about the Commission’s proposals regarding “Aid for Trade”. Rather than contributing to the fight against poverty we fear that the concept might increase harmful export dependency and divert funds from essential development needs.

What is “Aid for Trade”...

Aid for Trade is a package of trade-related assistance to developing countries, specifically focusing on supply-side factors. The EU has committed to spend 2 billion euros by 2010, an increase of almost 100% compared to the current expenses on Trade Related Assistance. This sum will come from the development budgets of both the European Commission and the EU Member States². “Aid for Trade” will therefore have a significant impact on the way EU development funds (ODA) will be spent in the future.

¹ The Fair Trade movement is organized in four international Fair Trade Associations: FLO (Fairtrade Labeling Organizations International), IFAT (International Fair Trade Association), NEWS! (Network of European Worldshops) and EFTA (European Fair Trade Association).

² Derived from the Annex SEC(2007) 414 of the European Commission Communication ‘Towards an EU Aid for Trade Strategy’ COM(2007) 163 final

... a means to perpetuate unfair trading rules and...

The international Fair Trade movement knows from experience that trade can reduce poverty and contribute to sustainable development if carried out in a fair and responsible manner. However, evidence shows that the current world trade rules do not contribute to poverty reduction and sustainable development. Particularly small and marginalized producers normally do not benefit from trade liberalisation. Instead, many Fair Trade producers know from first hand how damaging liberalisation can be to their livelihoods.

Against this background, we are convinced that “Aid for Trade” can not make any significant difference as long as the underlying rules and concepts are unfair and unsustainable. Instead, there is a risk that “Aid for Trade” will be used as a tool to get poor countries to sign up to trade deals such as the Economic Partnership Agreements³ despite indications that these agreements might further harm their economic, social and environmental development. We are also concerned that ODA funds might be diverted from essential development issues, such as education and health. Aid for Trade should be derived from additional funds.

... an instrument to change poor countries' development policies?

We welcome the commitments from the European Council and the European Commission to make “Aid for Trade” an instrument which helps to use trade more effectively in promoting the overarching objective of poverty eradication in the context of sustainable development and to reach the Millennium Development Goals⁴.

However, rather than putting development at the heart of trade, the underlying principle of “Aid for Trade” is to “mainstream trade into (developing countries’) national strategies”⁵. The Communication suggests that “Aid for Trade should...support....efforts to reform and to adjust to the world trading system”. In other words, the EU proposes to adapt poor countries’ development policies to the rules of international trade.

Our experience shows that it should be the other way around: To overcome poverty, local and national development strategies should be carefully designed to meet local needs first, namely food sovereignty and local development. Trade should be seen as one of the instruments to address these needs. If these conditions are not met, “Aid for Trade” will increase export dependency and even exacerbate poverty.

³ The so-called Economic Partnership Agreements (EPAs) are trade agreements which are currently being negotiated between the European Union and 79 developing countries from Africa, the Pacific and the Caribbean

⁴ DEVGEX 253 and 257, RELEX 765 and 678; COM (2007) 163

⁵ DEVGEX 257/RELEX 678, p.5

We are particularly concerned about the following issues in the Commission Communication:

1. No recognition of the central role of small producers

We agree with the Commission's objectives to use trade more effectively to promote employment, development and poverty reduction. However, we regret that the central role of small producers is not reflected in this context. Small producers tend to lose ground in international trade because they cannot compete with highly capitalized, large-scale operations and often they are vulnerable to volatile prices on the international market and ever declining terms of trade of the commodities market.

In the Communication, reference to producers is limited to the compliance with (public and private) health, safety, environment and labour standards, most of which have been designed without any Southern producer participation. We recognize the need of compliance with standards and welcome the proposals to support producers in these costly efforts. However, "Aid for Trade" will fail to deliver for poverty reduction, employment and sustainable development if the strategy does not increase opportunities, market access and provide capacity building, particularly for small and marginalized producers.

2. No proposals on how to attain remunerative prices

An essential aspect in this context is the need for producers to receive remunerative prices. Fair and equitable prices are a pre-requisite for producers to build sustainable livelihoods. This has been repeatedly recognized and both the Cotonou Agreement and GATT articles 36 and 38 establish to "devise measures ... designed to attain stable, equitable and remunerative prices". Unfortunately, the Commission misses the opportunity to make concrete suggestions on how to tackle this key issue in the context of "Aid for Trade".

3. No proposals on how to reduce poverty through "Aid for Trade"

The Communication recognizes that "the poverty linkages are not always well articulated in trade development strategies and Aid for Trade operations", pointing to a major weakness in existing Trade Related Assistance.

Unfortunately, the Commission misses the opportunity to develop convincing proposals on how this link could be developed.

Even in the reference to private initiatives such as Fair Trade, the Communication focuses on the “consumer assurances relevant to sustainable development”. Consumers are indeed key to promoting sustainable trading practices. However, in the context of “poverty and Aid for Trade” we would expect a focus on the contribution of private trading initiatives to reducing poverty and on how “Aid for Trade” can build on existing experience in this field.

4. No role for civil society in monitoring and reporting

While the Communication refers to the central role of involving civil society and the private sector in the design of “Aid for Trade” strategies, these groups are not mentioned under Monitoring and Reporting. However, the inclusion of civil society, private sector and other affected parties is instrumental to ensure a positive impact on vulnerable sectors of the society. Therefore it is essential that local accountability mechanisms should be linked to global review mechanisms.

Another missed opportunity

Against this background, we fear that Aid for Trade will fail to deliver on the stated core aims unless these concerns are taken into account in the joint EU strategy. This would mean another missed opportunity to make trade a tool for poverty reduction and sustainable development.