

Perspectives- EU trade policy

The EU spends about €100 billion each year subsidising its farmers. It spends about €2 billion each year on overseas development aid to sub-Saharan Africa. In other words, if we could turn off the Common Agricultural Policy (CAP) just for one week per year, then we could afford to double EU aid to the world's poorest region.

If you were to listen to Trade Commissioner Peter Mandelson, you might think that the EU was doing all it can to help out developing countries, and that CAP reform was well underway. But it's a bright, shining lie. In practice the EU still has higher trade barriers against poor countries than rich ones. According to the widely used GTAP database, poor countries, with a GDP per capita of less than £5,000 face an average EU tariff equivalent to 5 percent of everything they export to us, while rich countries (where incomes are over £15,000 a year) pay a tax of just 1.6 percent.

The 'reforms' of the CAP undertaken so far are, as the OECD has pointed out, "not a revolution, or even a very big reform". The CAP budget is still expanding, going up to €57 billion in 2007. And, as Peter Mandelson's spokesman has already made clear, "Nothing he is proposing as part of the EU's offer in world trade talks will reduce overall levels of EU farm spending by one cent."

Instead of cutting subsidies, the EU has 'decoupled' some of its farm spending from directly boosting production. But about three-quarters of what the EU spends supporting farmers is still spent in ways that distort the market against developing countries.

Instead of cutting overall trade barriers, the EU has tried to fob off developing countries with a bewilderingly complicated system of trade 'preferences'. The EU now claims it allows in 'everything but arms' (EBA) from the poorest countries tax free. But this isn't real free trade.

Firstly, only the very smallest and poorest countries get this preference. So for example, India, which has more people than any other country living below the international poverty line, is not eligible for EBA, and still gets whacked with hefty tariffs. Botswana, where nearly 40 percent of people have AIDS, is seen as too rich to qualify. In total all the EBA countries' exports add up to about a fifth of what the city of Hong Kong exports. This is hardly a vast act of generosity.

Worse still, the EU also has increasingly tight 'rules of origin', which means that if a product from a poor country contains parts, ingredients or materials from other countries, then the preferences are taken away again.

That's why some of the poorest countries in the world get such a raw deal. Malawi pays an average tax of 12 percent on its exports to the EU, despite having an average income per person of just over €1 a day. Lesotho, Namibia and Swaziland face average applied tariffs of over 20 percent. This is grotesquely unfair.

What should be done? The CAP should stop being a spending programme and become a spending restraint policy instead. Member states should fund farm subsidies out of their own national budgets up to a certain limit, and the spending ceiling should be lowered year on year. The EU should also start to pull down its tariff wall. We could make a start by at least agreeing to match the tariff cuts which are being offered in the Doha round by the so-called 'G20' group of developing countries.

Real reform of the EU's trade policies is decades overdue. The last year has seen huge demonstrations of public opposition to unfair trade barriers against developing countries. The EU must start to listen soon - because history punishes those who arrive late.

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