DELIVERING THE SUSTAINABLE DEVELOPMENT GOALS THROUGH TRADE

UPDATE

September 2015

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2015 is an agenda-setting year for trade and development. In September, world governments will adopt new Sustainable Development Goals (SDGs). Trade is central to the SDGs: it is seen as a key mechanism for driving economic growth and poverty reduction.

Trade is an important tool for sustainable development. It can boost incomes, tackle poverty and deliver a lasting impact. But trade systems and trade liberalisation, when not managed properly, often work against the poor. Subsidies and tariffs hold back poorer countries from accessing markets, while poorly managed liberalisation undermines livelihoods.

Increasing trade for its own sake is not enough. If sustainable development is the goal, the need is for fair trade, designed to empower poor people and lift them out of poverty.

Trade policy often presents hard choices between domestic self-interest and poverty reduction goals. Delivering the SDGs therefore requires a robust, high-level commitment to policy coherence. The UK government and the European Union need to raise their game.

Hot on the heels of the SDG summit, the World Trade Organization (WTO) holds its biannual Ministerial Conference this December in Nairobi, Kenya. It will be an early test of whether the SDGs herald a new commitment to fairer trade, or if the self-interest that has blocked progress on the Doha Development Agenda (DDA) for the last 14 years will prevent the necessary refocus required to align trade negotiations with the new globally agreed SDGs.

FAIRTRADE'S FIVE-POINT AGENDA

In July 2015, the Fairtrade Foundation set out a five-point agenda for trade policy coherence,[1] calling for a new approach from the UK government:

1 **PRO-POOR TRADE SDGs:** To ensure that the SDGs on trade are 'pro-poor', with indicators that drive fair and sustainable trade for poor communities – not just trade for its own sake.

2 **JOINED-UP GOVERNMENT:** To make sure that the whole government works better together to reduce poverty through trade, sustainable development must be the top shared priority for the UK's trade goals.

3 **IMPACT ASSESSMENT:** To ensure that comprehensive assessments are made of the likely impact of trade decisions on poor communities, the risks of damage to livelihoods and how positive outcomes can be ensured.

4 **PROPER ADJUSTMENT SUPPORT:** To ensure that farmers and workers affected by changes to trade regimes receive proper support to help them adjust.

5 **FAIR EU TRADE POLICY:** To use the UK's influence to ensure that the EU's trade decisions are fair for farmers and workers in developing countries.

This paper provides updated analysis in support of this call for trade policy coherence, focusing on three key issues where failure of governments to effectively join up policy and put the poorest first will result in non-delivery of the SDGs. These are:

- The impact of Common Agricultural Policy (CAP) reform on sugar producers in developing countries.
- The forthcoming WTO Ministerial Conference (MC10).
- The Transatlantic Trade and Investment Partnership (TTIP).

WHEN POLICY COHERENCE FAILS: SUGAR AND CAP REFORM

Changes to the CAP sugar regime risk pushing 200,000 sugar cane farmers and workers from African, Caribbean and Pacific (ACP) countries into poverty as they lose out to cheaper, subsidised European sugar beet producers.[2] CAP reform will remove sugar beet quotas from 2017, flooding the market with sugar beet and reducing prices.

Some of the most efficient European beet sugar producers are planning to expand production[3] and, in the event of large-scale expansion, the EU could become a net exporter. EU sugar farmers are subsidised under the CAP, and many EU member states are planning additional support for sugar farming. The move runs contrary to SDG target 2.b, which urges the removal of export subsidies, in line with the Doha Development Round.

Meanwhile, the falling prices will mean that ACP/LDC sugar producers will be forced to sell their sugar elsewhere. Some countries may be able to find sales in alternative markets but some, like Mozambique and Swaziland (over 40 percent of its sugar was exported to the EU in 2014), will find themselves unable to make up for the shortfall.

New research commissioned by Fairtrade in 2015 confirms earlier predictions of a significant impact on developing countries. Mozambique and Swaziland alone stand to lose out by over US$40 million from October 2017, reducing the revenue earned from sugar exports by around 5-7 percent.[4] Producers will also face greater price volatility than in the past.

Poverty levels in countries whose economies rely on cane sugar, such as Swaziland, are very likely to be impacted. The volatility and lower prices are very likely to result in loss of livelihoods and reduced household income for families close to the poverty line. Lower prices could result in lower incomes for sugar cane farmers, as sugar companies attempt to cut costs.

Much of the EU funding under the Accompanying Measures for Sugar Protocol (AMSP) that was meant to support sugar cane farmers through adjustment to CAP reform has to date either not met the needs of producing communities, been spent on other things or has not been spent at all. In some places the EU has continued to fund the expansion of sugar cane production, despite the threat to the industry. The European Parliament's Committee on Development (DEVE) has recently recommended that the European Court of Auditors investigates the problems with the transitional aid programme.[5]

There is still time to ensure that remaining AMSP funds are better spent, and to help sugar cane farming communities affected by CAP reform.

- The Department for International Development (DFID) should call on the European Commission to make immediate provision to ensure farmers and their families are not pushed into poverty.
- DFID should encourage its European allies to support the call for the European Court of Auditors to investigate the problems with the transitional aid programme, so that lessons are learnt for the future.

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1 Fairtrade Foundation (2015), *Delivering the Sustainable Development Goals through trade – A five-point agenda for policy coherence* (hereinafter *Five-point agenda*) http://www.fairtrade.org.uk/~/media/fairtradeuk/what%20is%20fairtrade/documents/policy%20and%20research%20documents/policy%20reports/delivering%20the%20sdgs%20through%20trade_five%20point%20agenda_final.ashx

2 LMC International and ODI for the Department for International Development (2012), *The Impact of EU Sugar Policy Reform on Developing Countries* http://r4d.dfid.gov.uk/pdf/outputs/TradePolicy/LMC-ODI_SugarReportPublicVersion(Final).pdf

3 Südzucker, *Annual Report 2014/15* http://www.suedzucker.de/en/Downloads/Download_Daten/Finanzberichte/2014_15/Geschaeftsberichte_2014_15/GB_2014_15/GB-Suedzucker-2014-15-EN_1_1_1_1.pdf

4 LMC International Ltd (2015), for the Fairtrade Foundation, unpublished

5 European Parliament DEVE Coordinators' meeting, July 2015

STALEMATE AT THE WTO – ARE GOVERNMENTS GIVING UP ON PRO-POOR TRADE DEALS?

Target 17.10 of the SDGs is to 'Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda'.[6]

The DDA was envisaged as a trade round that would rebalance global trade in favour of poorer countries. The UK views trade liberalisation under the DDA as a win-win situation for developing and developed countries.[7]

However, the WTO has been largely deadlocked for 14 years. The UK and EU are now advocating 'recalibration' – reducing the level of ambition to overcome the stalemate. The Ministerial Conference in December appears to offer two unsatisfactory outcomes: agreeing a poor DDA, or no DDA at all.

But concluding the DDA with a low level of ambition, in particular without addressing developing country concerns (for example, on duty-free, quota-free market access and rules of origin, and on the acquisition of food stocks to support low income producers) would provide further damaging evidence that the political will does not exist to deliver fair global trade rules within the WTO. Recalibration should not be an occasion to cherry-pick issues.[8]

In the absence of agreement at the WTO, in the last few years a plethora of new bilateral and mega-regional trade agreements outside of this forum are now forging ahead. The risk is that through these, new trade rules will be set and new trade issues will be addressed without the participation of Least Developed Countries (LDCs) and developing countries (see the example of TTIP on page 5).

6 United Nations (August 2015), *Transforming our world: the 2030 Agenda for Sustainable Development* https://sustainabledevelopment.un.org/content/documents/7891Transforming%20Our%20World.pdf

7 *PM statement on WTO trade deal*, UK Government, December 2013 https://www.gov.uk/government/news/pm-statement-on-wto-trade-deal

8 Indonesian perspective – *South stress on developmental outcomes for Nairobi MC10*, Third World Network, 2015 http://www.twn.my/title2/wto.info/2015/ti150805.htm

Small farmers in developing countries will continue to face unfair competition from heavily subsidised developed country agricultural exports.[9]

On a more positive note, 25 special and differential treatment (S&D) proposals[10] were jointly tabled by the G90 at the last negotiating session in July 2015. These proposals include amendments to existing WTO rules to provide greater S&D to LDCs and developing countries. This is a great opportunity for 'low hanging fruit' to be picked in Nairobi if all sides can commit, and an important step towards delivering the SDGs.

MC10 is therefore an early test of will for governments like the UK signing up to the SDGs. Will the SDGs signal a step change in commitment to pro-poor trade through the WTO, or will we see SDG trade commitments undermined less than three months after they are agreed?

'No deal' at MC10 should not be an option.

- In line with the SDGs, the UK should work with its allies to conclude, *at a minimum*, the LDC issues at MC10 in Nairobi.
  - Fairtrade cotton farmers, like all cotton farmers in West Africa, need an end to the cotton subsidies, in line with SDG target 2.b to 'Correct and prevent trade restrictions and distortions in world agriculture markets, including through the parallel elimination of all forms of agricultural export subsidies… in accordance with the mandate of the Doha Development Round'.[11]
  - Addressing the LDC demands on duty-free, quota-free market access and rules of origin will help meet SDG target 17.11 to 'Significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020',[12] and also SDG target 17.12.
- The UK government should play a brokering role to help reach agreement on special and differential treatment proposals.

TTIP – DEVELOPING COUNTRIES NOT AT THE TABLE

The EU-US Transatlantic Trade and Investment Partnership is the biggest trade deal that has ever been negotiated. It carries significant risk for developing countries, but these impacts are not properly understood.

TTIP will have profound implications for the rules of global trade. Because it is seen primarily as a bilateral deal between the US and EU, developing countries are not present at the negotiations. Developing country issues and concerns are therefore unlikely to be raised and lobbied for. The EU and US have stated that they want to open the final deal to other countries (to multilateralise it) but to date there is no formal engagement of third party governments.

However, the deal will have an impact on developing country trade with both Europe and the US. Concerns have been raised about the potential for TTIP to disrupt exports from developing countries, especially in agricultural products, and some manufactured goods, such

9 See the example of cotton, *Five-point agenda* p.10

10 Special provisions typically include longer time periods for implementing agreements and commitments; measures to increase trading opportunities for developing countries; provisions requiring all WTO members to safeguard the trade interests of developing countries; support to help developing countries build the capacity to carry out WTO work, handle disputes, and implement technical standards; provisions related to least-developed country members https://www.wto.org/english/tratop_e/devel_e/dev_special_differential_provisions_e.htm

11 United Nations (August 2015), *Transforming our world: the 2030 Agenda for Sustainable Development* https://sustainabledevelopment.un.org/content/documents/7891Transforming%20Our%20World.pdf

12 ibid.

as garments. There could also be some positive effects from the harmonisation of standards across the new trading block. It is difficult to be precise about the scale and nature of impacts while the deal is under negotiation. The fact remains that many developing countries are very likely to experience major impacts on their economies, potentially with damaging effects on livelihoods and poverty, but have no power to influence the outcome.

Perhaps more importantly, TTIP will set a precedent for future trade and investment deals. It will create binding commitments on new issues that are not being addressed in the WTO, including competition, public procurement, labour and the environment, and investment. Developing countries have the right to a say on these issues too, and should not simply be presented with a *fait accompli*.

Particular attention should be paid to precedents established around investor protection which holds particular risks for developing countries. Investor protection clauses can offer investors excessive rights with few obligations, while restricting the policy space for governments to act on environmental or social issues, or to support emerging national industry.[13]

13 Trade Justice Movement (forthcoming October 2015), *Worried about UK BITs? The case for reviewing UK investment protection provisions*

14 See *Five-point agenda*, p.12-14

15 COM(2015) 44 final Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – *A Global Partnership for Poverty Eradication and Sustainable Development after 2015*, Brussels, 5.2.2015 http://ec.europa.eu/europeaid/sites/devco/files/com-2015-44-final-5-2-2015_en.pdf

The impact of TTIP on developing countries must not be ignored.

- The UK should encourage the EU to undertake a comprehensive assessment of risks for developing countries arising from a TTIP deal, in time for the outcome to influence negotiations. Proposals which are found to have a negative impact on poverty and sustainable development should be opposed by EU negotiators.
- The impact on developing countries should be included as part of the sustainable development chapter of the TTIP agreement.
- Trade diversion risks for developing countries should be explored with affected countries, and adjustments to the TTIP agreement made where needed.
- Attention should be paid to precedents established by TTIP which would be damaging if applied to developing countries in future trade deals, especially with regard to investment protection.

FROM RHETORIC TO REALITY: POLICY COHERENCE FOR SUSTAINABLE DEVELOPMENT

If governments fail to effectively join up policy and put the poorest first, it can be disastrous for developing countries, pushing people further into poverty.

Delivering on the commitment to the 'trade goals' within the SDGs, especially policy coherence (SDG target 17.14) will require a clear strategy and political leadership at the highest level. With the right institutional mechanisms and accountability, policy coherence for development (PCD) can be successfully implemented.[14]

The EU has a formal commitment to policy coherence, and has recently called on all countries to integrate sustainable development into their trade policy.[15] The EU needs to deliver this commitment in practice. Similarly, it is vital that UK ministers ensure a robust approach to trade policy coherence across government.

The UK government should:

- Empower the Secretary of State for DFID with a mandate to ensure compliance with the SDGs across government.
- Review ways to achieve PCD across government. This should include ensuring that the cross-departmental Trade Policy Unit is fully supported to prioritise poverty reduction and SDGs within trade-related policy across government.
- Ensure that DFID's annual reporting provides a detailed analysis of PCD across government, especially for those policies with an impact on trade.
- Facilitate and encourage detailed civil society review of government performance on PCD, especially trade.
- The International Development Committee and Independent Commission for Aid Impact should regularly review government performance against the SDGs, especially with regard to policy coherence on trade, taking into account civil society views.

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The contents of this update paper are the sole responsibility of the Fairtrade Foundation and do not necessarily reflect the views of individuals and organisations consulted.

fairtrade.org.uk

Fairtrade Foundation, 3rd Floor, Ibex House, 42-47 Minories, London, EC3N 1DY

Tel: +44 (0) 20 7405 5942   Email: mail@fairtrade.org.uk

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