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International Development Committee

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Fifth Report of Session 2006–07

Report, together with formal minutes and oral evidence

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International Development Committee

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Footnotes

In the footnotes for this Report, references to oral evidence are indicated by 'Q' followed by the question number.

Contents

Summary

The European Union's role as a major development actor continues to grow. It is the second largest distributor of overseas development aid, behind the US. We welcome the priority given in the 2005 EU Consensus on Development to providing aid to the poorest countries, and to Africa in particular. The UK and other member states now need to ensure that they deliver those commitments.

The EU is at the centre of international trade negotiations which will shape relationships between developing countries and the developed world for years to come. The EU must be guided by development needs in these negotiations; it should reach out to developing countries and allow their concerns to be aired and addressed.

We welcome the renewed effort the WTO membership, including the UK, is putting into securing a deal in the Doha Development Round. Time, is however, short: the likely window for a deal is just a few months. Transparent and inclusive negotiations, continued political will and flexibility in key dossiers such as agriculture will be decisive in securing a deal. In parallel to the negotiations, the UK and other developed countries should continue to consider a development package, separate from or in addition to an overall deal, as an alternative means of guaranteeing some of the hard-fought-for development gains for the world's poor.

The EU is negotiating Economic Partnership Agreements with regional groupings of African, Caribbean and Pacific states. The period for negotiating the Agreements has been substantial. But in this critical phase of the negotiations, the EU must not abuse its position of strength and should not force ACP states to make progress on the New (or Singapore) Issues or on regional integration at an impractical pace. The negotiations are behind schedule and we believe the EU needs to have contingency plans in place, including extension of the WTO waiver, should the negotiations not be concluded within the deadline.

1 Introduction

1. The Committee keeps a watching brief on European Union development issues. Given the competences of the European Union, EU development issues often naturally intersect with EU trade issues. It is in that context that we went to Brussels in January 2007 to take evidence from the European Commission on development policy generally and on international trade negotiations. We have drawn on that evidence and on our previous work to prepare this Report as an update on these policy issues.

2. Chapter 2 considers the impact of some recent changes and other current issues in EU development policy. We examine the European Consensus on Development and how this has guided policy in the year since its adoption. We look ahead to plans for establishing 'Millennium Development Goal Contracts' with developing countries and to the Department for International Development's central role in that process. We also cover EU and UK policy on aid for trade, that part of development assistance which aims to build the capacity of developing countries to trade effectively.

3. Our Report last year into aspects of the negotiations on the World Trade Organisation Doha Development Round focused on the issues which we considered central to a deal which had development at its heart.[1] We supported an ambitious outcome for the Round and concluded that an improved EU offer on agriculture was key to unlocking the Round for developing countries. We published the Report after the Hong Kong Ministerial at which negotiators remained too divided on key issues to produce more than a statement of general principles. We have followed the progress of the Round since that time and Chapter 3 addresses this progress.

4. The previous International Development Committee held an inquiry into the negotiations on the Economic Partnership Agreements between the EU and regional groupings of African, Caribbean and Pacific (ACP) countries.[2] The Committee expressed concern that these negotiations, central to the EU's relationship with developing countries, were not being given the attention they deserved. Our predecessors challenged the Government to use its 2005 Presidency of the EU to turn the negotiations around and to guarantee that the poorest countries had real choices to enable them to use trade for their own development. Chapter 4 examines subsequent developments in the negotiations.

5. We are grateful to those who gave evidence to the Committee: Mr Bernard Petit, Deputy Director-General for Development of the European Commission and officials from that Directorate-General; and the Rt Hon Peter Mandelson, European Commissioner for Trade, and his officials. We also held informal discussions in Brussels with Ambassadors and other representatives from Barbados, Dominica, Fiji, Kenya, Mauritius, Mozambique, Nigeria and Senegal, and with Glenys Kinnock, Nirj Deva, Fiona Hall and Jürgen Schröder, members of the European Parliament Committee on Development, and David Martin, a member of the European Parliament Committee on International Trade. We are grateful to them for the opportunity to exchange views.

1 International Development Committee, Third Report of Session 2005-06, *The WTO Hong Kong Ministerial and the Doha Development Agenda*, HC 730

2 International Development Committee, Sixth Report of Session 2004-05, *Fair trade? The European Union's trade agreements with African, Caribbean and Pacific countries*, HC 68

2 EU Development Policy

European Consensus on Development

6. The European Consensus on Development was adopted by the European Council in December 2005. It sets out for the first time a common vision to guide both member states' bilateral efforts and European Commission activity in the field of development. One of the key elements of this vision is to give a clearer priority to assistance for least-developed countries and other low-income countries, with a commitment that half of EU aid increases should go to Africa.

7. The Commission told us that the EU has significantly increased its focus on poverty eradication in the poorest countries, with 46% of net disbursement of European Community (EC) aid going to least-developed countries in 2005.[3] In contrast, the low-income focus of the inter-governmental European Development Fund is around 90% and the average across multilateral donors is around 72%.[4] DFID has said that it would like to see 70% of EC aid going to low-income countries by 2008.[5] Bernard Petit, Deputy Director-General of Development for the Commission, told us that the Commission is constrained in its ability to prioritise assistance to the poorest and least-developed countries by the decisions taken by Heads of State and Government:

> "The Consensus does not say that globally the Heads of State of Europe must leave the bulk of the resources to low-income countries. They said, 'Within the decision taken by the Heads of State what we have to do is give a focus to the low-income countries'."[6]

8. The structures delivering EU development assistance are highly complex. The Commissioner for Development is in charge of EU development policy for the African, Caribbean and Pacific states, while the Commissioner for External Relations (RELEX) deals with Asia, Latin America and all other states. Moreover the RELEX Commissioner is in charge of EuropeAid, the agency responsible for on-the-ground delivery of EU development aid. The Development and RELEX Commissioners jointly produce an annual report on the Commission's "development assistance and implementation of external assistance".[7] At a strategic level, the objectives which are labelled as of particular relevance for development policy and external assistance in the Commission's 2005 Annual Policy Strategy range from the "stabilisation and association process in the Balkans" and "further implementation of the European Neighbourhood Policy" to a "review and scaling up of the EU contribution to the Millennium Development Goals" and the launch of the EU Water Facility.[8] Mr Petit told us:

3 Q 17; EC aid refers to the Commission-managed multilateral aid budget and excludes member states' bilateral aid.

4 OECD Development Assistance Committee figures for the poverty focus of multilateral agencies in 2004: net ODA by income group (www.oecd.org/dac)

5 DFID 2005-2008 Public Service Agreement Targets: Target 3, Sub-target 1

6 Q 19

7 European Commission, Annual Report 2006 on the *European Community's Development Policy and the Implementation of External Assistance in 2005*: Highlights (ec.europa.eu/europeaid/reports)

8 European Commission, Annual Report 2006 on the *European Community's Development Policy and the Implementation of External Assistance in 2005*, p 2 (http://ec.europa.eu/europeaid/reports); and COM(2004)133 final.

> "If your point is to say that the structure to deliver and develop assistance within the Commission is not optimal I will agree with you entirely, because it is the only example in the world where you have two different departments dealing with development in different regions […]. This is not optimal."[9]

9. **We strongly welcome DFID's advocacy of an increased focus by the Commission on poverty reduction in low-income countries. The European Council, however, now needs to make good on the commitments it made in the 2005 Consensus on Development to prioritise aid to the poorest countries, and to Africa in particular. We recommend that the Government look at all options available, including withholding funds, to encourage the European Union member states to agree parameters for Commission development activity that allow a dramatic increase in aid going to those who most need it.**

10. **We recommend that the Government encourage a long-term review of Commission development structures in order to streamline staff and institutions and to provide clearer lines of accountability. In the short term, we believe greater clarity could be achieved by disaggregating headline figures for development assistance for low- and middle-income countries from those for external assistance to neighbouring, candidate or potential candidate states.**

'Millennium Development Goals Contracts'

11. The European Development Fund (EDF) is an inter-governmental fund, administered by the Commission. 90% of its spending is on low-income countries. The 10th EDF settlement was agreed last year. €22.6 billion will be spent through the Fund in the period 2008–2013. Country Strategy Papers (CSPs) which will programme the Fund's expenditure are due to be finalised in March or April 2007.

12. Spending on health and education is identified by most developing countries as a priority. However, according to the Commission's draft CSPs, the focus on education and health will decrease under the 10th EDF.[10] The Commission told us that education and health will, instead, be addressed by other development agencies or through the Commission's spending on budget support:

> "It is a concern if you look only statistically in the draft Country Strategy Paper for the 10th EDF that resource for health and education is seen to have decreased. I have expressed myself this concern. The answer to that situation is two-fold. The first answer is that we are working in terms of complementarity. The Commission cannot do everything everywhere. You have the Member States, so if education is adequately covered by others in a given country there is no point in the Commission adding resources to that. But, secondly, we have this budgetary support focus on health and education."[11]

9 Q 22

10 European Commission Directorate-General for External Relations (ec.europa.eu/comm/external_relations)

11 Q 26

13. The shift from addressing key human and social development areas through EU programmes to addressing these through budget support will require a significant change in the Commission's management of these policy areas. We were, therefore, interested to hear the Commission's plans for a 'Millennium Development Goals (MDG) Contract' which it is developing with DFID as a vehicle for managing budget support spending.[12] We were told that MDG Contracts would offer greater predictability of resources and less conditionality for best-performing countries. It would also link funding more clearly to outcomes:

> "A [MDG] contract ties a country […] but not on this kind of conditionality, privatisation, liberalisation or whatever, but on the results on education, on the results on health, the increase in the rate of vaccination, the increase in the number of teachers, these kinds of things."[13]

14. **The policy shift on health and education spending under the European Development Fund away from programme expenditure towards budget support will need a parallel shift in the Commission's approach. We welcome DFID's involvement in developing the Millennium Development Goals (MDG) Contracts and the clearer links these should offer between spending and outcomes. We look forward to monitoring the progress of the MDG Contracts both as a potential framework for the Commission's new approach to health and education expenditure and, more broadly, as a possible model for outcome-oriented conditionality for budget support.**

Limitations of aid for trade

15. Aid for trade is development assistance that is targeted at building the capacity of developing countries to take advantage of trade opportunities. Since our 2006 Report on the Doha Round, the WTO aid for trade task force has presented its report to the WTO membership.[14] The task force report recommends: an increase in resources available for aid for trade; that these should be "additional, predictable, sustainable and effective"; and that there should be a "border between aid for trade and other development assistance".[15] The task force also said that agreements on aid for trade should not be seen as a substitute for a successful Round and argued that a successful conclusion to the Round would increase the need for such aid to enable developing countries to make the necessary adjustments.

16. The EU, UK, Japan and the US have made resource commitments to increase aid for trade by 2010. The EU has decided that its commitment to increase such assistance from €300 million a year to €1 billion a year will be linked to the EPA process.[16] The Government, in its response to our 2006 Report, said that it had committed £100 million a year to aid for trade by 2010.[17] The Government also said that "Aid for Trade is now a key element of the

12 Qq 10-13

13 Q 13

14 International Development Committee, Third Report of Session 2005-06, *The WTO Hong Kong Ministerial and the Doha Development Agenda,* HC 730; 'Aid for trade' refers to trade-related assistance and capacity-building.

15 Aid for Trade Task Force, *Recommendations*, 27 July 2006 (docsonline.wto.org)

16 Q 43

17 International Development Committee, Third Special Report of Session 2005-06, *The WTO Hong Kong Ministerial and the Doha Development Agenda: Government Response to the Committee's Third Report of Session 2005-06*, HC 1425, p 9

DDA [Doha Development Agenda] trade negotiations", although it agreed that aid for trade was a "complement to, and not a substitute for, a successful DDA outcome."[18]

17. **For trade to work as an effective development tool, we believe that opening markets alone is not sufficient—significant capacity-building in this area is also essential. We welcome recognition by the WTO aid for trade task force and the Government that aid for trade initiatives are complementary to the Doha Round. We are concerned, however, that without a successful outcome to the Doha Round the funds available for aid for trade will be minimal, as both the Round and aid for trade have developed in tandem. We recommend that the Government make explicit its commitment to ambitious aid for trade initiatives irrespective of the outcome of the Doha Round.**

18 International Development Committee, Third Special Report of Session 2005-06, *The WTO Hong Kong Ministerial and the Doha Development Agenda: Government Response to the Committee's Third Report of Session 2005-06*, HC 1425, p 10

3 WTO Doha Development Round

Prospects for an agreement

18. In July 2006 the World Trade Organisation (WTO) Doha Development Round negotiations were suspended when it became clear that too little progress was being made, particularly on agriculture. Peter Mandelson, the European Union Trade Commissioner, told the Committee that negotiators had come to an *impasse*:

> "[Negotiations] were suspended then because we were unable to make any progress on the subject of trade distorting farm subsidies because, as the US trade representative said at the time, 'There is not enough agricultural market access on the table from Europe and from the developing countries to make it worth our while to indicate any further flexibility on farm subsidies'. The Director-General [of the WTO] said, […] 'If you want to make progress on the market access side you are going to have to indicate where you are going on the subsidy side.'"[19]

Informal contacts between key negotiators, especially the European Union and the United States, have continued since the suspension. In November, the Director-General of the WTO indicated that working-level negotiations would resume although "fully-fledged" ministerial-level talks would not be possible unless there was movement in member states' positions.[20] Reports of meetings in early January 2007 between US and EU negotiators, followed by high-level contacts at the World Economic Forum in Davos, suggest that a deal may now be possible. The Prime Minister has said that there is momentum behind negotiations.[21] On 7 February, WTO Director-General Pascal Lamy announced "we have resumed our negotiations fully across the board."[22]

19. Eight months since the suspension, the central issues dividing negotiators have not changed: significant progress on market access and agricultural subsidies remain the building blocks necessary to secure a deal which would enable a successful outcome to the Round. In its response to our 2006 Report on the Doha Round, the Government said that it believed that "an ambitious, pro-development outcome is still deliverable".[23] The window for securing that outcome is, however, smaller than it was last summer. The US President's 'fast-track' authority to agree a deal expires at the end of June.[24] It is not a given that this authority will be extended. Reports from the International Centre for Trade and Sustainable Development suggest that a breakthrough in the negotiations now could help convince

19 Q 32

20 WTO Director-General's remarks at the informal Trade Negotiations Committee meeting, 16 November 2006, and his speech in Uruguay, 22 November 2006 (www.wto.org/english/tratop_e/dda_e/dda_e.htm)

21 Reuters, 26 January 2007

22 WTO Director-General's statement to the General Council, 7 February 2007, (www.wto.org/english/tratop_e/dda_e/dda_e.htm)

23 International Development Committee, Third Special Report of Session 2005-06, *The WTO Hong Kong Ministerial and the Doha Development Agenda: Government Response to the Committee's Third Report of Session 2005-06*, HC 1425, p 13

24 'Fast-track' is the trade negotiating authority granted by US Congress that allows the President to negotiate international trade agreements. Under fast-track procedures, the President submits the legislation to Congress for approval or rejection. No amendments are allowed.

Congress to extend the President's authority, and that this in turn would simplify the process of finalising the Round.[25] If neither a deal nor an extension to the 'fast-track' authority is agreed before June, however, there is the possibility that negotiations may be put on hold until after the US Presidential elections in 2008, with unforeseeable consequences.

20. **We welcome the renewed effort the WTO membership, including the UK, is putting into securing a deal in the Doha Development Round. Time is, however, short: the likely window for a deal is now just a few months. The key difference between July 2006, when the suspension was announced, and now is greater political will to reach an agreement rather than a significant change in the 'building blocks' involved in any deal. Moreover, we believe that it is continued political will that will be decisive in securing a deal. We encourage the UK, EU and all negotiators to approach this deal with a determination to succeed.**

A development package

21. As we said in our 2006 Report, WTO members have committed themselves to a round which places developing countries' "interests and needs at [… its] heart".[26] This commitment was reaffirmed at the Hong Kong Ministerial in December 2005. The Trade Commissioner told us that "the principal beneficiaries [of a deal], those who will disproportionately benefit, as it were, will be the developing world".[27]

22. The WTO operates on the basis that nothing is agreed until everything is agreed. It is, therefore, a concern that the development gains of the talks could be lost if no agreement is reached this year. Some, including Commissioner Mandelson, have called for a separate 'development package' to be agreed and implemented. This package would safeguard some of the development outcomes of the negotiations, regardless of the overall outcome of the talks:

> "I am not looking to a development package as an alternative to an overall outcome of this Round which by definition is a development outcome. But there are particular measures we can target at the least developed in addition to the overall outcome of the Round which are important and which we in Europe have been sustaining and keeping in place during the period of suspension to some good effect."[28]

Elements of such a package would include improvements to trade rules for least developed countries and enhanced trade capacity-building initiatives. The Government has told us that "the UK's priority is to make trade rules work in the interests of the world's poor […] We continue to press for any agreed measures to be implemented in a progressive manner for developing countries."[29] As we said in our 2006 Report, some developing countries were

25 International Centre for Trade and Sustainable Development, BRIDGES Weekly Trade News Digest, Vol. 11, Number 4 (www.ictsd.org)

26 International Development Committee, Third Report of Session 2005-06, *The WTO Hong Kong Ministerial and the Doha Development Agenda*, HC 730, paragraph 8; and the Doha WTO Ministerial Declaration, 14 November 2001 (www.wto.org/english/tratop_e/dda_e/dda_e.htm)

27 Q 33

28 Q 40

29 International Development Committee, Third Special Report of Session 2005-06, *The WTO Hong Kong Ministerial and the Doha Development Agenda: Government Response to the Committee's Third Report of Session 2005-06*, HC 1425, pp 6 and 7

wary of such a package.[30] They were concerned that it would fail to address the areas in which their greatest potential gains lie, especially EU agricultural tariffs and tariff escalation on processed goods.[31]

23. **We understand that agreement of a development package, separate from or in addition to an overall deal, is viewed as controversial by the WTO and some of its members. We agree with the EU Trade Commissioner that the development package is not an alternative to an overall deal. We are concerned, however, that hard-fought-for gains for the world's poorest countries should not be lost because of others' intransigence. We recommend that the Government give priority to all options available which safeguard the development outcomes of the negotiations, even if the Round itself is not concluded successfully.**

Involving the business sector

24. The World Bank says a deal would increase world income by $287 billion by 2015.[32] This could translate to significant development benefits, which is our main focus as a Committee. However, the promise of development benefits alone is unlikely to break the deadlock. There is also the promise of gains for developed countries, not least for those involved in services and in trade in manufactured goods.[33] It is therefore surprising to us that UK and other European business communities are not more vocal in advocating a successful outcome. The Trade Commissioner told us that business was already more active since the beginning of the year:

> "I believe that when they do realise finally that we are in the end game[…], when the penny really drops[…], you will see them more active."[34]

25. **We believe that the involvement of business leaders in shaping the EU offer, such as encouraging concessions on agriculture and on other sticking points in order to secure broader trade benefits, is crucial. We recommend that the Government intensify its dialogue with business leaders about the Round and make every effort to facilitate their involvement in these negotiations.**

Agriculture and involving developing countries

26. The Director-General of the WTO has identified three key areas in which progress is required for there to be a breakthrough. Two of these are agriculture-related: reductions both in US agricultural subsidies and in EU agricultural tariffs. Agriculture has in fact been at the heart of the Doha Round since its launch. In his evidence to us, the Trade Commissioner said that there was a range of positions on agriculture among developing countries. He made a distinction between "more competitive" developing countries, such as

30 International Development Committee, Third Report of Session 2005-06, *The WTO Hong Kong Ministerial and the Doha Development Agenda*, HC 730, paragraphs 43-45

31 Tariff escalation is an increase in tariffs as a good becomes more processed, such as low tariffs on fresh tomatoes but higher tariffs on ketchup.

32 World Bank. *WTO's Doha Development Agenda* (www.worldbank.org/trade/wto)

33 World Bank. *WTO's Doha Development Agenda* (www.worldbank.org/trade/wto)

34 Q 35

Brazil, who would be arguing for radical agricultural liberalisation and others who would feel more threatened by the loss of preferential tariffs.[35] He told us,

> "Hilary [Benn] and other members of the British Government need to realise this. Sometimes when I hear them clamouring for the dismantling of agricultural protection, the break-up of the CAP [Common Agricultural Policy], I wonder whether they realise that with the dispatch of the CAP would go the agricultural preferential access to the poorest developing countries in the world."[36]

In our 2006 Report, we discussed the fact that different groups of developing countries would benefit differentially from agricultural liberalisation.[37] We do not accept that the end of the CAP would mean the end of special and preferential access for developing countries.

27. Since the suspension of negotiations in July 2006, there has been significant contact between EU and US negotiators. There has been much less contact involving the developing countries of the G110.[38] Where there has been contact, this has largely been with the industrialised G5 bloc.[39] The WTO Director-General has stressed the need for transparency in the negotiations and that the negotiations should be a multilateral process in which all delegations participate.[40]

28. **We recognise that a deal involves compromise. No-one can expect that all aspects of a successful outcome to the Doha Round will please all WTO members. We do believe, however, that it is the WTO membership's duty to ensure that a deal on agriculture does not favour only those who shout loudest. We understand the rationale behind getting the early agreement of 'key players' to any deal but we are concerned that there is a danger that the EU and US could overcome their difficulties only to find some developing countries, perhaps outside the G5, rejecting a deal in which they have played little part. We recommend that the Government encourage the EU to consult broadly during the closing stages of the negotiations to ensure it draws in the views of the full range of G110 countries.**

35 Q 33

36 Q 36

37 International Development Committee, Third Report of Session 2005-06, *The WTO Hong Kong Ministerial and the Doha Development Agenda*, HC 730, paragraphs 30-33

38 The largest ever bloc of developing countries, representing nearly 80% of the world's population, which came together at the WTO Hong Kong Ministerial in December 2005.

39 Brazil, Russia, India, China and South Africa.

40 WTO News Item (www.wto.org/english/news_e/news07_e/gc_dg_stat_7feb07_e.htm), 7 February 2007

4 Economic Partnership Agreements

Prospects for agreement

29. The Economic Partnership Agreement (EPA) negotiations between the EU and six regional groupings within the African, Caribbean and Pacific (ACP) bloc are due to conclude at the end of 2007. Under the terms of the Cotonou Agreement, the EPAs will replace current EU-ACP trade arrangements from 2008. The Agreements are linked closely to the WTO Doha Round as they must be WTO compatible.

30. Two years further into the negotiations, many of the areas of concern identified in our predecessors' 2005 Report on EPAs remain relevant.[41] These include the prominence given to the New or Singapore Issues in the negotiations, namely investment protection, competition policy, transparency in government procurement, and trade facilitation.[42] ACP representatives have told us that, while they do not question the importance of the Singapore issues, they lack the capacity to implement them.[43] The Commissioner assured us that these issues would be "voluntarily taken on, negotiated and tailored to the development conditions of those countries and progressively implemented over a fairly long period".[44] However, a Commission working document on EPA negotiations with the Southern African Development Community (SADC), one of the regional ACP groupings, suggests that developing countries may be penalised for failing to address the Singapore issues to the satisfaction of the Commission:

> "It should also be made clear to SADC that if, in the end, the region would choose not to make an effort in addressing [… the Singapore] issues, then the EC [European Community] will find it difficult to improve SADC access to its market."[45]

31. **We remain concerned that the EU is abusing its position in the partnership to persuade the ACP countries that the New or Singapore Issues are essential for development and by implying that there may be penalties if they reject them. We believe both elements of the Commissioner's assurance to us—voluntary inclusion of the issues and a long implementation period—are necessary in order to prioritise development outcomes for the EPAs. We would encourage him urgently to ensure that the Commission as a whole is taking this approach across the board.**

32. We were disappointed to be told by ACP representatives that the dialogue between the Commission and ACP groups is poor. Notably, ACP countries say that they do not receive timely feedback on their negotiating proposals or they are told their proposals are not acceptable without a full explanation of why this is so.[46] We were also told that the Trade

41 International Development Committee, Sixth Report of Session 2004-05, *Fair trade? The European Union's trade agreements with African, Caribbean and Pacific countries*, HC 68, Conclusions and recommendations.

42 They are known as 'Singapore Issues' in reference to four working groups set up during the WTO Singapore Ministerial Conference (1996).

43 Private meetings of the Committee in Brussels, January 2007

44 Q 57

45 European Commission Staff Working Document, SEC(2006)1427, paragraph 25 (http://ec.europa.eu)

46 Informal meetings of the Committee in Brussels, January 2007

Commissioner does not meet the Ambassadors himself to discuss progress in the negotiations.

33. A review of the negotiations is currently underway. The Government has told us that it views the review as an "opportunity [for the Commission] to respond to ACP concerns about the negotiations".[47] **We recommend that the Government examine EU-ACP communication channels and look for opportunities to facilitate or improve that communication in this critical phase of the negotiations. The Government should ensure that the EPA review which is underway allows the concerns of ACP states to be aired fully and addressed. The Government should also encourage the Trade Commissioner to meet ACP Ambassadors personally to discuss progress in the negotiations.**

Extension of existing preferences beyond 2007

34. The December 2007 deadline for concluding the EPA negotiations is fast approaching. At a meeting in Khartoum in December 2006, ACP ministers noted that many groupings were behind schedule in the negotiations and their declaration called for an urgent high-level meeting to "take stock" of progress.[48] Subsequently, when African Union Trade Ministers met in January, they issued a declaration noting that more time may be needed to conclude the EPAs and some Ministers made speeches seeking assurance that existing preferences would remain in place until there was a successful conclusion.[49] Furthermore, we have heard from ACP representatives and members of the European Parliament Committee on Development that progress has been slow and that there is now little chance that the regional groupings will be ready to conclude by the deadline.[50] The review of the EPA negotiations which is underway may highlight the difficulty that some regional groupings, such as the Pacific, will have in concluding the negotiations within the set timeframe.

35. The Commissioner told us that any delays in concluding these Agreements would not come without cost:

> "If they [ACP countries] will not reach an agreement I cannot impose it on them, but the costs of not reaching an agreement are very sizeable for the ACP […]. The economic cost is not going to be in Europe. The economic cost is going to be amongst the ACP countries themselves."[51]

He also warned that an extension to the negotiating period, under a WTO waiver, could not be guaranteed. We note that the US submitted a waiver request in March 2005 for African Growth and Opportunities Act (AGOA) countries and has requested waiver extensions for its two other trade preference programmes: the Caribbean Basin Economic Recovery Act

47 International Development Committee, Third Special Report of Session 2006-07, *DFID Departmental Report: Government Response to the Committee's First Report of Session 2006-07* HC 328, response to recommendation paragraph 19

48 Fifth ACP Summit, Khartoum, 7-8 December 2007 (5thacpsummit.gov.sd)

49 Conference of Ministers of Trade of the African Union, Third Extraordinary Session, 15-16 January 2007, Addis Ababa, Ethiopia (www.uneca.org/eca_resources/news/2007/EPA_Addis_Ababa_Ministerial_Declaration.pdf)

50 Private meetings of the Committee in Brussels, January 2007

51 Q 59

and the Andean Trade Preference Act.[52] The WTO has yet to take a decision on these requests. **We recognise that some brinkmanship may be involved in negotiations and that the period for negotiating Economic Partnership Agreements (EPAs) has been substantial. We believe, however, that the EU should now undertake thorough contingency planning so as to be in a position to request a WTO waiver, as the US has done, should the EPA negotiations not conclude by the deadline.**

36. The EU is obliged under the Cotonou Agreement to table alternatives to EPAs if these are requested. The existing Everything but Arms (EBA) initiative, providing duty free access to EU markets for all exports except arms, is the alternative for least developed countries. However, we did not hear evidence from the Commission to suggest that the EBA was a viable alternative.[53] The Trade Commissioner said that the EPAs would be a more attractive option for developing countries:

> "The point of the Economic Partnership Agreements is the recognition that trade liberalisation alone is not an answer or a panacea to development [...]. We need to put in place local and regional customs union and trade opening arrangements amongst those countries so that their markets grow, their opportunities for trade with and amongst ACP countries within those regions will be increased and that new rules and conditions for investment will lead to higher inflows of foreign direct investment."[54]

Concern was expressed by some ACP representatives that the pace of regional integration encouraged by the EU under the EPAs was beyond what they felt able to deal with. In its response to our predecessors' 2005 Report, the Government was supportive of the need to allow developing countries "maximum flexibility" over arrangements and said that the EU "should make an upfront offer of EBA access to all ACP countries in each regional group, with no strings attached".[55]

37. **We recognise the argument that the Economic Partnership Agreements offer greater potential to grow regional markets than the Everything but Arms (EBA) arrangements. We believe that regional groupings themselves will best be able to assess their capacity to integrate and the pace at which this should take place. We continue to believe that the EBA should be a real option, in particular for least developed ACP countries who should not have to offer reciprocal market access to the EU until they have graduated from least developed country status. We were pleased to see that the Government broadly agreed with our view but we are disappointed that the EU negotiating position does not reflect this flexibility more explicitly.**

Southern African Development Community

38. The Southern African Development Community (SADC) is one of the regional groupings of the ACP involved in EPA negotiations. The grouping brings together widely

52 http://www.wto.org/english/news_e/news06_e/ctg_chairpersons_e.htm; and http://www.ustr.gov/assets/Document_Library/Reports_Publications/2006/asset_upload_file236_9455.pdf, p 28

53 Qq 59-61

54 Q 43

55 UK Government Response to the Committee's Sixth Report Of Session 2004-05, *Fair trade?: The European Union's trade agreements with African, Caribbean and Pacific countries*, Cm 6605, June 2005, responses to recommendation paragraphs 11 and 12

varying economies ranging from South Africa to Malawi. It is this grouping which therefore brings into starkest relief the challenges of agreeing arrangements which bind a whole region. The Government reply to our predecessors' 2005 Report referred to DFID research on asymmetric liberalisation—special arrangements which allow countries in the negotiation to liberalise at different paces and on different timetables and without strict reciprocity of access to markets—which highlighted:

> "[…] the need to use different scenarios on product coverage and transition periods for each ACP country and regional group. This is possible under the current rules in Article XXIV."[56]

39. We support this approach and believe that each ACP group should be free to make decisions on the pace, sequencing and product coverage of market opening. After initial signs that the Commission would not endorse significant asymmetrical liberalisation within the SADC grouping, the latest Commission position recognises that "due to South African competitiveness, especially in agriculture, it is inevitable to grant a different regime for the access to the EU market to South Africa and the other EPA members."[57] The Commissioner also told us that asymmetry within the regional market would also be possible.[58] **We endorse the flexible approach to market access and asymmetrical liberalisation present in the Commission's current position on the Southern African Development Community Economic Partnership Agreement (EPA). We look forward to the successful conclusion of the EPA on that basis.**

56 Government Response to the Committee's Sixth Report Of Session 2004-05, *Fair trade?: The European Union's trade agreements with African, Caribbean and Pacific countries*, Cm 6605, June 2005

57 Commission Communication COM(2006)673 final (http://ec.europa.eu)

58 Qq 48-55

5 Conclusion

40. The current trade negotiations in the WTO Doha Round and on the EPAs will shape the trading and development relationships between developing countries and the EU for years to come. Many of the points we have raised in this Report reflect closely conclusions from our previous Reports and those of our predecessor Committee. It is worrying that so little progress has been made in the intervening months. In fact, deadlines have been missed and negotiations are behind schedule.

41. **The essential building blocks needed to secure fair and effective deals are clear. Political will is now needed to put those blocks in place. As the WTO and EPA negotiations enter their final phases, we believe that progress will be made if they are conducted between equal partners who are willing to make compromises, conscious of what is at stake and, above all, committed to making trade work for the benefit of the poor.**

List of Recommendations

1. We strongly welcome DFID's advocacy of an increased focus by the Commission on poverty reduction in low-income countries. The European Council, however, now needs to make good on the commitments it made in the 2005 Consensus on Development to prioritise aid to the poorest countries, and to Africa in particular. We recommend that the Government look at all options available, including withholding funds, to encourage the European Union member states to agree parameters for Commission development activity that allow a dramatic increase in aid going to those who most need it. (Paragraph 9)

2. We recommend that the Government encourage a long-term review of Commission development structures in order to streamline staff and institutions and to provide clearer lines of accountability. In the short term, we believe greater clarity could be achieved by disaggregating headline figures for development assistance for low- and middle-income countries from those for external assistance to neighbouring, candidate or potential candidate states. (Paragraph 10)

3. The policy shift on health and education spending under the European Development Fund away from programme expenditure towards budget support will need a parallel shift in the Commission's approach. We welcome DFID's involvement in developing the Millennium Development Goals (MDG) Contracts and the clearer links these should offer between spending and outcomes. We look forward to monitoring the progress of the MDG Contracts both as a potential framework for the Commission's new approach to health and education expenditure and, more broadly, as a possible model for outcome-oriented conditionality for budget support. (Paragraph 14)

4. For trade to work as an effective development tool, we believe that opening markets alone is not sufficient—significant capacity-building in this area is also essential. We welcome recognition by the WTO aid for trade task force and the Government that aid for trade initiatives are complementary to the Doha Round. We are concerned, however, that without a successful outcome to the Doha Round the funds available for aid for trade will be minimal, as both the Round and aid for trade have developed in tandem. We recommend that the Government make explicit its commitment to ambitious aid for trade initiatives irrespective of the outcome of the Doha Round. (Paragraph 17)

5. We welcome the renewed effort the WTO membership, including the UK, is putting into securing a deal in the Doha Development Round. Time is, however, short: the likely window for a deal is now just a few months. The key difference between July 2006, when the suspension was announced, and now is greater political will to reach an agreement rather than a significant change in the 'building blocks' involved in any deal. Moreover, we believe that it is continued political will that will be decisive in securing a deal. We encourage the UK, EU and all negotiators to approach this deal with a determination to succeed. (Paragraph 20)

6. We understand that agreement of a development package, separate from or in addition to an overall deal, is viewed as controversial by the WTO and some of its

members. We agree with the EU Trade Commissioner that the development package is not an alternative to an overall deal. We are concerned, however, that hard-fought-for gains for the world's poorest countries should not be lost because of others' intransigence. We recommend that the Government give priority to all options available which safeguard the development outcomes of the negotiations, even if the Round itself is not concluded successfully. (Paragraph 23)

7. We believe that the involvement of business leaders in shaping the EU offer, such as encouraging concessions on agriculture and on other sticking points in order to secure broader trade benefits, is crucial. We recommend that the Government intensify its dialogue with business leaders about the Round and make every effort to facilitate their involvement in these negotiations. (Paragraph 25)

8. We recognise that a deal involves compromise. No-one can expect that all aspects of a successful outcome to the Doha Round will please all WTO members. We do believe, however, that it is the WTO membership's duty to ensure that a deal on agriculture does not favour only those who shout loudest. We understand the rationale behind getting the early agreement of 'key players' to any deal but we are concerned that there is a danger that the EU and US could overcome their difficulties only to find some developing countries, perhaps outside the G5, rejecting a deal in which they have played little part. We recommend that the Government encourage the EU to consult broadly during the closing stages of the negotiations to ensure it draws in the views of the full range of G110 countries. (Paragraph 28)

9. We remain concerned that the EU is abusing its position in the partnership to persuade the African, Caribbean and Pacific (ACP) countries that the New or Singapore Issues are essential for development and by implying that there may be penalties if they reject them. We believe both elements of the Commissioner's assurance to us—voluntary inclusion of the issues and a long implementation period—are necessary in order to prioritise development outcomes for the Economic Partnership Agreements (EPAs). We would encourage him urgently to ensure that the Commission as a whole is taking this approach across the board. (Paragraph 31)

10. We recommend that the Government examine EU-ACP communication channels and look for opportunities to facilitate or improve that communication in this critical phase of the negotiations. The Government should ensure that the EPA review which is underway allows the concerns of ACP states to be aired fully and addressed. The Government should also encourage the Trade Commissioner to meet ACP Ambassadors personally to discuss progress in the negotiations. (Paragraph 33)

11. We recognise that some brinkmanship may be involved in negotiations and that the period for negotiating Economic Partnership Agreements (EPAs) has been substantial. We believe, however, that the EU should now undertake thorough contingency planning so as to be in a position to request a WTO waiver, as the US has done, should the EPA negotiations not conclude by the deadline. (Paragraph 35)

12. We recognise the argument that the Economic Partnership Agreements (EPAs) offer greater potential to grow regional markets than the Everything but Arms (EBA) arrangements. We believe that regional groupings themselves will best be able to assess their capacity to integrate and the pace at which this should take place. We continue to believe that the EBA should be a real option, in particular for least developed ACP countries who should not have to offer reciprocal market access to the EU until they have graduated from least developed country status. We were pleased to see that the Government broadly agreed with our view but we are disappointed that the EU negotiating position does not reflect this flexibility more explicitly. (Paragraph 37)

13. We endorse the flexible approach to market access and asymmetrical liberalisation present in the Commission's current position on the Southern African Development Community Economic Partnership Agreement (EPA). We look forward to the successful conclusion of the EPA on that basis. (Paragraph 39)

14. The essential building blocks needed to secure fair and effective deals are clear. Political will is now needed to put those blocks in place. As the WTO and EPA negotiations enter their final phases, we believe that progress will be made if they are conducted between equal partners who are willing to make compromises, conscious of what is at stake and, above all, committed to making trade work for the benefit of the poor. (Paragraph 41)

Formal minutes

Tuesday 6 March 2007

Members present:

Malcolm Bruce , in the Chair

John Battle
Hugh Bayley
John Bercow
Richard Burden
James Duddridge
Ann McKechin
Joan Ruddock
Mr Marsha Singh

Draft Report (EU Development and Trade Policies: An update), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 41 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Fifth Report of the Committee to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 13 March at 10.00am

Witnesses

Reports from the International Development Committee since July 2005

The Government Responses to International Development Committee reports are listed here in brackets by the HC (or Cm) No. after the report they relate to.

Session 2006-07

First Report	DFID Departmental Report 2006	HC 71 (HC 328)
Second Report	HIV/AIDS: Marginalised groups and emerging epidemics	HC 46-I & II (HC 329)
Third Report	Work of the Committee in 2005-06	HC 228
Fourth Report	Development Assistance and the Occupied Palestinian Territories	HC 114

Session 2005–06

First Report	Delivering the Goods: HIV/AIDS and the Provision of Anti-Retrovirals	HC 708–I&II (HC 922)
Second Report	Darfur: The killing continues	HC 657 (HC 1017)
Third Report	The WTO Hong Kong Ministerial and the Doha Development Agenda	HC 730–I&II (HC 1425)
Fourth Report	Private Sector Development	HC 921-I&II (HC 1629)
Fifth Report	Strategic Export Controls: Annual Report for 2004, Quarterly Reports for 2005, Licensing Policy and Parliamentary Scrutiny	HC 873 (CM 6954)
Sixth Report	Conflict and Development: Peacebuilding and post-conflict reconstruction	HC 923 (HC 172)
Seventh Report	Humanitarian response to natural disasters	HC 1188 (HC 229)

Oral evidence

Taken before the International Development Committee

on Tuesday 23 January 2007

Members present:

Malcolm Bruce, in the Chair:

Hugh Bayley	Ann McKechin
Richard Burden	Joan Ruddock
Mr Quentin Davies	Mr Marsha Singh
James Duddridge	

Witnesses: **Mr Bernard Petit,** Deputy Director-General for Development, **Mr Ranieri Sabatucci,** Assistant to Mr Petit, and **Mr André Liebaert,** Water Policy Adviser, Directorate-General Development and Relations with African, Caribbean and Pacific States, European Commission, gave evidence.

Q1 Chairman: Good morning. It is nice to see you again. Thank you for taking the time to meet us. As you know, we have a fairly busy day and since we last met we have had a fairly busy programme. Obviously, development policy is what we and the Committee are about and we are always interested to explore how a body like the EU, with 25 members with different approaches and a Commission to deliver, can operate. It is a very big deliverer of aid when you take the Commission and all the member states together. I can remember Louis Michel, when he spoke in London, saying that he would like to be able to think that the European Union could operate somewhat like the World Bank and indeed deliver the kinds of programmes that the World Bank does. I have to say that when I put that to the World Bank they said, "If we thought he could do it we would be scared, but we are not scared". I wonder if you might give us a feel for how you feel EU development policy, which is big when you put all the programmes together, can actually operate *vis-à-vis* the other international agencies, such as the UN, the World Bank and the like, given the honest truth that it is disparate, but collectively if we all push in the same direction it would be the biggest player in the field. How do you feel it can relate and does relate?

Mr Petit: First, thank you very much for seeing me again after one year. You were here in December last year[1], I think, and I am delighted to have this little discussion with you. Before answering your question I would like to say a few words about what we have been able to achieve in 2006 because I remember in December 2005 we were at the end of a year which was qualified by a lot of people as the year of development. When I look back to that year I have the conviction that 2005 was a kind of turning point in a period of action and reflection which has led to a kind of centrality of development or central role that development is playing in a globalised world, and around this central role have been brought together all the structural and long-term responses to the challenges of globalisation, linked now with migration, security, the protection of the natural resources of the planet and international stability. Development is today fundamentally political for the EU and for the Commission in particular. This is a big difference from the World Bank and Europeans can be very proud to have played a central role during this period. They did that by being the biggest contributor to the increase in ODA[2], and you will remember the figures. They were the most committed and ambitious on the agenda of aid effectiveness which led to the Paris Declaration, and we were very much behind the Declaration. They did that by deciding at the level of the heads of state an EU Strategy for Africa, not a Commission strategy but an EU Strategy for Africa, and adopting this famous European Consensus on Development, and do not think that in this word "consensus" there is a kind of sarcastic reference to the Washington consensus. That was not the idea of the Commission anyway. It was the first time in 50 years of co-operation that the Commission and the member states had federated the position around a common vision of development policy based on shared values, common principles and common objectives with a lot of financial means at their disposal. They can be proud. It is not the US, it is not the G8; this is what the Europeans have been doing. I think this is a historic decision because you know that in the past the EU was the main donor, the main trading partner, for all the developing countries, but when you are outside the Community circle and people are congratulating you by saying, "That is fantastic, you are the main donor, the main trading partner, but, by the way, what is the EU development policy?", we were forced to answer, "Sorry, there is no EU development policy. There is the British one, the French one, the Commission one but not a single EU development policy", so we

[1] International Development Committee, Oral Evidence, *EU Development Co-operation and External Relations Policy*, 6 December 2005, HC 745, Session 2005–06.

[2] Official Development Assistance.

have been able to transform statistical reality into a political project. It is really very important politically because first of all it gives a weight, a leverage, a visibility to the EU compared to the others and, secondly, when you assert that in the context of enlargement you add 10 new countries. They were receivers two years ago of development assistance. They are now providers of development assistance, and immediately they put themselves at the highest level of the agenda with best practices and they wanted to adhere to a European vision of development, so I think this is very important. By the way, they were much more supportive of us when we proposed that than previous member states—than the UK, than the Germans, than all the Scandinavians or the Dutch. We have been able to have this Consensus because we had the huge support of the 10 new countries. This is what has been achieved and, of course, 2006 was the year of implementation of this decision and we can discuss the way we have implemented that. We can discuss governance, which is also high on the agenda of all the donors, and we have at the level of the EU a specific sensitivity which is different from the one developed by Mr Wolfowitz. We can discuss that effectiveness, what we have been doing in terms of the programming of assistance, moving towards joint programming at the level of the member states, we can discuss the 10th EDF[3], any subject you want. As far as your concrete question is concerned, our feeling is that nobody in the world should have the monopoly of thinking in terms of development, fortunately. Monopoly is bad for the private sector, it is bad in public assistance, so it is important to have different perceptions provided we all share the same objective, which is poverty eradication and how to achieve the MDGs[4]. With the World Bank we have, I would say, a privileged relationship. We probably discuss these things much more with the Bank than with any of our member states. I see people from the Bank every week in my office and we talk on the phone. We are, particularly in Africa, the two biggest actors for all the countries so we cannot compete; we have to be able to work together, even with different sensitivities from time to time. What we are doing with the Bank beyond this day-to-day co-ordination, including in the field, is developing a process called the Limelette Process. Limelette is a castle not far from Brussels where we met for the first time at the level of senior management, that is to say, the Africa Vice President and the Director-General of DG Development, and every year we invite five country directors of the Bank in the field and five heads of delegation of the Commission. We sit together for two days and discuss one or two specific issues. In the following weeks we will discuss governance because governance is an issue where we do not share the views of the Bank. Even if Mr Wolfowitz has modified a little bit his position compared to last year, in particular after the annual meeting in Singapore, we still have a different approach from theirs.

[3] European Development Fund.
[4] Millennium Development Goals.

Q2 Mr Davies: Can you characterise the differences?

Mr Petit: Yes. First we say that good governance must be at the top of the agenda for everybody because it is so important for aid effectiveness to have countries with good governance, but we must not change the development agenda. The development agenda is not fighting corruption, as Mr Wolfowitz has said several times. The development agenda is poverty eradication and achieving the MDGs. Good governance is part and parcel of that and we should not shift the priorities from one side to the other. Secondly, Mr Wolfowitz deals with governance too much in terms of fighting corruption. It is essential to fight corruption, of course. Corruption is a tax on the poor. I would say corruption is an insult to the poor, but corruption is just a symptom of the failure of a system, of the impossibility for a state to give access to the main services to its population—access to administration, access to justice, access to health and so on. That is the second difference. The third and main difference is that there is always a tension when you are dealing with the way to support governance between conditionality and ownership, between dialogue and sanction. For the Bank the governance agenda is led by strong conditionality. We do not think this is a good approach because we think that you cannot make a state reform itself through conditionality. The state itself must take all the decisions and put in place all the measures to be able to take the necessary steps and implement the necessary reforms towards good governance. This is the reason why we prefer incentives to conditionality, and this is what we are doing for the moment with the ACP[5] countries. In other words, we are doing what we are preaching.

Chairman: What you have just said is helpful because whenever we visit, as we have done, countries in Africa, for example, over the last 12 months we have visited several, we always meet the representatives of the European Commission and the World Bank, so we have had quite a few exchanges on how that works on the ground and, although we take on board what you have said about the differences, there is also very often, it seems to us, a very good practical working relationship on the ground. But I wonder if I can bring some of my colleagues in with additional questions for you.

Q3 Mr Singh: You are quite rightly very proud that the EU now has a development policy and I sense the pride coming from you. There is going to be a huge increase in aid budgets between now and 2015. In your opinion should those monies be disbursed bilaterally or do you think they should come from the EU, because 80% of that increase will be from member states? If you think it should be through the EU does the EU have the capacity to disburse those budgets in an effective and fair way to achieve poverty reduction and the MDG goals?

[5] African, Caribbean and Pacific Group of States.

Mr Petit: This is a very important question. There are two elements to the answer. First, there is today a kind of negative correlation between the political willingness to move towards more and more EU development policy and the percentage of assistance managed collectively, that is to say, through the Commission. Last year the Commission was disbursing around 20% of the global EU development assistance, but with the bilateral increase by the member states on one side and the stagnation or very slow increase in Community development assistance this percentage will be 15% in 2010 and maybe 10% in 2015. That is to say that the collective effort of the EU through the Commission will diminish while at the same time there is more and more political willingness to have much more EU development assistance, not because the Commission is asking for more money but it is just a fact, a reality. Secondly, you are right to say that with this huge amount of additional resources bilaterally each Member State will say, "Part of it I will manage bilaterally and part of it at a multilateral level and there I have a choice. Either I go to the World Bank or I go to the EU". I think that for almost every Member State this is a question they are asking and the answer is linked to the assessment that each Member State will make of the capacity of the Commission to deliver. In this respect, and I think even your Committee has acknowledged that in the past, we have a lot of statistical facts and figures which demonstrate that we have been able to increase dramatically the way we are disbursing aid. We know that in the past we were considered, in particular by a previous government in the UK, the worst donor in the world in terms of disbursement. Since the reform a lot of improvements have been made, and now we are disbursing €8 billion a year and are still wondering how we can do that because it is a huge amount of money. Mr Richelle, whom I do not think you will be meeting this time but you met him last time, did a fantastic job in AIDCO[6] by reducing dramatically the delays between commitments and disbursement by streamlining the procedures, by a process of devolution to the field, giving the power in the field, so we have now the capacity, I think, to manage adequately. However, the member states are not yet convinced. I give you a very simple example. We have developed at the EU level, not the Commission level, a partnership on infrastructure in Africa because we think it is so essential for trade liberalisation; if there is no communication they cannot export, *et cetera*. We have done that and we have said to the member states that in order to have an instrument to support this partnership we will set up a trust fund and we asked member states on a voluntary basis to contribute. You know that today the World Bank is managing 900 trust funds and the addition is much more than the resources of the IDA[7], so we have said, "Let us do as the Bank is doing: a trust fund that is an EU vision of development of infrastructure. Put the additional money that you have decided on in this trust fund". We have four member states within the 25 which have contributed. The biggest contribution is €10 million. The others are, one five million and the others one million. It is not with this amount of money that we will change the face of infrastructure in Africa. This is just to illustrate that the member states, even if they are happy with the reform, and we must still push for reform, are not yet convinced, so this is the situation.

Q4 James Duddridge: Which countries have contributed? You said four.
Mr Petit: The Spanish, the Italians, the Austrians. I cannot remember the other one.

Q5 Mr Davies: Why has DFID refused to support you? They must have given a reason.
Mr Petit: DFID said, "We are interested in that but the budgetary process is already committed and we cannot provide any resources now, but we are still reflecting for next year".

Q6 Chairman: Seriously, because DFID have acknowledged that infrastructure should be a higher priority and that DFID does not have the capacity to deliver on infrastructure, so it is slightly surprising to us that they would take that view. That is an interesting piece of information but I guess what you are saying is that you have a way to go to persuade member states to give you the executive responsibility for their money. They still tend to want to spend it themselves?
Mr Petit: Yes. In addition to that, because I think it is relevant to what you were saying, the idea is not to have the Commission become the agency of the EU because our objective is to work in terms of complementarity, meaning division of labour, with the member states but also with the other donors. In other words, when in a given country DFID is highly present, very effective in a specific sector with a lot of staff in the country, why should the Commission put money in and start a bilateral dialogue with that country? We should give first the leadership of the dialogue to DFID and then put in the resources to be managed by DFID or by the French or the Germans. This is where we want to go. We cannot do that now because the financial regulation does not allow us to give resources to the member states to do that, but we are in the process of changing this financial regulation and it will be a possibility in the future.

Q7 Joan Ruddock: In terms of the trust fund, is there a particular encouragement to the newest countries that have joined the EU to contribute to that trust fund? Is that a way of saying to them, "You can do this even if you have not got a development department in your own country"?
Mr Petit: Yes, exactly. I think, by the way, that one of the countries which wants to contribute is Hungary. As far as these new countries are concerned the question we can ask is, does it make sense for each of them to develop their own structure for development, their own agency of

[6] EuropeAid Co-operation Office.
[7] International Development Association.

development? Already they have considered that they must not start from scratch; they must adopt this European Consensus and the best practices about the principles of development assistance and partnership. They have done that, but do they have to develop a sectoral policy paper? I do not think it is very useful. They exist and we should share that. Do they have to build an agency? It is probably not the most efficient way. The only problem is that these countries are very much interested in their neighbours. In Africa they are not very present, so the idea is to ask the Commission for Africa to help them to manage their assistance, but this is specific-region focused, not globally, so this is a question probably we have to discuss with them, but I do not think it makes a lot of sense when everybody is talking about rationalisation, about alignment, even if we are not serious about alignment.

Q8 Ann McKechin: Following on from that, you have obviously described the Consensus as a major advance in terms of EU thinking.
Mr Petit: Historic.
Ann McKechin: I just wondered, a year on from the Consensus being agreed, what tangible differences you are seeing in terms of the Commission's actions both on the ground in developing countries and in terms of policy coherence between, for example, yourselves and trade in the EU in terms of development policy.
Mr Petit: There is always—and you know that perfectly well—a certain gap between a political statement, even when the heads of state are making these political statements, and the way you are translating that into the bilateral policies of the member states and in the field. The big difference, I think, is that more and more we are not thinking in terms of "Commission". We are thinking in terms of "EU", so everything we are proposing to the member states is not to ask them to give guidelines to the Commission for the management of Community resources but to try to develop an EU vision on everything, an EU position. This is what we did for the Strategy for Africa; it is an EU strategy. For the partnership on infrastructure it is an EU partnership. And with governance, going back to what I said at the beginning, governance is the position now of all the member states; it is not the position of the Commission, we all share this position. And, by the way, there is a kind of tension or paradox between what we are deciding in Brussels and what is decided in the board of the World Bank in Washington, because there is a position on governance here but in the board of the Bank, even if the majority of the European executive directors were very much on the line of the Commission and the decision of the Council, some of them thought that it was perhaps not a good position; they were supporting the Bank much more, so there are sometimes some contradictions. Anyway, the important thing is to think in terms of "EU". Another important thing is to accept that one of the main challenges is to make aid more effective, and to make aid more effective we have to change the way we are doing business in Europe but in the world also. Changing the way we are doing business means that we must be serious about all these nice words and nice ideas in the development business like ownership, alignment, scaling up, harmonisation, because the reality in the field is completely different. If you talk of alignment nobody is really implementing this concept. In the different countries you have the PRSP[8] which has a cycle. This cycle has reviews, so all the donors go for the review but one month later the member states go back to having their individual reviews. You have a lot of missions non-co-ordinated but the Consensus says that now we have to do that, to co-ordinate 50% of the mission, and we will do that. You have different strategies. DFID has a country strategy document with different countries, the French now have these, and the Swedish. All these documents contain exactly the same elements—the political, the economic, the social and so on.

Q9 Ann McKechin: On a practical level DFID has memorandums of understanding with a variety of countries for a 10-year remit, so are you saying that perhaps two or five years hence there will be a sort of EU standard template for these memorandums which the French will be following, the Germans will be following and other EU countries will be following?
Mr Petit: I hope it will not be in 10 years but now because it does not make sense, in particular in terms of transaction costs for the country, if we have 10 member states with 10 different country strategies. The idea is to move towards a joint strategy. We have started this process and for the ACP countries we have 10 countries now for which we are developing, including with DFID, this joint strategy and when there is a process including other donors, of course we are doing that with other donors, but this is not sufficient. With the huge increase in aid you were mentioning we have to change also the modalities in which we are disbursing our assistance. Budget support is the most efficient modality, when the conditions allow it, to support the different countries. If the increase in the assistance is translated into projects, if the doubling of assistance leads to doubling the number of projects, it is a nightmare and we will not be able to implement this political increase, and DFID is exactly on the same line as the Commission on that, pushing for more budgetary support.

Q10 Joan Ruddock: Just for clarity on that, given that the EU is trying to influence the bilateral programme, and you have just illustrated how you are doing that with DFID, is DFID the model or do you have a number of models, because you cannot be saying, "We will adjust in this Member State and this Member State and this Member State". You have to come to some conclusion, "This is the model". Do we have the model?

[8] Poverty Reduction Strategy Paper.

23 January 2007 Mr Bernard Petit, Mr Ranieri Sabatucci and Mr André Liebaert

Mr Petit: You are right. What we have done is the following. We have taken all the different models, we have had discussions with the member states and we have assessed the fact that in all these models you have exactly the same building blocks. We have said, "Let us try to build one single model based on what you are doing". We have done that and the country has adopted a specific model for joint programming, so we have that, and we have said, of course, "It is not a single instrument. You can adapt that, you can be flexible", but at least we now have this model. This is very important because in Europe only DFID and ourselves are exactly on the same line, which means the following: I was mentioning budget support. Budget support is an efficient instrument but not sufficient because budget support is too volatile and not sufficiently predicable because conditionality is attached to it. When you want to support education in a country, when you know that the country has to recruit 2,000 teachers or 1,000 nurses, a minister of finance must have a good knowledge of what the donors are able to deliver and for the moment we have no instrument to give this predictability. This is the reason why we are developing in the Commission, with the support of DFID—only DFID, not the other member states—the idea of an MDG contract with less conditionality and a longer period, which can be six or 10 years, and giving the assurance to a country of a minimum level of budgetary support every year.

Q11 Mr Davies: For 10 years?
Mr Petit: Ten or six years. Of course, six years is the legal framework, but DFID was even considering 10 years.

Q12 Mr Singh: Are you saying that you are reducing the conditionality? This may worry the public in Great Britain, for example, who are quite willing to give money but they will not see accountability for the money that they donate and that the Government donates, so if you are saying less conditionality how are you increasing the accountability?
Mr Petit: When I say less conditionality I do not mean no conditionality because first this country must have been on track in terms of IMF[9] conditionality for at least three or four years before. You cannot give this kind of MDG contract to any country. What I mean is that if you want to support education through your budget support this support cannot be undermined because the country, because of conditionality, has not privatised three companies. This has nothing to do with it but it is part and parcel of the same package, so what we want to do is dissociate that.

Q13 Hugh Bayley: What does a contract mean if it does not tie the recipient of the money to delivering things? That in itself must be a conditionality.
Mr Petit: A contract ties a country; that is the essence of a contract, but not on this kind of conditionality, privatisation, liberalisation or whatever, but on the results on education, on the results on health, the increase in the rate of vaccination, the increase in the number of teachers, these kinds of things.

Q14 Hugh Bayley: When we last met you were talking about the size of the EU aid budget. We are a very large donor, but you said that the EU is "a dwarf in terms of political influence".
Mr Petit: When I said that it was the case. It is no longer today.
Hugh Bayley: What political influence do you think ought to accrue to the EU as a result of our development spending?
Mr Petit: I said we were a dwarf because we had no EU policy and it was fragmented between member states and the Commission. Now we have this vision and this vision gives the leverage. I can tell you, by the example of the Paris Declaration, that the EU was mainly behind this declaration on aid efficiency, harmonisation, alignment and so on, because we have taken this position within the EU and now we are respected in the world because we have this vision. By the way, we went beyond the Paris Declaration, so the EU has made additional commitments going beyond the Paris Declaration, so there is this capacity, and not only in terms of development policy by spending money. We have also this capacity now in political terms where the position we are taking on migration, the position we are taking in the political dialogue with the different countries mean that now people must count on us and it is not fragmented as it was in the past.

Q15 Hugh Bayley: Looking globally, do you think there is a move away from hard power to soft power? In other words, do you think development spending will become more influential in terms of international political leadership over the next few years in comparison to military power?
Mr Petit: I think development policy and development spending today are fundamentally political. Development is no longer about financing schools, roads and hospitals. Development is, I think, the best instrument we have in the world for harnessing globalisation. If you take the example of migration or protection of the natural resources of the planet, it is because you have development resources, because you are fighting poverty that you can in the long-term solve or answer or tackle these different challenges. This is the political part of development. In the dialogue with the different countries, in particular with countries in conflict and post-conflict countries, the fact that we have this huge leverage, the EU resources, in our hands helps this political dialogue very much. I can tell you that Louis Michel is very political in what he is doing and he is very interested in contributing to the peace process in different countries and he is around the world all the time for mediation, for prevention, for helping countries. Why? Because he has this huge leverage with the development resources.

[9] International Monetary Fund.

Q16 Mr Singh: Leverage or bribe?
Mr Petit: Leverage.

Q17 Richard Burden: You have placed a great deal of emphasis on the Consensus being something that should influence all areas of thinking, that it is an EU Consensus, not just a Commission Consensus. I guess if you look at the European Development Fund it will be borne out in there in terms of the focus of that fund on poverty eradication and low-income countries, but if you take that across the Commission ODA generally the figures do not seem to match that. We are still talking about just around 55% of EC ODA being directed at low-income countries, with countries like Serbia, Montenegro and Turkey still being at the top of the league. Do you think there is a case for rebalancing that?
Mr Petit: First of all, the decision on the way we allocate the resources between the different regions, as you know, does not belong to the Commission; it belongs to mainly the heads of state in the EU. They are the ones who will decide what will go for the ACP, what will go for the neighbouring countries or Asia/Latin America, but once the way we are allocating the resources in the different countries is decided it is based on need and performance with the objective of poverty eradication and with a specific focus on least-developed countries (LDCs) and low-income countries. The figures you have mentioned I think have changed because the figures I have show that there has been a huge increase in the poverty focus concentration for aid towards LDCs and other low-income countries between 2002 and 2005, because we are now at the level of 46% of net disbursement for the least-developed countries in 2005, which means more than 43% increase over six years, and of course this trend was accompanied by a strong decrease in the share of disbursement to the middle-income countries from 46% in 2000 to 28% in 2005. In addition, to date the main recipient of our development assistance globally is sub-Saharan Africa, much more than all the others, and in the European Consensus on Development there is this orientation to give focus to LDCs and low-income countries, so things have changed. The important thing for the Commission was to make sure that poverty eradication and reaching the MDGs was not only something for the ACP and that the other regions share the same objectives, and I can tell you that it was a difficult discussion with my colleagues from other departments when the Commission proposed that. The objective must be poverty eradication everywhere.

Q18 Chairman: Can you say who is the largest recipient of EC aid now if it is not Serbia and Montenegro and Turkey?
Mr Petit: Today?
Chairman: Yes.
Mr Petit: Do you have the Commission Annual Report of 2006?
Richard Burden: I am not sure our figures were that different. The figures I was quoting were 2005 figures so I am assuming they came out of the 2006 report. That does show that the majority is on low-income countries, 55%, which I think is what you were saying: the majority is.
Chairman: These are 2006 figures. The EC is 52%.
Mr Davies: You are merging three things.

Q19 Richard Burden: I am not sure. The brief we have got is 2004 figures and 2005 figures, and the ones I was quoting were the 2005 figures, which do show a majority to low-income countries, but it is 55%, which is not a big majority of resources. I do not dispute that the gap has been narrowing and that low-income countries do receive the majority of assistance, but it is still well below, for instance, the 90% from the Development Fund. Factually what you say is obviously absolutely correct, that a decision is made on the broad level and then you have the focus of disbursing what is in that particular budget, but I guess what I was getting at was that if the Consensus is meant to be influencing all areas of policy-making has it really managed to do that in that first set of discussions?
Mr Petit: As I said, the Consensus does not say that globally the heads of state of Europe must give the bulk of the resources to low-income countries. They said, "Within the decision taken by the heads of state what we have to do is give a focus to the low-income countries".

Q20 Chairman: So one Member State can leave it to another one to deliver?
Mr Petit: No; the change is really important. I would like to make sure that everybody understands that. In the past we had this problem for years because the decisions are not decisions of the Commission, as you know. Within the Commission we were focusing on poverty in the least-developed countries only in the ACP field. Some other people in the Commission thought that for other regions we were not providing development assistance but economic co-operation, so they were not bound by all these political decisions on poverty. Now they are. Because the Consensus was important to Europe it was also very important within the Commission to have a common vision within the Commission, to have the same objective, the same way to allocate resources, focusing on the least-developed countries and in middle-income countries focusing on poor people. I always think, when some people think that for middle-income countries you must not provide development assistance but the private sector can do the trick, that if we do that there is a big risk that these middle-income countries will become low-income countries.

Q21 Chairman: Or it may be, of course, that if they are middle-income they should be able to address those problems internally.
Mr Petit: But they have a huge problem of social cohesion, they have a huge problem of poverty, so we have also to address this problem in middle-income countries, the poverty dimension.

Q22 Mr Davies: On this matter is there not a confusion which you could easily avoid? There is a complete confusion in the public mind here between two policy areas which are two quite different policies. We have policies on all sorts of things in the Commission, policies on agriculture, policies on God knows what. You have a policy on neighbourhood countries, a policy on pre-accession countries and a policy on poverty alleviation in the Third World, but they are three quite separate policies. Poverty alleviation in the Third World is EuropeAid, which is Commission funds managed by the Commission, plus the EDF, which is the Cotonou agreement, Member State fund managed by the Commission. That all fits together. There should be complete coherence there and it is all run by your Directorate. You have contributed to the confusion by producing this Annual Report, which I have read with colleagues over breakfast, the thing that has Madame Ferrero-Waldner at the top and Louis Michel at the bottom[10]. I was quite struck by it, and it is contributing to this confusion. You should have two quite separate reports. You say, "What are we doing to help build stability in the near abroad, in the Western Balkans, in the Ukraine, in the Caucasus for political reasons so we have stable neighbours?", right? That is one quite different policy. It is important. We are all happy to pay our taxes for it. You should report on what you are doing. You should have another report on what you are doing to relieve third world poverty. That is my suggestion. What do you think about it?

Mr Petit: I applaud this suggestion. If your point is to say that the structure to deliver and develop assistance within the Commission is not optimal I will agree with you entirely, because it is the only example in the world where you have two different departments dealing with development in different regions, the ACP and Asia/Latin America. This is not optimal.

Q23 Mr Davies: I cannot tell you what confusion there is here, particularly in the UK. I am sure it happens elsewhere as well. It is just crazy. Can I come on to this co-ordination and alignment? I am so glad with the progress you are trying to make there. We have seen this sometimes in the countries we have visited in Africa. Sometimes on the ground it seems the co-ordination process or alignment is working quite well and sometimes it is not. I think it works quite well in Mozambique and Malawi, much less well in Tanzania, for example, just anecdotally, but it seems to me there ought to be protocols as to how you do this. As you said yourself, nothing is more crazy than to have 10 different member states plus the Commission having their own programmes, their own plans, trying to push the countries in a particular direction and then asking for 10 different monthly monitoring meetings, which completely screws up and exasperates everybody and you get nowhere at all. Should there not be on co-ordination and alignment some global protocol enforced from Brussels so that it is all agreed between the member states and the Commission in Brussels how this is done and then it is just done? That is question number one. Question number two on alignment of policy is that a great advantage of the Commission is that you have got trade and aid in the same Commission, the same bureaucracy is handling it, but you would not think so most of the time, and it does not seem to me that the aid has been brought into the discussions over the EPAs[11] to the extent that it should have been. There should have been a much more coherent, aligned process. This is perhaps the fault of Commissioner Mandelson whom we are seeing later on, but just to get your take on this before we see him, he is now in trouble because he is not going to achieve his deadline for negotiating his EPAs. My second question is, if there had been a more coherent, a more aligned approach by the Commission would it not have been more easy to achieve those EPAs within the desired timescale?

Mr Petit: Yes, that is a very important question. On the first question, a protocol for co-ordination, since 1984 nearly every year we have had conclusions of the Council on how to strengthen co-ordination within the EU. We have all the elements and we still are producing papers and decisions of the Council but the problem is the political willingness to implement these conclusions. In the past it was not the case; today it is much more since the European Consensus on Development. A lot of work is at the moment in progress with the member states in particular on this concept of co-ordination and complementarity, meaning division of labour. We have a proposal from the Commission for the Council in March to have what you call a protocol on the way to strengthen co-ordination in the field, moving towards division of labour. Your second question is essential because, as you probably know but Mr Mandelson will tell you, there was a letter from the President of the ACP Council at the end of December asking for an extension of the delay for the negotiation, saying, "We are not ready". There was in addition a statement by the ACP Minister of Trade last week or 10 days ago saying, "We are not ready. You are pushing too far and you are not delivering on development assistance to help us in EPAs", exactly your point. Yesterday I had a meeting with one of the ACP negotiators and he thought that DG-Development and the development aspect of EPAs were not at all involved in this process, that everything was in the hands of Mr Mandelson and his services, which is not the case. The development dimension of EPAs means two things. It means, of course, resources to help them in the negotiation but going beyond that to cover the adjustment cost the day they liberalise.

Mr Davies: That is right.

Mr Petit: But which is not today. It will be—I do not know—15 years. To help them in initiating a supply response following deliberalisation process of the economy, they need to possess the required capacity and knowledge, to become more competitive, to

[10] European Commission, *Annual Report 2006 on theEuropean Community's Development Policy and the Implementation of External Assistance in 2005* http://ec.europa.eu/europeaid/reports/europeaid_annual_report_2006_full_version_en.pdf

[11] Economic Partnership Agreements.

improve their infrastructures and we need to support them in all these efforts. All the regional programmes of the 10th EDF are entirely devoted to supporting the EPA process, all of them, but the development dimension means also that in trade we are taking into account the development situation. What does that mean? That means first opening the market widely. We must open widely our market. That means deciding on a very long transition period so they can adapt. That means avoiding sending to these countries agricultural products of the Union which are subsidised. We have to discuss all that and the Commission will have a discussion on that in the following weeks, I think, because it is time to put on the table what we are really suggesting. Lastly, on the development aspect, it is not only the Commission with its own resources which can cover all the needs in terms of costs of adjustment, in terms of productivity and so on. The member states must come in. The member states on Aid for Trade have agreed to reach €1 billion every year on export trade from 2010. At the moment they are at the level of €300 million. They have to deliver on that also.

Q24 Joan Ruddock: The criticism that is sometimes made is that these are EU-driven priorities and Cotonou was all about dialogue and developing joint ownership of strategies, and so it seems that perhaps there is an imbalance there in terms of the pressure that is being put on ACP countries.
Mr Petit: I disagree with that. I do not like to disagree with you, but—
Joan Ruddock: No, please—I am asking you a question and want to elicit an answer.
Mr Petit: Okay; my answer is the following. What was the situation? You had in Lomé, as you know, this system of preferences for many reasons. We had to change, so when we were negotiating Cotonou with our partners we said, "How can we change? What is the best solution in order, one, to be compatible with WTO[12], and, two, to give the same or possibly better access for ACP products in the EU market?", so we decided on EPAs in 2000. We are now in 2007 and the ACP countries say, seven years after, "You put too much pressure on us, we have no time, we have been unable to adapt", and so on. It was not to push the aggressive interests of Europe but a goal to save the benefits for the ACP. This is today the situation. If we are negotiating with the US or Japan we have aggressive interests, but not with the ACP.

Q25 Joan Ruddock: Why do you think they cannot see that then, if you are so confident that you are right?
Mr Petit: They are not seeing that. In the discussion I had yesterday with this negotiator it was exactly on this point. He said to me, "Well, you should discuss much more with my colleagues because we have the feeling that you want this aggressive interest and that only trade is managing that", and probably when development is part and parcel of this negotiation we are behind trade because they are in the lead, but when you discuss with these people only in development terms they understand a bit what we are doing. In particular the purpose is not to have a free trade area. The purpose is to help these countries build their regional markets because it is there that they can develop, and then the relationship with the EU, because we need to be compatible with WTO, but a lot of questions are still on the table. Market access is one. It is very important.

Q26 Ann McKechin: I think there is some concern about the potential decrease in funding on education and health in the 10th EDF and your policy is that you are going to give this money instead to general budget support. To what extent is this going to translate to adequate spending in these two key areas of development?
Mr Petit: There are several elements in that. It is a concern if you look only statistically in the draft country strategy paper for the 10th EDF that resource for health and education is seen to have decreased. I have expressed myself this concern. The answer to that situation is two-fold. The first answer is that we are working in terms of complementarity. The Commission cannot do everything everywhere. You have the member states, so if education is adequately covered by others in a given country there is no point in the Commission adding resources to that, but, secondly, we have this budgetary support focus on health and education. It is not enough. This is the reason why in the Commission we are working on this concept of MDG contracts precisely to cover much more adequately at our level health and education, but this is a concern. There was a question on trade which, I am sorry, I have not answered previously, on coherence. The Consensus put a huge emphasis on coherence. Things are not going to change overnight but we are working a lot and there will be a report this year on coherence for which we have sent a questionnaire to all the member states, "How are you dealing in your country with coherence? What are the instruments you have to deal with coherence?" They will answer that and we will issue a report which is a kind of political peer pressure on some member states who do not care at all, and I have some in mind.

Q27 James Duddridge: What has been the impact of the Strategy for Africa, and specifically what has the EU been doing to ensure that the African Union and African countries develop their capacity rather than the Strategy being more about the EU projecting its own priorities?
Mr Petit: The impact has been huge, not only because we have now an EU Africa Strategy but because we believe in the African Union, which is so different from the Organisation of African Unity in the past, if you remember. We are developing a huge programme with the African Union. We have put in a lot of resources, for the moment €55 million, and I do not mention the peace facility, for instance, and we are providing resources. I am not mentioning governance, which is the peer review mechanism also within the African Union and NEPAD[13], which is very

[12] World Trade Organization.

[13] The New Partnership for Africa's Development.

important. We have developed the dialogue with them a lot and for the first time in history the Commission went for a meeting in Addis Ababa with the Commission of the African Union. This is important. Why? Because up to now dealing with Africa was something for development people, DG Development, who are in discussions with Africa. The President of the Commission and eight Commissioners went there. Eight Commissioners, including Mr Mandelson, went there to discuss it with their colleagues. That means that now we are thinking in terms of development policy; we are not thinking in terms of DG Development but in terms of all the Commission services and this is part and parcel of the coherence aspect because coherence is not only to check if the internal policies are not undermining development policy; it is also to find positive synergies between the other internal policies and development policy because we have a lot to learn from the other policies—from research, from education, from migration and so on. The impact has been huge.

Q28 Chairman: I do not know whether you are able to help. We are doing a water and sanitation inquiry and we have taken evidence from the Commission, but one of the problems that has been thrown up in this basically is that in spite of the increasing commitments to help deliver the MDGs on water and sanitation all the international agencies seem to be reducing their technical capacity to do it. Is that the case with the Commission?
Mr Petit: I have my specialist on water and sanitation, Mr Liebaert, who, if you do not mind, will answer your question.

Q29 Chairman: Basically, can we look to the EU to help or not?
Mr Liebaert: The situation is that water and sanitation is not prioritised by as many countries as we would expect, even as a result of the EU Water Initiative, which was a very strong political statement in 2002. We still do not see water and sanitation being sufficiently prioritised as a demand by the countries, so that calls for reviving this political process and targeting the countries where it is still weak.

Q30 Chairman: But that really means that you are expecting the member states to raise their game?
Mr Liebaert: This is a matter of political will. The Commission by establishing a water facility and resourcing it with half a billion euros has made an effort. In terms of our technical capacity, we are not under dimension, but we need to reduce or increase our capacity response by relating it to the demand. We aim at possessing this capacity in the area of water and sanitation whenever there is a demand. What we can see, and I think this is the most important part, is that in the countries where water was an important subject it has been reinforced. In countries where it was weak it is still weak and it is still absent, so I think there needs to be proactive action on these countries to push and maybe include water and sanitation in the MDG contract.

Q31 Chairman: That is a helpful comment towards our report. Can I thank you once again for your engagement with us. We value it very much, and I am quite sure that there will be a time that DFID and the European Commission will have more common ground and we will have more reason perhaps to exchange views more often, but I appreciate the fact that we have been able to do it once again and I look forward to the next occasion when we can meet yourself and perhaps Mr Michel next time too. Thank you very much.
Mr Petit: Thank you very much and we are looking forward to seeing you next year.

Witnesses: **Rt Hon Peter Mandelson,** European Commissioner for Trade, and **Mr Peter Thompson,** Director responsible for Economic Partnership Agreements and Development, Directorate-General Trade, European Commission, gave evidence.

Q32 Chairman: You well know the way committees work; we have a number of what we hope are forward-looking questions. You will know that we did a Report on the Doha Round.[14] We have also done a Report on private sector development.[15] I think it is fair to say the Committee strongly takes the view that if poverty is going to be reduced countries have to develop successful economies, and trade opportunities are clearly a big part of that, both internal and external. Your having just returned from Washington and having been involved in trade negotiations that the *Financial Times* seems to have some optimistic take on, I wondered if perhaps it would be helpful to start from there, whether or not you feel there is the possibility of concluding a deal and one that the developing world would see as in the spirit in which the Development Round at Doha was intended to be.
Mr Mandelson: First of all, thank you very much for taking the trouble to assemble here. It is a very pressured and intensive time in trade and notably for a Trade Commissioner who has to represent 27 nations; we are the biggest economic space, the biggest trading bloc, the biggest exporter in the world, and I negotiate with a kind of exclusive competence authority on behalf of that bloc, so it is a busy time and I am grateful to you for coming here and making this effort to do so. The world trade talks, to put it mildly, have gone through a period of great uncertainty since the negotiations

[14] International Development Committee, Seventh Report of Session 2002–03, *Trade and development at the WTO: Issues for Cancún*, HC 400; First Report of Session 2003–04, *Trade and development at the WTO: Learning the Lessons of Cancún to revive a genuine development round*, HC 92.
[15] International Development Committee, Fourth Report of Session 2005–06, *Private Sector Development*, HC 921-I.

were suspended by the Director-General of the WTO last July. They were suspended then because we were unable to make any progress on the subject of trade distorting farm subsidies because, as the US trade representative said at the time, "There is not enough agricultural market access on the table from Europe and from the developing countries to make it worth our while to indicate any further flexibility on farm subsidies". The Director-General said, "We are not going to make progress on market access unless you indicate the direction in which you are going on farm subsidies. Why should India, why should many other developing countries start making offers to the US in opening their farm markets if what they are going to have to deal with is the import of a lot of US Treasury-subsidised US farm products? If you want to make progress on the market access side you are going to have to indicate where you are going on the subsidy side." That is how we left it towards the end of July last year. We then went through the US mid-term elections, and it was perfectly clear to me and anyone with half a political brain that the administration was not going to make moves on farm subsidies on the eve of a set of very close-run elections in the US, and so it was. We have now come out of that and there is renewed high level political engagement. I would like to pay tribute to two Europeans who are chiefly responsible for getting that high level political re-engagement on the part of the President of the United States, without whose authority we can make absolutely no progress at all towards a breakthrough. One is your own Prime Minister and the other is the Chancellor of Germany. The Prime Minister in December had the most intensive and focused conversation with President Bush on the Doha Round that he has had. He has made openings before but they have not quite been successful in tuning into the President's wavelength, as was the case in December, and I saw very clearly, following his engagement with President Bush in December, the White House moving to take this subject, as it were, into the White House and really put it on the President's radar in a way that it had not been previously. The second visit was made by Chancellor Merkel at the beginning of this year. She preceded my own visit and that of President Barosso by a few days and she really forced and pushed the message home about Doha, which is this, that the economic benefit to the world economy and to developing countries in particular you can quantify in terms of hundreds of billions of dollars in increased trade. It is not just the increased trade flows we are talking about but as part of the Doha agreement we have the prospect of a real trail-blazing agreement in trade facilitation which is making trade easier, more efficient and less costly, particularly for developing countries, and that part of the negotiation has been completed to all intents and purposes and is waiting for the rest of the negotiation to come to a conclusion in the single undertaking as a whole, but that also the dynamic effect on the global economy of increased productivity as trade flows increase will add to that increase in trade flows and will have a growing and cumulative effect during the entire implementation period of the Doha Round, and therefore the economic cost of failure can be quantified in those terms. It would be enormous.

Q33 Chairman: Is that directed at, if you like, the developed world or the developing world?

Mr Mandelson: It is directed at every member of the WTO but the principal beneficiaries, those who will disproportionately benefit, as it were, will be the developing world, particularly the more competitive developing countries. There are, of course, different sorts and categories of developing country and I readily accept that it will be the more competitive developing countries which will gain principally from a successful outcome of this Round and I acknowledge immediately that there are other developing countries, poorer, less competitive developing countries, for whom trade liberalisation in agriculture is a threat rather than an opportunity. There will be the Brazils and the Argentinas and the South Africas and the Thailands, just thinking round the world, those developing countries who in a sense have offensive interests in agriculture and liberalisation of agriculture, but equally there are many other developing countries who are saying to me, "Hold back. You are going too far. You are liberalising too much too quickly. Do not forget us". They are the developing countries who rely not on lower farm tariffs but preferential access to markets which are protected by those tariffs, so you have different sets of developing countries with completely different interests. One of the obvious complexities of this negotiation, and certainly for me as Europe's negotiator, is that I have to make an ambitious offer and a generous offer in agriculture to one set of developing countries while reassuring another that I am not going further than they can bear because it has an obvious knock-on effect on their access to Europe when I am reducing tariffs for all and therefore also reducing their tariff preferences. On the one hand I am being pushed on; on the other hand I am being pulled back by different sets of developing countries, but it is manageable. You just have to strike the right balance, and to those who say, "This Round is all about agriculture" I say first of all it is not because the greatest trade gains will be in industrial goods and the liberalisation of services, not in agriculture, because it is in those other two areas where the bulk of trade takes place and where the bulk of the benefits in increased trade flows will return to the global economy as a whole, including in developing countries. The greatest number and most expensive payments that developing countries make in tariffs are in industrial goods not to the developed world but to other developing countries, and so if we can get a measurable lowering of industrial tariffs in the developing world that will represent a huge boost potentially for those developing countries. But it has to be done in a measured way, it has to be done in a sensible way, and it is not something where you just throw a switch as if you are turning on a light and have these changes implemented overnight. You

23 January 2007 Rt Hon Peter Mandelson and Mr Peter Thompson

need an adjustment period because there is an adjustment cost but the long-term gains are undeniable. Lastly, "Is this going to be brought to a successful conclusion or not?", you will be asking. I would say the odds are better now than they were at the end of last year. The US is re-engaging seriously. I believe President Bush is genuinely committed, so that is more positive. I have broadly speaking on a good day unity amongst Europe's member states. Broadly speaking I have a mandate, I have European member states lined up behind that mandate, they are giving me flexibility and I can and will make the very best possible offer that I have within my means to offer. As for the G20 countries, the emerging economies, it is a bit more mixed but broadly speaking they are very favourable and strongly disposed to a successful outcome, with India worried about what will happen to farm incomes in India as a result of this Round, so even within the G20 countries you get countries with different interests and different emphases. The G90 developing countries, as I have explained, are rather more conservative and rather more cautious, but there is a critical mass of members of the WTO to do this deal, there is a deal to be done, it is definitely doable but it has to be done within the next few months before the US administration's mandate and trade promotion authority that Congress give it expires in June.

Chairman: Thank you very much for that. You have touched on issues which three colleagues have caught my eye on.

Q34 Hugh Bayley: Given that there is so much to be gained from people who trade in manufactured goods and services why is there not a stronger voice from the CBI[16], from the European Business Association and others saying that we have to make some concessions on agriculture and the other sticking points in order to get the trade benefits that we need?

Mr Mandelson: For two reasons: partly because those who know what the employment value will be of a successful Round, both in the developed and in the developing world, have become more muted. Why? Because they see these talks struggling on, talks which actually have not gone on for as long as the previous Uruguay Round did by a number of years but we feel as if we have been going on for a longer time, and so they are a bit more muted, but also, when the CBI and others do speak up, and they do so regularly, unless they have something to say about agriculture they tend not to be reported. Everyone is so agriculturally fixated by this Round, both the negotiators and those who report what we are doing, that those who know that their interests lie outside agriculture either despair of the lack of interest shown or speak up but are then not reported, but their interests are real and these are real interests, not just in the developed world but also in the developing world.

Q35 Hugh Bayley: At the end of the Uruguay Round it was European industry, particularly French industry, which said that there had to be movement so a deal could be made. I would have thought that in this Round too if they were more vocal it would give you more space to cut a deal.

Mr Mandelson: I agree, and I believe that when they do realise finally that we are in the end game and that this end game is going to lead to success or failure—it is going to lead to one of the two things in the next few months—when the penny really drops that we are in the end game, you will see them more active. They are already more active since the beginning of the year, I can assure you. I wrote last week to the President of the European Round Table, Peter Sutherland, and to the President of the International Chamber of Commerce in Europe, Marcus Wallenberg, and said, "I know I have said this before but this time I mean it: we are in the end game. Please activate your members, bring pressure to bear. The global economy needs it, developing countries will benefit most of all but we in Europe need it as well. Please make your voice heard", and I think that, for example, in the World Economic Forum later this week you will hear that voice.

Q36 Chairman: I heard what you said about agriculture, and I believe Quentin Davies did, that British Ministers, and certainly Hilary Benn, have never made that a major point for the poorest countries: agriculture is key from a development point of view, so what you have said on the record is extremely helpful and instructive.

Mr Mandelson: It is key, but I am afraid it is key both ways, both in an ambitious way but also in a very cautious way. Hilary and other members of the British Government need to realise this. Sometimes when I hear them clamouring for the dismantling of agricultural protection, the break-up of the CAP[17], I wonder whether they realise that with the dispatch of the CAP would go the agricultural preferential access to the poorest developing countries in the world. Remember their access to European markets is quota-free and tariff-free except in sugar until 2009, so it is not protection that is keeping them out; it is protection which is in place which we allow them to jump over which gives them their special access to European markets in agriculture. That is why we very proudly in Europe can boast of the fact that we import to Europe 75% of all agricultural exports from Africa, and they do that because of the special access arrangements they have. If you got rid of the border protection you would be getting rid of the special access as well.

Q37 Mr Davies: There is a problem anyway with bananas and so on. You say you have got a mandate, which you have, and you have got the member states behind you, but in practice are you not operating now already on the edge of your negotiating mandate and to get a deal are you not going to have to go beyond that and are the member states going to allow you to expand that mandate, and specifically will the French do so?

[16] Confederation of British Industry.

[17] Common Agricultural Policy.

Mr Mandelson: They will not allow me to exceed my mandate, nor will I be asking them to extend my mandate, because I am properly advised about the impact that the offer and the further flexibility that I have in agriculture will have on prices and revenues in Europe's agricultural sector. This is not a science. I cannot predict or project with absolute precision what the effect will be on different agricultural sectors but I receive professional consistent advice from agricultural officials in the Commission. They advise me how far I can go and what I can do in different sectors and I firmly believe and emphatically state that I am within the mandate given to me even with the additional—

Q38 Mr Davies: You are today but in order to clinch the deal can you stay within it?
Mr Mandelson:—even with the additional flexibility that I believe I can offer to these talks. I cannot and will not go back for a new mandate.

Q39 Ann McKechin: You mentioned that in your opinion the G20 nations were favourable to a positive outcome on the current talks. I just wonder to what extent you believe that their concerns about having the necessary adjustment period to cope with liberalisation can be answered by the EU and also the US in reaching a settlement.
Mr Mandelson: There are different interests within the G20. Brazil is an extremely ambitious and competitive agricultural exporter; therefore it wants to take the agricultural settlement to the very Nth degree possible. India has almost the opposite interest in agriculture and would like the agricultural settlement to stay well within that Nth degree that Brazil wants, so they strike a compromise, a balance, within the G20 on agriculture. On industrial goods there you have to remember that already agreed within the framework of this Round the effort and obligations and commitments of the developed world will be significantly greater than those placed on the developing countries of the G20 and, of course, for the G90 developing countries the least-developed countries are exempted from making any effort at all. There is a group of developing countries between the LDCs and the most competitive who feel a bit vulnerable. They feel that they are not being exempted as the LDCs are and they are not in a position to make the commitments that the most competitive are, and there is within those countries a group who rightly are fearful about the preference erosion in industrial trade that they would suffer as industrial tariffs are reduced as a result of a successful round. My view of that is that we have to recognise the sensitivities of those developing countries and we have to find a way for that group of rather more vulnerable developing countries to have a longer implementation period than for others. Believe me, this is a development round in reality as well as name and the framework agreement within which we negotiate everything is very proportionately measured, gauged and negotiated so that the developed world have significantly and substantially greater obligations and have to enter into considerably greater commitments and effort than do the developing countries, and, of course, for the least-developed they are exempted entirely.

Q40 Hugh Bayley: I think you are right to challenge the WTO doctrine that nothing is agreed until everything is agreed. If you do not get a deal on the WTO agenda as a whole you have been floating this idea of agreeing a development package. What would it contain and will that be supported? Will that actually happen?
Mr Mandelson: No, it has not been to date by a number of my colleagues in the developed world. Even among some developing countries they were sceptical of my raising this at the time because they feared that it would be, as it were, an alternative to a full tariff-cutting, liberalising round which they regard as being most in their interests as developing countries. I was not proposing an agreement to a development package as an alternative to a proper liberalising trade round so the developing countries do not need to be so defensive towards my proposal on that basis. All I was saying was that for LDCs, the least-developed, for whom liberalisation is not an early answer, let alone a panacea, there are aspects of our negotiation on which we have reached tentative agreement, like duty-free, quota-free access for LDCs. Obviously, there is a difference between ourselves and the Americans and the Japanese and the Canadians on that. We in Europe are virtually 100%, we are for every product in every country, save for sugar until 2009. The US says, "We cannot go that far. There are a number of products where we cannot extend to full duty-free, quota-free", Japan the same, but that is an example of where I believe that during the suspension of the negotiations we can continue to talk, to make progress and to see whether we could not edge the United States and Japan further along that route. As it happens it was not possible. They would not continue with that negotiation during the suspension as a whole. Another aspect where I wanted to continue to make progress was Aid for Trade, where again the European Union has made an €800 million commitment from the member states, rising to a billion by 2010, and getting that framework in place for the use of that Aid for Trade and getting commitments raised from the rest of the developed world was another activity which I thought usefully could continue during the period of suspension, and in that case it has continued. I am not looking to a development package as an alternative to an overall outcome of this Round which by definition is a development outcome, but there are particular measures we can target at the least-developed in addition to the overall outcome of the Round which are important and which we in Europe have been sustaining and keeping in place during the period of suspension to some good effect but not with the complete effect that I would like to have seen had the US felt able to engage further in the detail of the duty-free, quota-free proposals for the least-developed countries.

Q41 Chairman: Given the complexity and the details of delays and now the time pressures I am sure you have got your eye on the ball but is there any danger that we could break the deadlock in Europe and the USA and then find developing countries rejecting it, simply saying, "You have not given us enough on development", and bringing the house down?
Mr Mandelson: Do you mean the least-developed countries or do you mean developing countries as a whole?

Q42 Chairman: Given that everybody has to agree, yes, as a whole. Can the US and the EU break the logjam? Is there any danger, do you think, of somebody outside that doing so?
Mr Mandelson: The only danger would be if some developing countries in the G20 and the G33 group thought that I had gone too far and conceded too much on agricultural liberalisation. If they thought I had gone too far then they would pull the plug on it, but for Brazil and others the sky is the limit, they are so competitive. Forother developing countries they will be very disappointed, to put it mildly, if they think I am conceding too much to the US on agricultural liberalisation.

Q43 Mr Singh: You mentioned the budget for Aid for Trade and the European Union's budget. What do you see that budget being spent on and why is Aid for Trade in the EU being linked to the Economic Partnership Agreements? What are those linkages? I am not very clear about that.
Mr Mandelson: Because in the Economic Partnership Agreements the emphasis we have is increasingly the ability and capacity to trade of some of the poorest countries in the world, the ACP countries. The point of the Economic Partnership Agreements is the recognition that trade liberalisation alone is not an answer or a panacea to development needs in those countries and that what we need to do is other things. We need to put in place local and regional customs union and trade opening arrangements amongst those countries so that their markets grow, their opportunities for trade with and amongst ACP countries within those regions will be increased and that new rules and conditions for investment will lead to higher inflows of foreign direct investment to those developing countries. This is very important because the thing that is principally holding back the development of ACP countries is not market access to Europe. They have full market access to Europe but, depending on those preferential trade arrangements, the rather classic, traditional approach to freeing up trade I am afraid has not led to the development of those countries' economies and indeed their share of trade is shrinking, not growing, so that clearly indicates the need for different and better policies to be put in place, both, as I say, those that grow their regional markets to promote trade but also to put in place conditions for investment that will increase FDI[18] flows into those groups of ACP countries. This requires policy reform and change, which is not always welcome and where there is not always a consensus or unanimity amongst those governments, so you have a hard struggle overcoming the policy resistance that reformers in those ACP countries encounter. I could name you any ACP country where the governments and the political leaders are divided into reformers and progressives, as it were, who see that the existing arrangements are not delivering and need to be changed and those of a more conservative disposition who perhaps have a particular vested interest in the status quo, who do not want to see trade liberalised or markets regionalised and opened up to greater intra-regional trade. This is hotly debated within these countries but I have no doubt at all that, in addition to putting in place those conditions but also making available the development aid and assistance through Aid for Trade and through the 10th EDF from which considerable aid will be forthcoming, they should be using that aid to invest in infrastructure, better governance, more efficient customs organisation, whose failures at the moment are preventing those ACP countries from taking advantage of the opportunities for trade that exist but which at the moment they are foregoing or being cut off from because the capacity to produce more intra-trade to take advantage of those opportunities does not exist. What we have to do in Europe is make sure that we have the right policy mix—trade liberalisation, conditions for investment, development assistance—that will provide adequate investment in the capacity of those countries to enable them to grow their share of world trade rather than see it continue to shrink as it is doing at the moment.

Q44 Joan Ruddock: It all seems eminently sensible but, of course, the ACP countries are saying they need more time and the EPA discussions are obviously taking longer than was anticipated. One of the issues that we have heard could be significant in this is the argument that there is no extra money, that the money that is being spent already is not going to be sufficient to enable them to make the kind of transition that you are recommending.
Mr Mandelson: If I thought that extra money would do the trick, and indeed would be spent on development programmes and the causes to which it is dedicated, I would be very happy to go to our member states and argue for more. At the moment the sums available for the implementation of these agreements within the 10th EDF are more in my view than ACP countries have the capacity to use.
Joan Ruddock: Really?
Chairman: Are you talking about infrastructure?
Mr Mandelson: Be under no illusion. From the 9th to the 10th EDF there will be a massive increase in development assistance from €13 billion to €22 billion.

Q45 Joan Ruddock: So it is political? They are dragging their feet?

[18] Foreign Direct Investment.

Mr Mandelson: And that is before the Member State money, which is separate from the 10th EDF, can be added on top of that. Believe me, if there is an issue of funding it has been used for reasons other than funding. It has been used for political reasons.

Q46 Joan Ruddock: So they are saying they need more time. Are you going to consent to more time? Is the Commission going to consent to more time?
Mr Mandelson: It is not within my power to give that consent. The WTO has given a waiver until the beginning of 2008 for these new arrangements to be negotiated. That is our cut-off point and it is not within my power to extend that period of negotiation, so those ACP countries who think that if they procrastinate or filibuster or drag their feet until the end of the year because they are against the ideas and the principles of changing those trade arrangements (in my view unquestionably in a favourable way) they will then get an extension of a number of years, they are going to be sorely disappointed, and if they do go back to the WTO for a further waiver it will not come for free. There will be pain in further erosion of their tariff preferences because the rest of the WTO membership will say, "Look: we gave you seven years to negotiate this. If you cannot get it done in seven years then it is the will that must be lacking, not the means, and what you want to do is to free ride on the rest of us in the WTO with preferential trade arrangements with the European Union which we said you could only have in their present form until the end of 2007, and you want a waiver simply because you want to increase your privileges which are not available to the rest of us in the WTO." The WTO membership are not going to turn round and say, "You can have as long as you want".

Q47 Joan Ruddock: If there is going to be an extension, which you think might not happen, but if there was to be an extension, are you saying that the existing preferences with the EU would definitely end?
Mr Mandelson: They would not end but they would pay a price for further erosion, which would involve the ACP countries in significant trade loss and economic loss.

Q48 James Duddridge: I am interested in the level of differentiation that you think is permissible within EPAs and specifically I am mindful of the SADC[19] countries and that the big difference is between South Africa and other SADC countries.
Mr Mandelson: You cannot treat South Africa in exactly the same way as LDCs within that regional grouping. South Africa entered the WTO as a developed country economy. It cannot suddenly convert itself into an LDC operating the same conditions and access as amongst the poorest in Africa, so that is an issue that has to be resolved. I think that with goodwill on all sides, South Africa and the European Union and other SADC countries, we will be able to do that but we must find a solution for that.

Q49 James Duddridge: Where is that solution going to come from? I am unclear as to the negotiating position of South Africa within the SADC countries and the SADC negotiating position with the other global negotiators.
Mr Mandelson: What will be the effect on it, do you mean? What will be the effect on their wider trade relations?

Q50 James Duddridge: What is the process and who are involved, both from the South African perspective and the SADC perspective?
Mr Mandelson: They are involved within that regional grouping. We have to find a solution that is acceptable to all. South Africa is a very big economic elephant within that grouping and we have to find a route around that elephant without excluding South Africa from the grouping or the benefits of having that relationship. Remember that South Africa already has a privileged trading arrangement with the EU. We have a free trade agreement operating between the EU and South Africa so there is no question of South Africa losing out. They already have considerable benefits.

Q51 James Duddridge: You seem to be saying to me in different ways that we need to find a solution. What I am trying to get an indication of is what your view or the Commission's view of that solution might be.
Mr Mandelson: The solution I would like to see is a single trade regime governing our trading relationship between the EU and all the SADC countries but there would be some limited exceptions to that trade regime for a limited period which we would have to negotiate with SADC.

Q52 Chairman: But that does imply that some of the SADC countries outside South Africa would effectively be having their markets opened up more quickly than they would otherwise be if they were just being treated as a comparable developing country. They are almost being penalised for being part of a region with South Africa.
Mr Mandelson: Is that so? Why would that be the case?
Mr Thompson: The implication of "can form an agreement" means that they would have to open up just like any of the other EPA countries.
Mr Mandelson: Do you mean because they have South Africa amongst their number?

Q53 Chairman: Yes. I do not know but the implication of what our briefing tells us is that they are being put under pressure to liberalise as if they were South Africa, and obviously they are saying, "A lot of us are not as rich as South Africa".
Mr Thompson: But that is a question of negotiating amongst themselves in that case because it is to do with what they do with their own regional market *vis-à-vis* us.

[19] Southern African Development Community.

Q54 Mr Davies: The question is whether the EPA is going to impose differential requirements, not just on the EU and the Africa partners but also within the Africa partners.
Mr Mandelson: But their nervousness is that as part of the EPA they would be opening up within the sort of regional trade and customs regime that would lead to them being swamped, as it were, by South African goods. That is what they are principally nervous about and I understand that and that is why we have to negotiate that in a particular way and in a different way from the other EPA groupings.

Q55 Mr Davies: There would be double asymmetries here, not just an asymmetry between the EU and the EPA but within the EPA. That is the unique feature of this EPA?
Mr Mandelson: Yes.
Mr Davies: I have got it.

Q56 Richard Burden: The implication of what you were saying a little earlier on is that if, say, you took the so-called Singapore issues, a lot of what is in there would be of benefit to a lot of LDCs.
Mr Mandelson: Not LDCs so much but certainly the more competitive developing countries. I do not think the LDCs quite have the condition or platform to take on those commitments in the way that other more competitive developing countries do.

Q57 Richard Burden: Okay; if we take those over to EPAs then it has been the Commission's position that the Singapore issues would not be included in any of the EPAs unless they were specifically requested to do so?
Mr Mandelson: I would want them voluntarily taken on, negotiated and tailored to the development conditions of those countries and progressively implemented over a fairly long period. The reason I say that is that until and unless they put in place conditions for investment, for competition, for governance, for procurement and trade facilitation they are not going to utilise the full trade benefits of the greater opening that they would be taking on, but none of this anyone is imagining can or will be done overnight. We are talking about lengthy implementation periods, but without question in my mind developing countries are the losers from the removal of the so-called Singapore issues from trade negotiation, because for development they need investment and they need flows of foreign direct investment. What conditions those flows is the operation of rules that affect that investment in the countries and the economies concerned. If you think of yourself as an international investor, and capital now is more mobile internationally than it has ever been in our existence, are you going to go to a country or an economy where your investment is going to be legally unsound, unprotected, not governed by any agreed governance or rules operating in those countries? Of course not. You are going to take your investment where it is going to be properly protected. You only have to see the flight of African capital from Africa to understand the effect of these conditions and if you do not have proper rules for investment then investors will take that capital elsewhere. The best illustration of that is in Africa itself and I am talking about African capital.

Q58 Chairman: When you get these arguments about different groups saying, "We are not convinced we are getting a fair deal. We are being asked to give up things and we are not going to get enough back", is it coming from them? Are they being wound up by NGOs? To what extent are there cross purposes in this debate based on misapprehensions or misperceptions?
Mr Mandelson: It is a mixture of things. It is an apprehension about the colossal and fast-moving changes that are taking place in the global economy and an ambivalence towards those changes, and that ambivalence consists of an attitude on the one hand of, "God, the world is changing, it is changing fast, we have got to be part of the action. Let us join the world and not be left behind", and another attitude which is, "Join that world and we are going to sink without trace. Let us erect some protective walls and shelter from what is going on in the global economy".
Chairman: But that may be a fair perception in some instances.
Mr Mandelson: It is, but it is also not going to alleviate poverty or bring about development or economic growth in those countries. My view is this, that you do not want to encourage developing countries to isolate themselves from the international economy. You want instead to find the right policy mix and the sensible moves that you can assist with by which developing countries can step-by-step move towards and become integrated into the international economy. Different developing countries and different conditions of development will do so in different ways at different speeds with different resource needs and assistance needs from the likes of Europe. It is finding and adapting and tailoring the policy mix to different developing countries who are experiencing different states of development and have different needs which is the challenge and the trick which we have to pull off when we are trying to marry trade policy and development policy. When I came to this job one of the earliest speeches I made was at the London School of Economics in February 2005, which I called "Putting Trade at the Service of Development". You cannot separate these two things. One is the driver of the other. If you embark on a course the purpose of which is to limit your trade growth, limit your integration into the global economy, limit the steps that you can take by multiplying the development benefits and potential of creating a more regional base and market to assist your development as a stepping-stone to economic growth and strengthening which enables you to be a stronger participant in the international trading system, then what you are saying is that you are going to cut yourselves off indefinitely and you are resigning yourselves to inexorable economic decline and inexorable shrinking of your share in world trade and growing markets which is going to drive

you further into poverty, not enable you to climb out of it. I am not expressing something which is original or new. So much is obvious and it is obvious to developing countries. What is less obvious to them is how, on what basis, over what time and with what development assistance and over what implementation periods this should be done. That is the hard bit. What we are trying to do through our EPAs is find the best way in which we can reconcile the market opening and trade liberalisation needs of ACP countries on the one hand with their need on the other to go carefully and sensibly in a measured and progressive way over time to achieve this. This is why I describe my own approach and policy as one of progressive liberalisation, and by "progressive" I mean progressive in both senses of the term. I mean progressive in terms of sequential, step-by-step implementation and change and also in the sense that it has to be done in the interests of the many and not the few.

Q59 Hugh Bayley: To return to EPAs, what are the incentives for least-developed countries to sign up for an EPA when they already have, through Everything but Arms (EBA), quota-free, tariff-free access?

Mr Mandelson: Because they will have regional trading arrangements and growing regional markets to assist that process so that they are not looking just to tariff preferences *vis-à-vis* the European market, but they will also be looking increasingly and progressively to regional market growth and growth and trade opportunities nearer home, and, secondly, because there is a very substantial Aid for Trade development assistance dividend that goes with the implementation of EPAs. They know this, which is why the ACP countries themselves embraced this process in the first place. You rightly point out that some amongst the ACP are getting cold feet and wondering whether they are doing it in the right way or is it not happening too quickly, *et cetera*, but the negotiations that we are undertaking are following the road map that the ACP countries themselves put in place with us at the beginning of this process. These road maps have been in existence now for a long time and, despite all our efforts to invest in their negotiating capacity, and we do invest very directly and substantially in their capacity to negotiate trade arrangements directly with us but also multilaterally, and despite my efforts to say, "Look: there is no point in dragging your feet because you cannot put off the day indefinitely when you have to reach an agreement on this", that is what they are doing. It is hard. It is hard rowing and it is hard ploughing, I am not denying that, but it has got to be done, partly because the benefits of doing it successfully are so great for the ACP countries, but also what is the alternative? The alternative is not the *status quo*. Other WTO members will not allow a simple continuation of the traditional trading relationships between ACP countries and the European Union. They will not have it and they have made that clear. That is why they gave their waiver until the beginning of 2008 and I cannot extend that waiver, as Pascal Lamy made clear in Addis last week when he was speaking with the African Union. He was asked this direct question by African countries, "Do you not think that if we could not get the EPA negotiations done by the end of the year the WTO members will simply give us an extension?", and he said, "You cannot rely on that and you certainly cannot assume it will happen without a price being paid by you for the privilege". This is a serious economic cost that they are looking at if they do not complete these negotiations within this year. I have teams of very well-motivated officials who have a colossal amount of goodwill, but if we do not find that negotiating willingness on the other side of the table to match what we are prepared to do and put into this then I cannot force people. If they will not reach an agreement I cannot impose it on them, but the costs of not reaching an agreement are very sizeable for the ACP and therefore you look at a worried person, not for my own sake. The economic cost is not going to be in Europe. The economic cost is going to be amongst the ACP countries themselves.

Q60 Mr Davies: Is the third answer to Hugh's question not that the foreign content rules under the EPAs are much more favourable to the LDCs than the Everything but Arms regime where foreign content has to be less than 25% or so?

Mr Mandelson: You are talking about the rules of origin, which you are quite right to focus on. These need to be simplified and tailored. We need to undertake that.

Q61 Mr Davies: But it will be better than the present regime which applies to LDCs, which is the Everything but Arms regime; that is the point. There is another carrot there.

Mr Mandelson: Yes, but the fact that we need to do it for reasons that go beyond these particular EPA negotiations is a source of some frustration and impatience on my part, but we have to do it in particular in the EPA context. Quite frankly, the Commission needs to speed up on this and put its proposals in place. I want to stress one thing though on this. Sometimes a confusion enters the picture in these EPA negotiations between the period of negotiation that we have available to us and the period of implementation for putting into effect what we have agreed. Sometimes when I talk to ACP ministers they think that the deadline for implementation is the end of this year. It is not. The deadline that we are facing at the end of this year is agreement on what we will do over a very lengthy implementation period stretching into very many years ahead of us. Nobody is asking ACP countries suddenly to turn on a sixpence on 1 January 2008 and implement all these changes. That is not what the WTO is requiring. The terms of the WTO waiver are an agreement of what they will do during the implementation period, not what they will have to do in one go on 1 January. That is terribly important because I think it is a source of some confusion.

Q62 Joan Ruddock: I just wanted to ask what your idea of the timescale was in years.

23 January 2007 Rt Hon Peter Mandelson and Mr Peter Thompson

Mr Singh: It is 12 years, is it not?
Joan Ruddock: 2020?
Mr Mandelson: A good 12 years.

Q63 Hugh Bayley: The Cotonou Agreement says that the future will be no less favourable for ACP members, both least-developed countries and non-least-developed countries, than the status quo, that it will convey for ACP countries a trading position that is no less favourable. Is that really compatible with the WTO's requirements?
Mr Mandelson: Oh yes, and it will be worth considerably more to them during the course of the implementation period.
Hugh Bayley: For non-least-developed countries too?
Mr Mandelson: Yes, also for non-LDCs. There are certain sensitivities here and I have got to reach an agreement with my colleagues inside this house about extending EBA access to the non-LDCs, an agreement which in respect of certain agricultural goods is creating some anxiety among some of my colleagues. I readily acknowledge that we have to get our act together here and forge an agreement amongst ourselves that will enable us to make a good offer to the non-LDCs and that will be forthcoming in the next month.
Hugh Bayley: And how long will EBA last?

Q64 Mr Davies: You have said, and quite rightly you have been saying for several years since your London School of Economics lecture, that aid and development and trade have all got to be seen together, but let me put this to you. We have heard some criticism that one reason (one reason no doubt among others) why you are behind track on negotiating the EPAs, and, God, what a disaster it would be if we did not have either a Doha Round or the EPA—
Mr Mandelson: Because they do not trust our ability to deliver the assistance in a timely way.

Q65 Mr Davies: No, that actually you have not co-ordinated the development discussions with the trade discussions with the Africans—this comes from the Africans—and that the EU should have been providing a much more co-ordinated approach involving not merely the trade and the EPA negotiations and the elements of Singapore included in the EPA regimes and all the things you have talked about today, but also the aid package: aid for adjustment mechanisms, aid for administration strengthening and so forth to deliver the EPAs, aid coming not merely from the Cotonou Agreement, the EDF, but also EuropeAid and member states' aid programmes should all have been talked about as one coherent package and has not been. How do you respond to that criticism?
Mr Mandelson: My response is that partially they have a valid criticism to make. Our record on delivery of performance has not been consistently high and if you take the action programme that was connected with the banana reform, for example, the special framework of assistance as it is called, disbursement was—
Mr Thompson: Slow.
Mr Mandelson: Slow—is that what you call it?
Mr Thompson: Apparently it has improved.
Mr Mandelson: I was going to say "patchy", but this criticism has been taken on and we have raised our performance. However, there is another point to be made here, which is that they will either want more development assistance or they want development assistance re-badged so that it is specifically linked and called EPA development assistance.
Mr Davies: But that is in our interests if we want the EPA agreements.
Mr Mandelson: Of course at one level it is, except that if it is an argument for increasing the totals of development assistance and aid we are providing then (a) I cannot persuade the member states to do that at this stage, especially when nothing has been negotiated,—
Mr Davies: It is an argument for co-ordinating existing resources.
Mr Mandelson:—and (b) it is not a problem of quantity; it is a problem of use and take-up and implementation, and frankly I think some amongst the ACP are hiding behind these issues in order to forestall the negotiation. I looked into this with considerable vigour. I am entirely satisfied that it is not a shortfall of development assistance, nor in principle is it an inadequate mode of delivery, although even now I am sure that could be improved. It is, I am afraid, that arguments about money are being used to shelter behind much-needed changes in policy and my firm view is that development assistance is not a substitute for good development policy and it is the changes in development policy and governance that are needed as much as, if not more than, additional sums of money. I am going to have to go now because I have to go to a different parade ground.

Q66 Chairman: Thank you very much indeed.
Mr Mandelson: I hope it was helpful. I have here for you copies of a speech I made in Amsterdam last night about the European Constitutional Treaty if anyone is interested in wider European matters.
Chairman: Thank you very much.

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