

TRADE

Economic growth, driven by trade and investment, is key to ending poverty in Africa. Development assistance can help lay the foundations for growth by boosting health, education and infrastructure, but in the long term trade and investment will have a far greater impact on poverty alleviation.

In addition to strong growth in oil exporting countries, 18 non-oil producing economies in Africa recorded average growth rates of 5.4% between 1996 and 2005.¹ This recent trend is attributable to global economic trends, but also to African policies that encourage exports and attract investment.

However, the benefits of growth are not evenly spread and Africa's share of global trade remains low. In 2006, Africa's share of global trade was approximately 2%, a two-thirds decrease from the 1980s, when it was 6%. Even small percentages of global trade can make a significant difference. In 2006, 1% of global trade resulted in earnings of \$117 billion – more than six times the development assistance Africa received from G7 donors in that same year.²

Africa's diminishing trade share is due to a number of factors, and changing course will require action domestically, regionally and globally. On the global level, G7 donors have

committed to enhancing Africa's ability to trade by supporting the reform of world trade rules, eliminating subsidies and financing aid for trade. Without progress on these issues, the global trade system is stacked against the poorest – making it extremely difficult for Africans to trade their way out of poverty.

G7 donors have communicated these commitments to Africa both through the Doha Development Agenda (DDA) of the World Trade Organisation (WTO) and through G8 communiqués. While the DDA is central to G8 trade commitments to Africa, it is dependent on agreement among more than 150 WTO member states, and the long-running talks in Geneva are making little progress. Africa cannot afford to wait.

WHAT DID THE G8 PROMISE?

At the core of the G8 promise on trade in 2005 was the commitment to 'make trade work for Africa'. As mentioned previously, the specific commitments on trade are currently linked to the completion of the Doha round of WTO negotiations and can be broken down into four key elements: subsidy reduction, market access, aid for trade and policy space. These four elements are the areas in which this report measures progress.

The language below is paraphrased from G8 communiqué documents from 2005, 2006 and 2007. The G8 promised to:

AGRICULTURAL SUBSIDIES

Substantially reduce trade-distorting domestic support for agriculture, eliminate export subsidies for cotton by 2006 and all export subsidies by 2013, as well as establish disciplines for all trade-distorting subsidy measures with equivalent effect.

MARKET ACCESS

Open G8 markets to 97% of products from least developed countries (LDCs) and ensure that rules of origin in preference programmes are transparent and simple.

AID FOR TRADE

Increase aid for trade funding to \$4 billion by 2010 to help all developing countries reap the benefits of increased market access.

POLICY SPACE

Allow African countries the flexibility to implement trade policies in a way that does not compromise national and regional growth or anti-poverty efforts.

HOW AMBITIOUS WAS THE G8 PROMISE?

At the time of the 2005 Gleneagles summit, G8 leaders expressed confidence in the Doha round's ability to deliver what Africa and other developing countries needed in order to harness trade as a tool for poverty alleviation. As such, many of the commitments were linked to a successful completion of the round. To date, WTO members have been unable to agree on the initial package of tariff and subsidy cuts. Even if a decision on these fundamental elements is reached this year, negotiation of the details and implementation of the deal will take years to complete. In the meantime, Africa's trade share remains low and the continent as a whole remains off track in meeting the goal of halving poverty by 2015.

TOWARDS AN 'AFRICAN TRADE INITIATIVE'

A lack of specificity and ambition on the key elements of subsidies, market access, aid for trade and policy space in the 2005 G8 commitment – as well as a continuing focus on Doha – have also made progress difficult. The commitments are simply not ambitious or specific enough to drive meaningful policy change. In lieu of progress through Doha, it is becoming apparent that to 'make trade work for Africa', this issue needs to be revisited with a view to creating a comprehensive package of elements focused on Africa with an 'African Trade Initiative'. Such a comprehensive approach would help African countries to compete by removing agricultural market distortions that unfairly disadvantage African producers, permit full access to regional and global markets and help African farmers and businesses to identify target markets and increase and diversify exports.

For example, one of the most important elements of the G8 commitments on agricultural subsidies is to 'establish disciplines for all trade-distorting subsidy measures with equivalent effect', meaning that G8 members should find ways to reduce or eliminate all forms of agricultural support that distort trade. This language should be the guiding force in establishing a comprehensive approach to subsidy reduction.

However, six months after Gleneagles, trade ministers meeting in Hong Kong were able to agree only to eliminate export subsidies by 2013, leaving a timetable for the vast majority of other trade-distorting subsidies unset. Likewise, an annual commitment of \$4 billion in aid for trade for all developing countries does not come close to meeting even Africa's needs, which, when infrastructure is included, come to approximately \$12–13 billion per year.³

It is for this reason that DATA calls for an African Trade Initiative to be at the centre of any trade agreement, whether it is WTO negotiations, Economic Partnership Agreements (EPAs) with the EU or other unilateral trade programme. G8 leaders, three years on from the time of their promise, should renew and revise their commitment, not only to the successful completion of the Doha Development Agenda, but more importantly to an approach that prioritises Africa's integration into the global trading system. If these commitments, covering agricultural subsidy reduction, market access, aid for trade and policy space cannot be undertaken as a part of the DDA, they should be prioritised as separate, coordinated commitments by all G8 countries.

DELIVERING THE PROMISE

DOHA DEVELOPMENT AGENDA

The Doha round of global trade talks, launched in November 2001, was intended to focus on integrating poor countries into the global trading system. However, almost seven years after its launch, WTO members have yet to agree on the extent to which developed countries are willing to cut agricultural subsidies and tariffs in exchange for cuts in tariffs on manufactured goods in key developing country markets, particularly India and Brazil. The continuing stand-off between these two key groups of countries has taken the focus off the poorest countries in the world.

The G8 and other key WTO players have continued to speak positively about completing the Doha negotiations – in political statements, at the annual World Economic Forum in Davos, Switzerland, and in bilateral and multilateral fora. Just prior

to the 2007 G8 summit at Heiligendamm in Germany, the EU, US, Brazil and India gathered in Potsdam, Germany to try to forge a compromise on subsidy and tariff cuts that could potentially move negotiations forward.

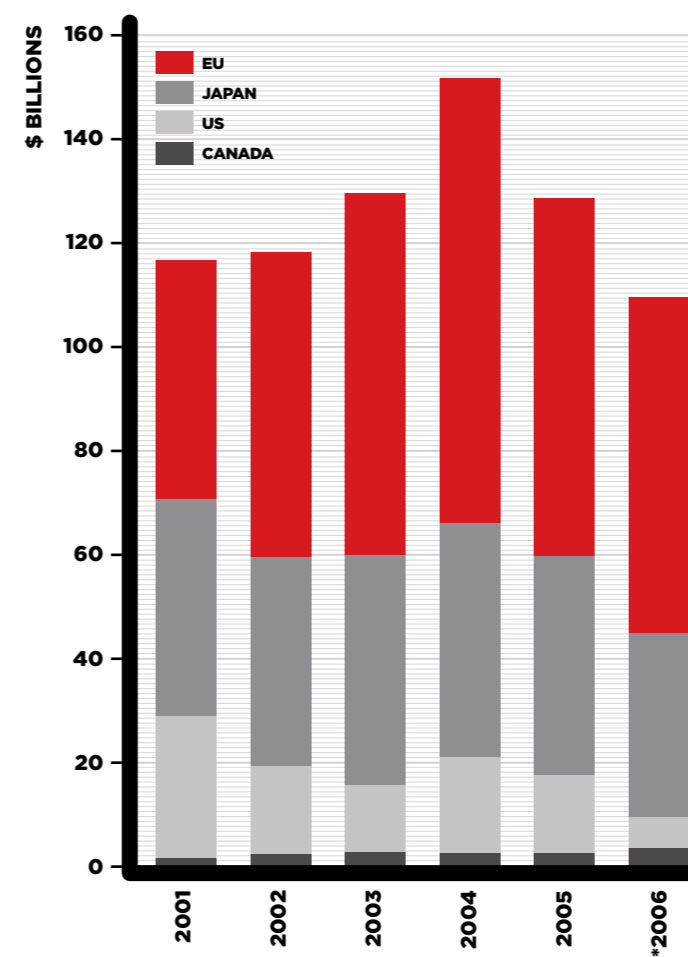
However, the talks collapsed and since that time, negotiations have been at a more technical level, with delegations from all WTO members meeting in Geneva. These discussions have made some progress, but difficult political decisions about cuts to subsidies and tariffs remain unresolved. Currently, negotiators are hoping that ministerial-level meetings can be held in the spring or summer of 2008 to consolidate progress and move talks forward. However, it remains to be seen if these meetings will take place and, most importantly, if they will produce the substantial elements of the deal that Africa needs.

AGRICULTURAL SUBSIDIES

G8 countries are among the largest subsidisers in the world of their own agricultural sectors. Subsidies give farmers in developed countries an unfair advantage in the cost of production, allowing them to charge a lower price for products that compete with unsubsidised African farm products. This market distortion happens primarily in commodities such as cotton, rice, vegetables and other agricultural products on which Africa depends.

In 2006, the OECD estimated that the EU spent approximately \$63 billion on market price support (MPS) to its farmers – the most trade-distorting type of subsidy.⁴ Japan spent \$3.7 billion, the US spent almost \$6 billion and Canada \$3.7 billion.⁵ Although higher food prices in recent years have caused some reductions in subsidies for certain crops, the following graph shows that G7 subsidies in 2006 were still at significant levels. Altogether, since the launch of the Doha round in 2001, the EU, US, Japan and Canada have spent more than \$750 billion on agricultural subsidies.

AGRICULTURAL SUBSIDIES 2001–2006



*2006 FIGURE IS PROJECTED.
SOURCE: OECD PRODUCER SUPPORT ESTIMATE.

The EU's Common Agricultural Policy (CAP), which provides subsidies to farmers and producers in 27 European countries, amounted to more than \$63 billion in 2006, or more than 40% of the EU's overall budget.⁶ The following table shows how much each European G8 member pays into the CAP. Because the four EU members that are also in the G8 finance the majority of the EU budget, three of the four countries are net contributors to the CAP of between €1 billion and €4 billion. France alone is a net recipient of nearly €2 billion from CAP funds.

EUROPEAN G8 MEMBERS' CONTRIBUTIONS TO CAP IN 2006⁷

	CONTRIBUTION TO CAP (MILLIONS OF EUROS)	SUBSIDIES RECEIVED (MILLIONS OF EUROS)	NET RECEIPT/ CONTRIBUTION TO CAP (MILLIONS OF EUROS)
GERMANY	10,564	6,543	Net contributor: -4,021
FRANCE	8,227	10,169	Net recipient: +1,942
ITALY	6,827	5,622	Net contributor: -1,206
UK	6,533	4,312	Net contributor: -2,221
EU 27	50,047	50,047	

Although the EU began to undertake a CAP reform programme in 2000, there is still much to be done in subsidy reform. The EU is currently performing a 'health check' on the CAP to evaluate the impact of CAP programmes as they relate to domestic, regional and global economic factors. As with subsidy programmes in all G8 markets, however, evaluation and discussion of subsidy programmes can often become political and focused on preserving the status quo, rather than being an objective analysis of the detrimental impact these programmes can have on poor countries.

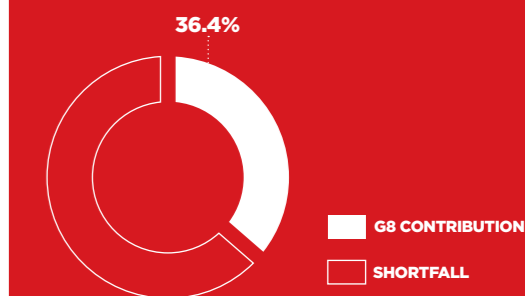
In the United States, 2007 marked the expiration of the Farm Bill, the legislation that determines spending levels on agricultural subsidies, as well as nutrition and conservation programmes. Two versions of the approximately \$280 billion legislation were written by the US Congress in the latter half of 2007; and a combined House-Senate nearly \$300 billion bill that makes no significant changes to the programmes that negatively impact African farmers the most. The bill was approved by both houses in mid-May. President Bush, fighting his objection to a bill that does not reform US farm programmes vetoed the bill on 21 May and Congress overrode his veto 22 May. This put in place for the next 5 years expensive programmes that will continue to pay farmers, many of whom are wealthy, to produce and distort global markets.

AGRICULTURAL SUBSIDIES

\$750bn

Amount the EU, US, Japan and Canada have spent on agricultural subsidies since the launch of the Doha round in 2001.

AID FOR TRADE



When infrastructure needs are added to technical assistance for exporters and adjustment costs associated with implementing trade agreements, the total need for African aid for trade comes to approximately **\$12–\$13 BILLION** per year.

In 2006, G8 governments contributed only **\$2.8 BILLION** to aid for trade projects in Africa.

COTTON

One important example of how developed country subsidies can adversely affect poor countries is evident in the cotton sector. Cotton is the main cash crop in a number of African countries and the primary source of income for thousands of families. However, price distortions caused by subsidies in developed countries, particularly the United States, drive down the global cotton price, making it difficult for poor farmers to compete, while also reducing their earnings and their ability to provide for their families. A recent Oxfam study found that a complete removal of US cotton subsidies would increase the world price of cotton by 6–14%, thereby increasing the prices that West African farmers would receive by 5–12% and increasing average household incomes by 2.3%–5.7%. Although this increase may seem quite small, it would be enough to cover, for example, health-care costs for four to ten individuals for an entire year.⁸

As a result of the tremendous impact on the livelihoods of people employed in the cotton sector, four West African countries (Benin, Mali, Burkina Faso and Chad) joined with Brazil in 2003 to charge the US, through the WTO dispute system, with illegally subsidising its cotton farmers. The WTO ruled against the US in 2004, forcing it to eliminate a few, but not all of its cotton subsidy programmes. However, the dispute has continued in the WTO and US cotton subsidies remain in place.

MARKET ACCESS

In order to increase their share of global trade, African countries must not only have the ability to export agricultural products and commodities, but also be able to diversify exports into value-added products such as processed foods, apparel, footwear and other labour-intensive agricultural and manufactured goods. Africa's ability to export some of these products is impeded by tariffs that add to the cost of goods and reduce their competitiveness. Eliminating these tariffs, particularly on products that Africans currently produce or have the ability to produce, has been shown to boost trade. All G7 countries have a preference programme or agreement in place that allows some African products duty-free access to developed country markets, such as the EU's Everything But Arms programme (EBA) and the US African Growth and Opportunity Act (AGOA) (see chart on following page). However, these programmes have had varying degrees of success, and need to be reviewed and harmonised across G7 countries.

The G8 and WTO commitments to allow 97% of products from Least Developed Country (LDC) may seem to be a step in the right direction, but it requires some important adjustments. First, this proposal should be expanded to include all African countries, rather than just the LDCs. Market access policies that benefit the poorest countries should not neglect regional economic engines such as Ghana, Nigeria, Kenya or South Africa that could pull smaller economies along in their wake, just as Brazil has done in South America and China and India have done in Asia.

Second, these programmes need to take into account existing preference programmes that offer special access to African countries. While not perfect, these programmes have sparked growth in fledgling sectors such as apparel, generating thousands of jobs. If these existing programmes are not taken into account, extending preferences, particularly in the apparel sector, to more sophisticated non-African LDC producers could threaten these gains. Implementing this commitment, either through the Doha round or on a unilateral basis, requires G8 governments to ensure that new and beneficial market access is being offered to these countries without penalising either LDC or non-LDC countries.

G7 PREFERENCE PROGRAMMES FOR AFRICA

	PROGRAMME	DESCRIPTION	IMPROVEMENT NEEDED
CANADA	Least-Developed Country Tariff Program	Allows nearly 100% duty-free/quota-free access for least-developed countries (LDCs) with the exception of quota limitations on dairy, poultry and eggs.	Does not provide benefits to non-LDC African countries, therefore excluding key regional economic drivers such as Nigeria, South Africa, Ghana and Kenya.
EU	Everything But Arms (EBA)/Cotonou Agreement/Economic Partnership Agreements	EBA allows nearly 100% duty-free/quota-free market access to products from all LDCs. The Cotonou Agreement gave additional benefits to African, Caribbean and Pacific countries (ACP). This arrangement ended in 2007 and was transitioned into interim Economic Partnership Agreements (EPAs), signed by most African countries. These transform the arrangement from a one-way arrangement to a two-way agreement that requires commitments from both parties.	The EBA programme only covers exports from LDCs, excluding key regional economic drivers such as Nigeria, South Africa, Ghana and Kenya. EBA's rules of origin requirements have also proved too cumbersome for African LDCs to utilise, particularly in the apparel sector. ⁹ Economic Partnership Agreements are currently in their interim form and are not yet complete. It remains to be seen if this new model will provide better market access to African countries than the previous Cotonou Agreement.
JAPAN	Least Developed Country Programme	Japan provides more than 90% duty-free/quota-free access to LDCs with some exclusions for agricultural and fish products. ¹⁰	Limiting access to LDCs excludes key African regional economic drivers such as Nigeria, South Africa, Ghana and Kenya.
US	African Growth and Opportunity Act (AGOA)	More than 90% duty-free access to the US market for all African countries.	Although AGOA covers more African countries than other G7 LDC preference programmes, the majority of AGOA imports are petroleum products. The programme does not include free access for key agricultural products such as sugar, cotton, peanuts or beef.

In the ongoing EPA negotiations there is too much focus on WTO compatibility on the trade side and not on economic partnership. In other words there is no partnership as such that would allow Africa to articulate its needs.

ERASTUS MWENCHA,
SECRETARY-GENERAL
OF THE COMMON MARKET
FOR EASTERN AND
SOUTHERN AFRICA,
29 NOVEMBER 2007

RULES OF ORIGIN AND STANDARDS

There is little point in providing enhanced market access through preference programmes and then imposing a rules system that makes it difficult for African products to qualify for these benefits. Rules of origin are used to define whether a product qualifies for duty-free treatment through preference programmes. For example, in order to qualify for the benefits, the exported product must contain a specified percentage of African inputs. The amount of African content required is not uniform between the programmes, making it complicated for African producers to deliver products to multiple markets. Further, complex or strict sanitary standards and other requirements can make preference programmes extremely difficult to utilise. These standards can add around 10% to African export costs¹¹ – enough to make African products uncompetitive in a global market.

Both the Commission for Africa and the World Bank recommend a standard 10% rule of origin that would allow African countries to import low-cost inputs, contribute value to the final product and still qualify for duty-free access.¹²

ECONOMIC PARTNERSHIP AGREEMENTS

The Cotonou Agreement, signed by the EU with the African, Caribbean and Pacific (ACP) countries in 2000, gave these states special access to the EU market. As a result of a WTO legal ruling claiming that the EU provided special access for bananas from ACP countries to the detriment of developing countries in Central and South America, the EU subsequently began transitioning the Cotonou Agreement into Economic Partnership Agreements (EPAs). EPA negotiations were officially launched in 2002, although negotiations did not really gain momentum until the latter half of 2007, as the EU-Africa Summit and the December 31, 2007 expiration of Cotonou loomed.

Although the primary focus of EPAs is to continue the access that ACP countries already have to the EU market, the agreements that ACP countries were being asked to sign in 2007 also contained a requirement for them to open their own markets to EU exports. In addition, the proposed agreements contain commitments on other areas such as services, investment policy and intellectual property rights policy – all

areas that would benefit the EU, but could potentially stifle future growth for ACP countries.

Many ACP countries objected to these additions, saying that the proposed EPAs went beyond the mandate of the Cotonou Agreement. Non-LDC countries were put under considerable pressure to sign, as they faced increased tariffs on some key exports such as flowers, beef and apparel on January 1, 2008 if they did not. (LDC countries retained access to the Everything But Arms programme, which provides nearly 100% duty-free/quota-free market access).

By the end of 2007 almost all ACP countries had initial interim EPAs, although many voiced concerns about the pressures they had faced to do so. The interim deals guarantee the continuation of special access to the EU market, with improvements to rules of origin in some sectors, including apparel. The few non-LDC African countries that did not sign the deals¹³ are now facing higher tariffs -- for example, up to 11.5% on fish and up to 6.1% on cocoa products.¹⁴

The 'full EPAs' are supposed to be signed by the end of 2008. A number of African leaders continue to call for a greater focus on development needs in the agreements. The definition of full EPAs is still under discussion, and at the December 2007 EU-Africa Summit, European Commission President Jose Manuel Barroso committed to ensuring that the concerns of the ACP countries regarding full EPAs would be heard. However, at the time of writing, it remained unclear what the process for creating development-friendly agreements would be. The rushed nature of the interim deals and concerns that the EU is focused more on market opening than on an integrated approach to trade and development have damaged EU-Africa relations. Next steps in 2008 will need to be carefully planned, in order to ensure that full EPAs better meet Africa's trade and development needs.

AID FOR TRADE

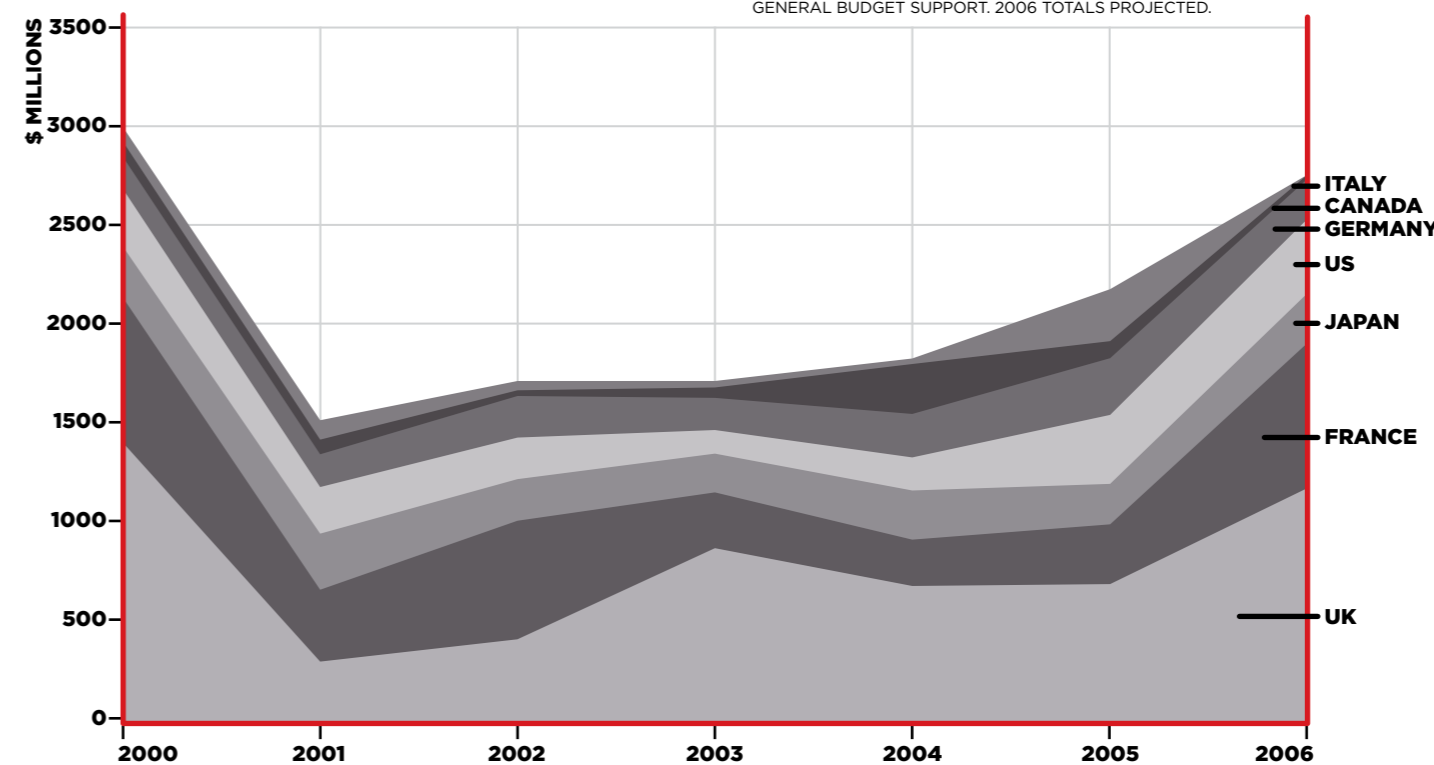
While reduced tariffs and subsidies are crucial elements in increasing Africa's share of global trade, without 'aid for trade' that addresses Africa's supply-side problems, African farmers and producers will not be able to build their capacity to export. Aid for trade encompasses a broad set of needs, all intended to boost Africa's ability to produce goods for export. These needs include financial and technical assistance for development of infrastructure and telecommunications systems, financial services, adjustment costs to compensate for losses incurred through the implementation of trade reforms, and marketing.

At the 2005 Hong Kong Ministerial meeting and at the 2005, 2006 and 2007 G8 summits, developed countries reiterated their commitment to scale up global aid for trade. However, these pledges are insufficient to meet Africa's needs,

and in many cases do not represent new and additional commitments. In 2005, the Commission for Africa reported that Africa needed at least \$10 billion annually from donors in order to meet its infrastructure needs alone.¹⁵ In 2007, DATA expanded this analysis, finding that when infrastructure needs are added to technical assistance for exporters and adjustment costs associated with implementing trade agreements, the total African aid for trade need increases to approximately \$12–\$13 billion per year.¹⁶ Further analysis is also needed to help determine which African export sectors could best spur economic growth and to help individual countries to identify their export potential.

Although aid for trade has been cited by many G8 governments as an essential element in building the capacity of African countries, funding for African countries has not been close to the levels needed, or promised. The chart below shows the fluctuation in aid for trade funding levels from G7 countries.

AID FOR TRADE FOR SUB-SAHARAN AFRICA



The table below shows that although there was an increase in aid for trade funding in 2004–2006, G7 countries are still only providing just over \$2 billion per year to African countries.

AID FOR TRADE FOR SUB-SAHARAN AFRICA

	AVERAGE 2001–2003 (\$ MILLIONS)	AVERAGE 2004–2006 (\$ MILLIONS)
CANADA	45.9	118.5
FRANCE	400	373.6
GERMANY	188.1	245.2
ITALY	53.9	101.3
JAPAN	690.5	238.8
UK	520	872.1
US	182.4	297.3
G7	1,620.6	2,246.8

SOURCE
OECD DEVELOPMENT ASSISTANCE COMMITTEE CREDITOR REPORTING SERVICE (CRS). TOTALS FOR AID FOR TRADE INCLUDE GENERAL BUDGET SUPPORT. 2006 TOTALS PROJECTED.

In many cases, provision of aid for trade is connected to the completion of ongoing trade negotiations, either the DDA or EPA. While additional aid for trade support should be directed to countries undertaking new commitments to assist with adjustment costs, addressing Africa's supply-side constraints should not be tied to the outcome of such negotiations.

POLICY SPACE

In order to develop and implement trade policies that enhance individual countries' poverty alleviation strategies, there must be an appropriate level of flexibility for African countries in multilateral, regional and bilateral agreements. This will ensure that they have access to the same flexibility that G8 countries benefited from as they pursued industrialisation and economic

growth in the past. Assistance in determining these priorities could be provided by in-country independent think tanks, funded by donors and the private sector and focused on the needs of specific countries or regions.

Although policy space is difficult to measure, EPA negotiations in 2007 were an example of a negotiation that compromised the ability of African governments to sequence trade policy in line with overall economic development goals. African governments had a short period of time to decide whether or not to sign EPAs and to analyse the potential implications of the deals on domestic economic development policies, regional integration and adjustment costs due to market opening.

WHAT DO THE G8 NEED TO DO?

G8 leaders continue to emphasise the importance of the completion of the DDA, but there is little dedicated focus on Africa's trade needs. Previous editions of The DATA Report have called on G8 countries to prioritise these needs in the context of the Doha round and outside of it. Starting in 2007, DATA has strengthened its call for an African Trade Initiative that is led by and coordinated among G8 countries. In order to achieve this, there are a number of steps that G8 donors should undertake, either through the Doha round or outside it.

SUBSIDY REDUCTION

- Prioritise the elimination of subsidies on crops that Africa produces, e.g. cotton, fruits and vegetables, peanuts, rice and sugar.
- In the meantime, compensate African producers for the revenues they lose due to developed country agricultural subsidies.

MARKET ACCESS

- Adopt a G8-wide coordinated approach on market access that grants 100% duty-free/quota-free access to all African countries.
- Harmonise liberal rules of origin across G8 markets to enable African countries to utilise preference programmes fully.

AID FOR TRADE

- Expand upon preliminary estimates of \$12–\$13 billion in aid for trade needs for Africa with a full costing of Africa's country by country needs. Commission African think tanks to identify regional and domestic aid of trade needs.

POLICY SPACE

- Ensure that EPAs and all other African Trade policies are appropriately adjusted to allow African countries to coordinate trade and investment policy and domestic reform with poverty alleviation strategies.

ARE THE G8 ON TRACK?

The G8 are collectively off track in their commitment to 'make trade work for Africa'.

The time has come for G8 countries to take the lead in developing and implementing a dedicated and harmonised African Trade Initiative that genuinely assists African countries to trade their way out of poverty.

SEVERLY OFF TRACK

DOHA DEVELOPMENT AGENDA

Nearly seven years after the launch of the Doha negotiations, WTO members still can not agree on the extent to which tariffs and subsidies will be reduced. G8 countries have linked all of their trade commitments to Africa to the successful completion of these negotiations, which has considerably delayed implementation of the key elements that Africa needs on trade.

OFF TRACK

AGRICULTURAL SUBSIDIES

Although the reduction of agricultural subsidies is included in the Doha negotiations, it is still unclear if any changes will be made either through the DDA or through domestic programmes such as the US Farm Bill or the EU Common Agricultural Policy. Although progress on the elimination of subsidies is most likely to be made through a multilateral process like the Doha round, the need for reform of agricultural subsidy programmes should be prioritised due to their detrimental impact on farm incomes and export opportunities for African farmers.

MARKET ACCESS

Although all G8 countries have extended some level of special market access to African countries, there is a real need for a programme that is harmonised across G8 markets and which provides 100% access to all G8 markets for all African products. The EU in particular was off track in 2007 by threatening to interrupt access to its market for African countries that did not sign interim Economic Partnership Agreements (EPAs).

AID FOR TRADE

Donors are not yet meeting Africa's needs in aid for trade. Africa-focused aid for trade funding schemes need to be scaled up and should not be linked to any other ongoing trade negotiations.

POLICY SPACE

EPA negotiations did not allow sufficient time or consideration to incorporate Africa's needs or concerns. Full EPAs must work for Africa.