

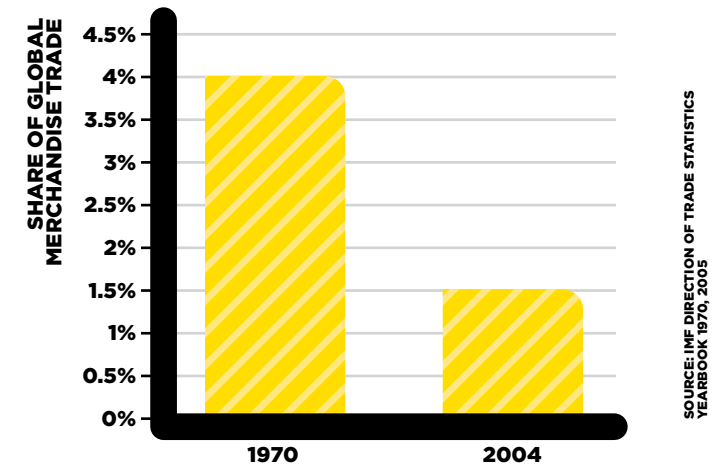
MAKE TRADE WORK FOR AFRICA

WHY IS TRADE IMPORTANT?

Africa's share of global trade by value has dropped from approximately 4% in 1970 to 1.5% in 2004. Due to the unfair competition created by domestic agricultural support and rich country barriers to trade, as well as lack of capacity to trade and deliver products, Africa faces the greatest number of obstacles to becoming globally competitive. And further, because African countries' exports are typically concentrated in only a few commodities, global subsidies and tariffs on those commodities can impose especially large costs. As this report makes clear, development assistance and debt relief alone will not provide the resources to enable Africa to achieve the goals laid out in the G8 Communiqué, let alone reach the Millennium Development Goals.⁸ In order for African countries to develop and mobilise their own resources to help finance these goals, they must be able to trade under a fair system that enhances their opportunities to earn.

The trade chapter focuses solely on progress by the G7 rather than the entire G8. Russia is not yet a WTO member, therefore actions within the Doha round are not relevant and data on its contributions to trade capacity-building are not tracked by the WTO.

SUB SAHARAN AFRICA'S SHARE OF GLOBAL MERCHANDISE TRADE (EXPORTS + IMPORTS)



WHAT DID THE G8 PROMISE?

TRADE COMMUNIQUÉ, PARAGRAPH 3. “In agriculture, we are committed to substantially reducing trade-distorting domestic support and substantially improving market access. We are also committed to eliminating all forms of export subsidies and establishing disciplines on all export measures with equivalent effect by a credible end date. We are also committed to opening markets more widely to trade in non-agricultural products, expanding opportunities for trade in services, improving trade rules and improving customs and other relevant procedures to facilitate trade. In this spirit, we also reiterate our commitment to the objective of duty-free and quota-free market access for products originating from LDCs. We will pursue a high and consistent level of ambition in all areas. We also recognise the importance of addressing products of interest to LDCs as part of the single undertaking of the DDA [Doha Development Agenda].”

IN ADDITION, AS PART OF ITS SPECIFIC COMMITMENTS ON AFRICA, THE G8 AGREED:

PARAGRAPH 22A. “To increase our help to developing countries to build the physical, human and institutional capacity to trade, including trade facilitation measures.

We are committed to granting additional support for trade capacity building to assist LDCs, particularly in Africa, to take advantage of the new opportunities to trade which will result from a positive conclusion of the DDA.”

The G8 also stressed the importance of allowing developing countries the policy space to determine their own development strategies:

PARAGRAPH 31. “It is up to developing countries themselves and their governments to take the lead on development. They need to decide, plan and sequence their economic policies to fit with their own development strategies, for which they should be accountable to all their people.”

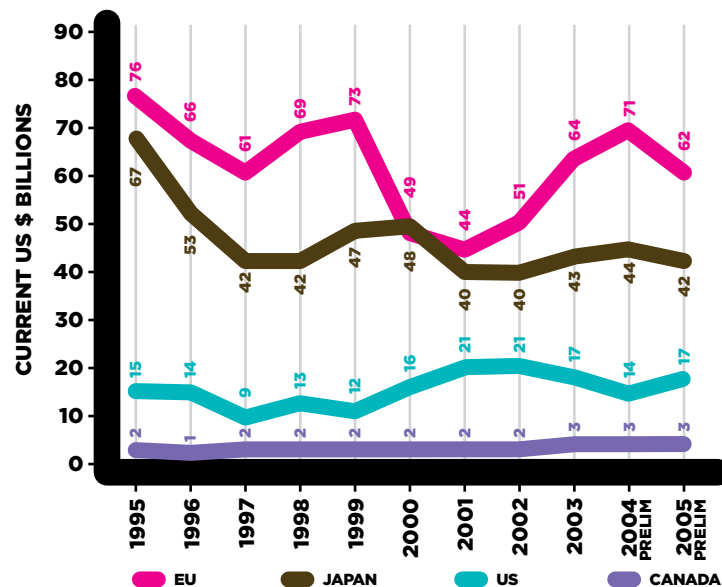
INTERPRETING THE COMMITMENT: The Gleneagles commitments on trade are largely related to the outcome of the World Trade Organization’s (WTO) Doha Development Agenda (DDA). As a result, measurement of progress against the commitment is largely linked to the progress in ongoing DDA negotiations and the extent of countries’ commitment to an outcome that will yield a beneficial outcome for Africa within those negotiations.

WHAT ARE THE CRITICAL ISSUES IN MAKING TRADE WORK FOR AFRICA?

The G8 Communiqué focused on several key factors that keep trade from working for Africa, which must be addressed:

1. TRADE-DISTORTING SUBSIDIES in the agricultural sector have a harmful impact on Africa, with 60% of Africans reliant on agriculture for their livelihood.⁹ The chart below shows the levels of market price support (which includes payments to agricultural producers either for domestic consumption or export) for the agricultural sector in G7 countries. Contrary to what many assume, these payments are not typically distributed to small farmers in developed countries, but rather to the largest, most wealthy commercial producers. This is particularly true in the U.S. and the EU. Across the G8, these payments far outweigh the ODA that these same donors provide to sub-Saharan Africa.

G7 MARKET PRICE SUPPORT FOR AGRICULTURE



The graph above shows two things:

1. That EU is by far the biggest supporter of its domestic producers
2. That overall levels of market price support have remained high and fairly stable

These payments are particularly damaging to Africa in the cotton sector, as developed country cotton farmers who are guaranteed a steady income from subsidies flood the market with cotton at artificially low prices, exacerbating the recent decline of world prices for cotton. Estimates of what impact the elimination of these subsidies would have on world prices vary, but a number of studies show that it could increase the world price for cotton by 10% or more.¹⁰ Much of this increase would be due to reductions in U.S. domestic support for cotton. A 2003 proposal by four African cotton-producing countries known as the “C-4” or “Cotton Four” (Benin, Burkina Faso, Chad and Mali) outlined the harmful effect cotton subsidies are having on their economies and asked for the elimination of these payments as well as compensation to cover economic losses caused by the subsidies.

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On a relative basis, some of the G7 nations have shown effort on moving the negotiations forward, but unfortunately this year none of the G7 countries are leading on the promises made to Africa on trade.”

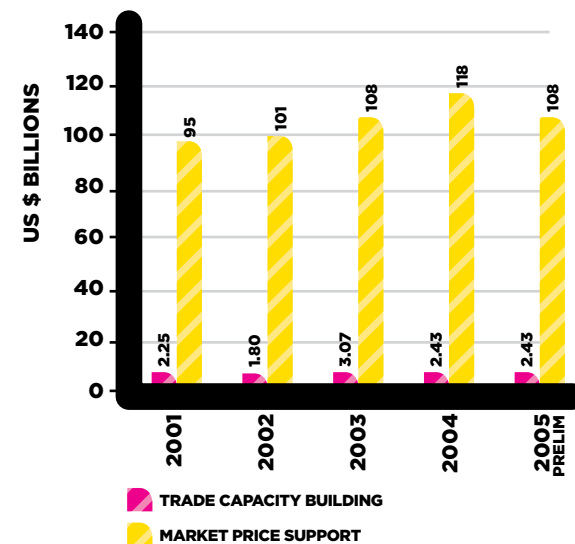
2. IN ADDITION TO SUBSIDIES, TARIFFS, QUOTAS AND OTHER NON-TARIFF BARRIERS hinder Africa’s ability to compete in new markets. These barriers impact sectors in which Africa could be competitive, for example, horticultural products, peanuts, fish, textiles and apparel, and footwear. Non-tariff barriers such as restrictive rules of origin and sanitary and phytosanitary standards also keep African exports from markets in which they could compete. The G8 also noted in its July 2005 Communiqué the importance of streamlining and enhancing the transparency of rules of origin that enhance African countries’ ability to utilise preference programs.

3. ANOTHER CRITICAL ELEMENT FOR AFRICA IS “AID FOR TRADE,” OR TRADE CAPACITY-BUILDING ASSISTANCE, that helps African countries to overcome supply-side constraints. Supply-side constraints are the elements that, along with external barriers, limit Africa’s ability to produce the sorts of products that could compete with global counterparts. These include, but are not limited to, a lack of technology, effective transportation and communication infrastructure, human capacity, supportive policy and regulatory environments, and marketing skills. While much attention has been given to the issues of market access and subsidies, more attention needs to be given to supply-side constraints going forward.

Levels of trade capacity-building assistance from the G7 to Africa are tiny compared to the large sums G7 countries spend on subsidising their farmers.

4. Lastly, African countries need to be given the “**POLICY SPACE**” to determine their own trade and development strategies so that as they engage with other WTO members and negotiate trade rules and arrangements, they do not compromise their national economic development priorities.

G7 MARKET PRICE SUPPORT & TRADE CAPACITY BUILDING FOR SUB SAHARAN AFRICA



HOW ARE THE G8 DOING? WHAT PROGRESS HAS BEEN MADE?

G8 donors specifically referenced the Doha Development Agenda (DDA) negotiations as the mechanism through which many of their promises on trade could be delivered. The DDA was launched in 2001 with the stated goal of making trade work for development, but thus far negotiations have yielded few concrete results. The G8 meetings in Gleneagles reiterated the importance of these negotiations and set the Hong Kong Ministerial in December 2005 as a crucial target date for delivering progress on these commitments.

In the lead up to Hong Kong, several G7 members made proposals on how to move the talks forward. Due to the fact that the agricultural sector still retains high barriers and subsidies, and that this is a sector in which most poor people are concentrated, reform in agriculture is key to the Doha Development Round.

- In October, the U.S. proposed an average 60% cut to trade-distorting domestic support, contingent on greater

reductions in EU agricultural tariffs, which the U.S. proposed should average 60%. The U.S. proposed that developed countries be allowed to protect 1% of its self-determined “sensitive products”—those products where the country will not cut tariffs.

- The EU’s counterproposal recommended cuts in its trade-distorting subsidy program consistent with Common Agricultural Policy (CAP) cuts, but nothing further, and approximately a 46% reduction in tariffs. The EU proposed a larger proportion (8%) of “sensitive products.”
- Japan has proposed a flexible approach to tariff cuts, advocating for lesser cuts on sensitive products in exchange for a higher average cut on agricultural tariffs.

In addition to these proposals from the G7 members of the WTO, the G-20, a group of developing countries, proposed deeper cuts in domestic support for both the U.S. and the EU (80% for the EU and 75% for the U.S. and Japan), and a slightly smaller average cut to agricultural tariffs for developed countries at 54%.

At the Hong Kong Ministerial, held just five months after the Gleneagles summit, negotiators made little significant progress:

SUBSIDIES Trade ministers agreed to eliminate export subsidies by 2013, and to eliminate export subsidies on cotton specifically by the end of 2006, continuing the momentum begun by a WTO ruling against the U.S. that resulted in the elimination of these programs. No agreement was reached on the method by which trade-distorting domestic support would be reduced on commodities, including cotton.

MARKET ACCESS Trade ministers also agreed to duty-free/quota-free access for 97% of products originating in LDCs and agreed that cotton would specifically be granted duty-free/quota-free access, although exports of raw cotton to the U.S. are negligible. Donors would be responsible for determining the 3% that they would not allow into their markets. However, without a final agreement on all aspects of the negotiation, these commitments may not be implemented by G8 countries. Negotiators also made little progress on the method for how a final Doha package will reduce tariffs and what sort of special treatment should be given to sensitive products.

AID FOR TRADE With regard to trade capacity-building, several nations made commitments for varying levels of assistance and the Hong Kong text established a task force to address coordination and implementation. Overall, it is not clear whether these pledges represent new resources. The U.S. pledged to double trade capacity-building assistance to \$2.7b by 2010 (the majority of this money will likely be channelled through the Millennium Challenge Account, a program for which not all African countries are eligible). The European Union committed to increase annual spending on aid for trade to €2b (US\$2.5b) by 2010 (although this allocation has not been budgeted for) and Japan pledged an additional \$10b; however, it is unclear how much of this will take the form of loans rather than grants.

POLICY SPACE Leaders included reference to a variety of measures that would grant additional policy space to developing countries in the Hong Kong Declaration, but they must be effectively operationalised and improved upon to preserve African countries’ right to determine their own trade and development strategies.

Since the Hong Kong Ministerial, WTO members have subsequently missed the April 30 deadline for agreement on how tariffs and subsidies will be cut. Ministers are expected to gather on the day this report is launched—June 29, 2006—with the hope of reaching agreement on these key issues by July 31, 2006.

LEADING AND LAGGING

LEADERS ON TRADE: Unfortunately, this year none of the G7 countries are leading on the promises made to Africa on trade.

LAGGARDS ON TRADE: On a relative basis, some of the G7 nations have shown effort on moving the negotiations forward. The U.S. began a necessary discussion on the reduction of agricultural subsidies among developed countries with its October 2005 proposal, but has claimed an inability to go further on agricultural subsidy reduction without a pledge to lower tariffs from the EU. The U.K. has advocated for ambition in the round but has been unable to move the EU bloc further on reductions in agricultural tariffs. Germany has also been considering a more progressive position on agriculture, but likewise has not been able to force a change in the EU's negotiating stance. France and Italy have resisted additional movement on agriculture and have been unwilling to move beyond the current reforms slated by the Common Agricultural Policy (CAP).

MAKE DOHA WORK FOR AFRICA NOW

The G8 has an opportunity to follow through on its Gleneagles commitment by pushing for a positive result by July 31, 2006, and by ensuring that Africa—with all its special considerations—is at the centre of that deal. To date, none of the members of the G8 or the EU as a whole are putting those concerns centrally into the negotiations. These major players must take bold steps to unblock negotiations—the U.S. must offer greater subsidy cuts, particularly in the most trade-distorting areas, and the EU must offer greater tariff reduction to get the discussions moving again. In addition, all players must push for a deal that includes the following critical elements that would truly “make trade work” for Africa:

ENHANCED MARKET ACCESS: A successful Doha negotiation should reduce or eliminate tariff and non-tariff barriers on products Africa has the capacity to produce, particularly in areas where tariffs escalate with the level of processing. With lower tariffs, Africa will have the opportunity to diversify its exports into higher-value processed products.

Further, the commitment to provide duty-free, quota-free access to products originating in LDCs should be implemented.

As WTO Members, led by the G7, consider the 3% exclusion, they should take measures to ensure that they do not nullify the potential benefits of such a deal by excluding all of Africa's potential export products. In addition, sensitive product provisions in developed countries should not block African products and tariff cuts on tropical products should include African exports. New market access commitments also should not ignore the potential of non-LDC African countries as they are regional engines of growth for the continent.

ELIMINATION OF TRADE-DISTORTING DOMESTIC SUPPORT: G7 leaders must set the level and timeline by which all forms of trade-distorting subsidies are removed and should specifically recommend action on the proposal for special treatment in the cotton sector. This elimination can be structured in a way that helps small farmers in Africa and does not negatively impact small farmers in donor countries, where the vast majority of subsidies go to large landowners and commercial farms. Elimination of trade-distorting domestic support on commodities such as rice, sugar, corn, cotton, dairy products, fruits, vegetables, and wheat, which have a significant impact on Africa, should be prioritised. In addition, options for commodity management mechanisms that help to regulate world price fluctuations should be explored.

NEW AND EFFECTIVE AID FOR TRADE: New and additional assistance should target supply-side constraints and provide adjustment assistance for economic shocks resulting from multilateral reform (e.g., higher food prices). Further, this assistance should not be conditional on the completion of the round or other policies.

MECHANISM FOR ADDRESSING PREFERENCE EROSION: Donor nations should provide adjustment assistance for products where tariff preferences are eroded as well as longer implementation periods for tariff cuts where multilateral liberalisation will diminish the preferential access Africa currently has to developed country markets.

POLICY SPACE FOR DEVELOPING AFRICAN ECONOMIES: As many African countries are new entrants to the multilateral trading system, measures such as special products provisions, special and differential treatment, safeguard mechanisms,

and measures which allow poor countries to shield sensitive products from tariff reduction are essential in ensuring that any trade liberalisation undertaken is consistent with and complementary to national economic and development priorities. This is particularly important in agriculture where Africans are calling for protection for agricultural products that are directly related to food security. The G8 Communiqué specifically states, “It is up to developing countries themselves and their governments to take the lead on development. They need to decide, plan and sequence their economic policies to fit with their own development strategies, for which they should be accountable to all their people.”

IF DOHA FAILS—NEXT STEPS ON AN AMBITIOUS AFRICA TRADE PLAN

In the event that an agreement is not reached through the Doha negotiations, G8 leaders must remain committed to their pledge on trade at the Gleneagles summit and take measures to address Africa’s trade crisis outside of the Doha round through alternative actions such as the following:

MARKET ACCESS: In the event that WTO members fail to agree in the context of a multilateral negotiation, market access should be increased through expanded and enhanced programs like the Generalised System of Preferences (GSP), the African Growth and Opportunity Act (AGOA), Everything But Arms (EBA) and other preference initiatives.

SUBSIDIES: G8 nations should unilaterally limit and reduce trade-distorting domestic support through national legislation (e.g., the U.S. Farm Bill or the EU Common Agricultural Policy) for products that Africa produces (sugar, cotton, peanuts, etc) or has the potential to produce.

AID FOR TRADE: Regardless of the outcome of the Doha round, specific and targeted technical and financial assistance that builds Africa’s capacity to trade and is not tied to specific policy objectives, including infrastructure and adjustment assistance, is necessary. Included in this allocation should be funds that build the capacity of African trade negotiators to advocate and develop positions in the WTO, regional, and bilateral discussions.

POLICY SPACE IN BILATERAL AND REGIONAL NEGOTIATIONS:

In upcoming Economic Partnership Agreements (EPAs) and other bilateral and regional agreements, sufficient policy space must be ensured for democratically elected African governments to fulfil their national development priorities so that liberalisation is not forced upon them against the wishes of their electorate.