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AN ASSESSMENT OF THE BALANCING OF EU DEVELOPMENT OBJECTIVES WITH OTHER POLICIES AND PRIORITIES

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EUROPEAN PARLIAMENT

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES OF THE UNION

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POLICY DEPARTMENT

STUDY

AN ASSESSMENT OF THE BALANCING OF EU DEVELOPMENT OBJECTIVES WITH OTHER POLICIES AND PRIORITIES

Abstract

EU's trade, agriculture, climate change and migration policies have a large impact on the Union's development objectives, reason why coherence between these and development policies is crucial. The Generalised System of Preferences (GSP) and Economic Partnership Agreements (EPAs) are powerful policy tools and the recent revisions of the GSP and the conclusion of most recent EPAs are in principle coherent with development objectives. However, detailed analysis shows that 'sensitive product' lists, particularly high tariffs for semi-processed and final goods, and rules of origin undermine the positive potential impact of the GSP system. At the same time, tailor-made liberalisation programs in the EPAs risk regional integration and export diversification. As regards migration policy, there is clear need to prioritize policy coherence for development over conflicting interests between different Commission departments. In the area of climate change there is need for improvement, especially as regards climate funding and mainstreaming of climate change concerns into EU development cooperation. In agriculture, the EU export and domestic subsidies have a negative impact on developing countries and there is a need for more coherence Union's development.

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AUTHOR(S):

Selen Sarisoy Guerin, IES VUB, BELGIUM
Sevidzem Kingah, UNI-CRIS and IES, BELGIUM
Christiane Gerstetter, Ecologic Institute, GERMANY
Jenny Kirschey, Ecologic Institute, GERMANY

ADMINISTRATOR RESPONSIBLE:

Anna CAPRILE
Directorate-General for External Policies of the Union
Policy Department
WIB 06 M 075
Rue Wiertz 60
B-1047 Brussels

LINGUISTIC VERSIONS

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List of Abbreviations

ACP	Africa, Caribbean and Asia
BRIC	Brazil, Russia, India, China
CAP	Common Agricultural Policy
CARIFORUM	Caribbean Forum of African, Caribbean and Pacific States
COMESA	Common Market for Eastern and Southern Africa
DDA	Doha Development Agenda
DG	Directorate General
EAC	East African Community
EBA	Everything But Arms
EDF	European Development Fund
EEC	European Economic Community
EIB	European Investment Bank
EPA	Economic Partnership Agreement
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GCCA	Global Climate Change Alliance
GDP	Gross Domestic Product
GEEREF	Global Energy Efficiency and Renewable Energy Fund
GSP	Generalised System of Preferences
IFPRI	International Food Policy Research Institute
IOM	International Organisation for Migration
IPR	Intellectual Property Rights
JMDI	Joint Migration and Development Initiative
LDC	Least Developed Countries
MDG	Millennium Development Goals
MFN	Most Favoured Nations
MNC	Multinational Corporation
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OTDS	overall trade distorting domestic support
PCD	Policy Coherence for Development
REC	Regional Economic Community
RoO	Rules of Origin
SADC	Southern African Development Community
TFEU	Treaty of the Functioning of the European Union
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
WTO	World Trade Organisation

EXECUTIVE SUMMARY

In November 2005 the Council and the representatives of the Governments of the Member States meeting within the Council, the European Parliament and the Commission approved "The European Consensus on Development". This policy statement provided for the first time a common vision that guides action by the EU on development cooperation, at both Member State and Community levels. It states that the prime objective of Community development policy is the eradication of poverty in the context of sustainable development and equitable globalisation, along with the promotion of democracy, good governance and respect for human rights. The statement also acknowledges that developing countries are ultimately responsible for their own national strategies to achieve these goals and EU aid will support these strategies.

The aim of this study is to provide a critical assessment of the coherence between the EU's development policies and its other policies, namely trade, agriculture, climate change and migration. In Article 208 of the Treaty on the Functioning of the European Union (TFEU), the EU declares its commitment to 'the reduction and, in the long term, the eradication of poverty' as the primary objective of its development cooperation policy. In addition, the same article of the TFEU emphasises that the EU will ensure the coherence of its other policies with this objective.

The following summarises our conclusions:

<u>Trade policy:</u>

- Even though the EU 2009 Report on Policy Coherence for Development finds the policy coherence between the EU's Generalised System of Preferences (GSP) and development objectives satisfactory, there is still significant room for improvement. Particularly high tariffs on certain products and 'sensitive products' lists undermine the effectiveness of the GSP and exacerbate the already negative impact of the erosion of the granted trade preferences as a result of multilateral trade negotiation. Elimination of both would further encourage diversification of developing countries' exports that in return would promote growth. Strict and complex rules of origin also have a negative impact on the effectiveness of the GSP and hence are not coherent with development objectives. The new regulation on GSP rules of origin is a step in the right direction. Most importantly, the new rules allow LDCs to outsource up to 70 percent of input in their exports and still claim origin. This measure should encourage export diversification and regional integration. Another outstanding issue is the legal predictability of the GSP scheme for EU importers. Even though Art. 220 II b Customs Code protects importers, the new Commission proposal of the 'list of registered exporters' undermines the Code. 'List of registered exporters' is put in place to simplify rules of origin but it may not prevent false declaration of origin by exporters. When there is fraudulent behavior DG Taxud claims unpaid duties from EU importers. This exposes the EU importers to financial risks, thereby reducing their incentives to import under the GSP. This issue has to be addressed as the success of the GSP relies both on supply and demand.

- Economic Partnership Agreements (EPAs) create a significant challenge, as there is both a lack of motivation to negotiate these agreements and a lack of capacity to implement them in some ACP countries. The gains from EPAs are maximised only when regional integration can be achieved. However, the negotiations not only create different commitments between regions but also between LDCs and non-LDCs in the same region. The EU could consider following the example of the US that does not make a distinction between LDCs and non-LDCs with regards to its trade policy in sub-Saharan Africa. On the other hand, the funds earmarked for financial assistance and technical support for countries that signed the EPA should be legally predictable and transparent. Any misunderstanding that funds are conditional on signing the EPAs should also be dealt with.

- Other policies that intersect with EU's trade policy with clear implications on PCD are the EU's Raw Material Initiative and the trade-distorting effects of common agricultural policies. While there is concern over the EU imposing strict trade rules on African countries to prevent export restrictions in raw materials, the evidence shows that the main impact of this initiative falls mainly on China and Russia. On the other hand, the strong negative effects of EU's CAP are unevenly distributed among developing countries. Among developing countries the major beneficiaries of agricultural liberalization will be the developing countries in the Cairns Group that have a strong comparative advantage in agriculture. The LDCs will likely be hurt by the agricultural liberalization. However, as gains of the first group outweigh the loss of second group, the overall impact of agriculture liberalization is expected to be positive. When efficiency concerns are taken into account the trade-distorting effect of CAP becomes more clear as the gain of LDCs in itself is a distortion and hence welfare reducing.

<u>Migration policy:</u>

- Our analysis concludes that migration is an area where the objectives of the officials working in the field of development policy and officials working in the area of immigration policy are conflicting and there is need for more emphasis on PCD. Development officials are interested in contributing to long term/sustainable development of third countries, while immigration officials follow short-term EU migration consideration, mostly aimed at fighting illegal immigration. We recommend more transparency in the outcome of inter-service consultations in the context of negotiations of free trade or association agreements if these are going to have an impact on movement of persons. This also applies at the level of member states. The EP should constantly highlight the importance of institutional coherence both between the DGs of the Commission and importantly between field offices/ delegations and headquarters.
- The rationale of EU migration policy still appears to be "how to prevent more migration". This is understandable given electoral politics of various EU countries. As a result, the EU has become less attractive for needed skilled workers. A measure like the adoption of the Blue Card was geared at mitigating this but its benefits have been diluted to such an extent as to defeat its intended purpose (Brady, 2010). The EP can initiate or continue to advocate for informative programs directed at political movements and civil society groups on the long-term benefits of legal migration. In addition there are some indications that the current initiatives of linking development and migration policy have actually translated in 'misuse' of development funds for strengthening border management and combating illegal immigration. This is often referred to as "migration conditionality", implying that development funds are offered to third countries as incentives for cooperation in the fight against illegal immigration, e.g. through readmission agreements. There is a risk of redirecting development aid from the poorest countries to countries of origin of migrants coming to Europe.
- In order to contribute to sustainable development in third countries the EU should encourage circular migration which strengthens legal migration, facilitates the movement of migrants between the EU and the country of origin and as a result encourages the transfer of skills and presents an opportunity of development for the country of origin. European immigration policies aimed at attracting highly skilled migrants should be followed with caution, as there is concern among stakeholders that it might lead to so-called "brain drain", ultimately having a damaging effect on the development of the country of origin. On the other hand, remittances have a significantly positive development impact as several countries are heavily dependent on remittances as income. It is therefore important to elaborate tools that facilitate the transfer of

remittances. The amount of remittances from the EU, exceeds in many countries the amount of official development aid (ODA)

Climate change:

- In the area of climate change additional efforts are needed. Especially, efforts are required concerning EU climate-funding for developing countries. In a 2008 report, the European Parliament considered the EUR 60 million originally allocated for the 2008-2010 period "woefully inadequate". An additional problem is that a part of the EU and member states' funding to developing countries is invested in projects that foster climate change, rather than mitigate it. For example, the European Parliament's Committee on International Trade has recently pointed out in a draft report that half of all CO_2-emission-intensive industrial projects in developing countries had some form of support from export credit agencies. Climate-related funds should also be monitored more systematically than is the case so far.

- Moreover, more efforts for mainstreaming climate change concerns into EU development cooperation at the level of programming and implementation appear to be needed. A 2009 survey of 19 Country Environmental Profiles and two Regional Environmental Profiles showed that the reports say very little about climate change and recommended that climate change should be covered much more in depth. The Commission has stated its intention to more systematically integrate climate change into development cooperation strategies at regional and national level. This announcement should be put into practice and its implementation should be monitored. Altogether, whilst important steps have been taken, much remains to be done. In this context, it is of particular interest how the "ambitious EU wide environment integration strategy" that the Council had requested the Commission to present in 2011 will look like.

Agriculture policy:

- EU subsidies have a predominantly negative impact on developing countries hence there is little coherence between EU policies on agricultural subsidies and development objectives. To improve coherence, export subsidies should be phased out. In addition, the EU should critically and systematically assess the development impact of any CAP reform proposals. So far, the debate is focused predominantly on the EU internal effects – economic, social and environmental. Agricultural and other policies of the developed world have indeed created dependencies on imports in many developing countries, and reversing this import dependency – an important step to enhance food security – will have to be a gradual process. In addition, there are, to a degree, trade-offs between EU development and other objectives involved. For example, it would be advisable that EU agricultural subsidies with an environmental objective or with strong positive employment effects be kept, even though they may have trade-distorting effects.

1 INTRODUCTION[1]

In November 2005 the Council and the representatives of the Governments of the Member States meeting within the Council, the European Parliament and the Commission approved "The European Consensus on Development". This policy statement provided for the first time a common vision that guides the action by the EU, at both Member State and Community levels, on development cooperation. It states that the prime objective of Community development policy is the eradication of poverty in the context of sustainable development and equitable globalisation, along with the promotion of democracy, good governance and respect for human rights. The statement also acknowledges that developing countries are ultimately responsible for their own national strategies to achieve these goals and EU aid will support these strategies. Having recognized that aid alone cannot meet the development needs of the poor, the EU agreed to apply policy coherence for development approach in 12 policy areas: trade, environment and climate change, security, agriculture, bilateral fisheries agreements, social policies, migration, research and innovation, information technologies and transport and energy.

The new consensus was very much in line with the Paris Declaration of 2005. The Declaration was signed by over one hundred Ministers and Heads of State and was a step in harmonising donor countries' efforts to align and better manage their aid strategies. Later the commitments that were agreed in Paris were operationalised by the Accra Agenda for Action (2008) (OECD, 2009). The EU has been the largest donor of official development assistance (ODA) and it has agreed to provide at least 0.15% ODA to least developing countries (LDCs). Total EU financing for developing countries has slowed due to the financial crisis in 2008 and slightly recovered in 2009[2]. However the fall was mainly due to collapse in private flows (mainly foreign direct investment)[3]. The ODA both in actual amount and as a share of gross national income has increased through 2008-2009 (Eurostat). The channels through which ODA is disbursed and the manner in which it is allocated is also an important issue in terms of aid effectiveness and hence policy coherence for development. The EU went through a wide reform process in 2000 to increase the effectiveness, efficiency and accountability of its development policy. With its Communication to the Commission on the Reform of the External Assistance, the so-called RELEX reform strengthened the organizational structure of the EU by integrating political, trade and development aspects. The RELEX reform also provided the institutional framework for coherence with the establishment of the Interservice Quality Support Group in 2001 that provides policy coherence between mainly DG Relex, other DGs and DG Development[4]. But more importantly with this reform poverty reduction became the aim of development assistance.

The aim of this study is to provide a critical assessment of the coherence between EU's Development policies and its other policies, namely trade, agriculture, climate change and migration. In Article 208 of the Treaty on the Functioning of the European Union (TFEU), the EU declares its commitment to 'the reduction and, in the long term, the eradication of poverty' as the primary objective of its development cooperation policy. In addition, the same article of the TFEU emphasises that the EU shall ensure the coherence of its other policies with this development objective.

Having recognised that making development policy in isolation will not bring sufficient results, in 2005, the EU has established a new approach towards its external policies. The EU agreed that Policy Coherence for Development (PCD) in 12 priority areas had to be accelerated in order to achieve the Millennium

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[1] The lead author for this report is Selen Sarisoy Guerin. Christiane Gerstetter and Jenny Kirschey have contributed to the parts on climate change and agricultural subsidies, and Sevidzem Kingah the part on migration. We thank Irene Knoke for excellent suggestions and comments.

[2] Eurostat, ODA statistics, accessed 15 March 2011.

[3] Total EU financing for developing countries includes ODA, private flows and other official assitance.

[4] In the EP's Keller report, the inter-service consultation system was questioned on the basis of its lack of transperancy (EP, 2010).

Development Goals (MDGs). This approach is not only adopted at the EU level but also at the member state level. In order to ensure the establishment of a 'whole-of-the-Union' approach, the EU Commission reports on progress on PCD every two years. The 2009 progress report summarises progress made in the four specific policy areas mentioned above.

The EU trade policy is a significant part of EU's external actions. Even though the primary objective of EU's trade policy is to open markets for EU business, both to ensure fair trade and to increase EU competitiveness, EU's trade policy has an important impact on development and poverty. As stated above, the primary objective of PCD is to achieve development goals, hence to reduce poverty. While there is a clear connection between trade and poverty, poverty is not just about income. In fact, poverty is a multidimensional concept that also is related to access to health and education services, sanitation and also social marginalisation and environmental quality. However, the overwhelming impact of trade is on the economic dimension of poverty. EU trade policy for development focuses mainly on offering non-reciprocal market access for developing countries to the EU market with its Generalised System of Preferences (GSP), and ambitious trade liberalisation with its Economic Partnership Agreements (EPA) with African, Caribbean and Pacific (ACP) countries and on capacity building through the "Aid for trade" policies[5]. EPA negotiations with ACP countries were a key focus of EU PCD efforts over 2007 and 2008, and a major result was the signing of the Caribbean EPA, the very first of its kind in the world. The 2009 report on PCD assessed the progress made by the GSP and Aid for Trade as satisfactory. The area where improvement was required included completion of the Doha Round of the World Trade Organisation (WTO) (EC, 2009).

The European Parliament report on Policy Coherence for Development (henceforth the Keller report) which was adopted on the 18 May 2010 found that there were incoherencies in EU's trade, agriculture, climate and migration policies among several others. This report stressed the need for the EU to actively engage with other WTO partners to reach a balanced outcome in the Doha Round. The report underlined that the "'Singapore issues' such as liberalization of services, investment and government procurement and strong enforcement of intellectual property rights did not serve the aim of achieving the eight Millennium Development Goals". While the GSP schemes, the EPAs and other free trade agreements which emphasize good governance, sustainable development and implementation of international environmental and labour standards were welcome, better coherence was needed in some areas. For example, the report found that the safeguard clause on food security included in EPAs was a step in the right direction, whereas the TRIPS+ provisions included in the EC-CARIFORUM EPAs created barriers to access to essential medicines. It was recommended that the Commission end its TRIPS+ approach in its EPA negotiations. Finally the report asked for Aid for Trade to benefit all developing countries, and not only those agreeing to liberalization of their own markets.

In the area of agriculture, food security, the reform of the Common Agricultural Policy (CAP) and export subsidies are the specific areas that are highlighted by the PCD approach. Even though measures have been taken to make CAP less market-distorting much still needs to be done. The Keller report finds that the re-implementation of subsidies on milk-powder and other dairy products is as a violation of the core principles of PCD. The report argues that EU export subsidies on agricultural products have a negative impact on food security and development of a viable agriculture sector in developing countries and calls for the cessation of export subsidies (by means of concluding the Doha Round).

In the area of migration, the adoption of the Global Approach to Migration in 2005 provided an overall policy framework for the external dimension of the European Union's migration policy, taking into account the migration and development dimension. Particularly the Mobility Partnerships were to provide better

[5] The technical description for the EU-CARIFORUM EPAs is a "deep" free trade agreement as these agreements go beyond tariff liberalisation on goods to also include removal of non-tariff barriers and liberalisation in services and investment.

access into the EU to third country citizens. These partnerships were seen by Member States as a tool to bridge the gap for policy coherence. However, the implementation presents a real challenge. The Keller report calls for the commission and ACP countries “to continue their dialogue on migration in order to strengthen the principle of circular migration and its facilitation by granting circular visas. The report raises concern that respect for human rights and equitable treatment of nationals of ACP countries is in jeopardy because of bilateral readmission agreements with transit countries. In addition to this, the report acknowledges that remittances are of great economic importance for developing countries but there is a need to address ‘brain drain’ in bilateral trade agreements.

In the area of climate change, there are a number of initiatives, including 2009 Council Conclusions in which the Council underlined “the importance of taking a medium- to long-term perspective to climate change and development, and of strengthening coherence between the two in order to successfully achieve internationally agreed climate and development objectives, ensuring that the fight against poverty and the achievement of the Millennium Development Goals (MDGs) are not jeopardized.“ More specifically the Keller report proposes that “*climate change challenge must be addressed through structural reforms and calls for a systematic climate change risk assessment of all aspects of policy planning and decision making*[…]”. The report also supports Commission initiatives that lower tariffs on environmentally friendly goods and transfer of low-carbon and climate-resilient technologies to developing countries.

In the remainder of this study the impact of trade, migration, climate change and agriculture policies on development goals will be assessed with special emphasis on EU trade policy. We address specifically the following questions: i) how do these policies interrelate with development policies ii) what are the positive and negative impacts of these policies on development priorities. We conclude with policy recommendations to achieve better policy coherence.

2 EU TRADE POLICY AND POLICY COHERENCE

2.1 Trade, growth and poverty- A conceptual framework for assessment

International trade is one of the major drivers in the on-going wave of globalisation. Economic integration of developing countries into the world economy has accelerated as more countries liberalised trade in the 1990s, along with exchange and interest rate liberalisations, followed by privatisation and deregulation. The ratio of global exports and imports to world Gross Domestic Product (GDP) grew from 38 percent in 1990 to 59 percent in 2008. The same period coincided with unprecedented economic growth in the world, as world GDP has grown faster than in previous decades, from US$22 trillion in 1990 to US$61 trillion in 2008 (IMF, 2010). Despite the great potential of globalization to promote economic growth and development, its impact on poverty reduction has been uneven and marginal in some regions (Nissanke and Thorbecke, 2010).

The aim of this section is to present both the favourable and non-favourable impacts of EU trade policies on developing countries. A significant and growing number of studies analyse the impact of trade on economic growth and poverty reduction. There is now a general consensus that trade leads to economic growth. However, economic growth does not automatically reduce poverty or the attainment of development goals. While world income has increased together with international trade over the last two decades, so has income inequality in both developing and developed countries (Jaumotte et al, 2008). Income inequality, again, may be related to poverty reduction in different ways. For example, evidence from China indicates that despite mounting inequality the number of poor fell by 250 million as rapid growth overcompensated the increase in inequality (Quah, 2002).

International trade theory tells us that when countries trade in those goods and services that they are *relatively* more efficient at producing, the exchange creates mutual benefits. In other words when trade is free (no tariff and non-tariff barriers assumed), all trading parties gain as it is within country relative efficiency (or productivity) that matters not cross-country. Thus, if a developing country can produce a good (or service) more efficiently than other goods, then exporting this good will increase welfare in this developing country, even if it is less productive in producing this good than the EU. There are hence theoretical models that show that trade restrictions reduce the level of real GDP at world prices.[6]

According to new trade theories the interaction between trade openness and growth is not just based on relative efficiencies or productivity but the gains from trade liberalisation come from accumulation and/or transfer of technology or a concentration on innovation. Hence new trade theories foresee the gains from trade liberalisation to be dynamic as countries accumulate more technology and carry out more innovation that is the key to long-term growth. As the theory suggests trade may be one of several channels of technology transfer. According to the 'learning by doing' theory, importing high-technology products is one way of accessing new technology.[7]

Furthermore, trade can have income distribution effects within the host country creating both winners and losers[8]. Accordingly international trade may have an effect on the purchasing power of the production factor (e.g. labour) used intensively in the production of the main exports of a country. For example, if the main export of a country is textiles, this should increase the wages of the unskilled labour and decrease the purchasing power of the other factors of production (e.g. land)[9].

While the suggested strong income distribution effects may have an impact on rising income inequality, trade is shown to contribute to growth. Several empirical studies tested the relationship between trade openness and growth such as Dollar (1992), Sachs and Warner (1995), Frankel and Romer (1999), Dollar and Kraay (2004), Ravaillion (2004), and Harrison (2006). The study by Dollar (1992) was one of the most influential studies arguing that outward orientation in developing countries promotes faster growth in LDCs. This view was also supported by OECD (1998) and IMF (1997). Sachs and Warner found a strong positive correlation between trade openness and growth and concluded that poor countries tend to catch up with rich countries if they pursue an open trade regime[10]. Frankel and Romer (1999) contributed to the debate by showing that trade actually causes growth. Harrison (2006) argued that the poor benefit from globalisation through trade and foreign investment.

With the intensifying debate on trade and growth, critiques have also grown. Some of the criticism refers to the methodological approach taken in the literature and measures used for trade and trade openness (see for e.g. Rodriguez and Rodrik, 2001). Several studies now acknowledge that the effect of trade on growth is not automatic. For example, Ravaillion (2004) finds both positive and negative effects of trade on poverty. It is now widely accepted that trade promotes growth only if other complementary policies are in

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[6] This statement holds true for small country static models with no market imperfections and other pre-existing distortions (i.e. tariff and non-tariff barriers). In case of market failures and externalities, it is always best to address the issues directly. Using trade policy to fix such distortions introduces more distortions in the economy by way of creating both producer and consumer inefficiencies, as well as creating a powerful political group that might hijack the issue.

[7] Another is through inflows of FDI in high-technology sectors. For example Blalock and Gertler (2008) find theoretically and empirically that multinational corporations (MNC) in emerging markets transfer technology to local suppliers to increase their productivity and lower input prices. They argue that this is welfare improving not only for those sectors that attract FDI but also for those downstream sectors that are suppliers. In another study, Kugler (2006) finds that even if the MNCs may restrict transfer of technology (hence leakage to competitors) within the same sector to maximise their profits, the host country benefits in other sectors.

[8] Potential income distribution effect of trade is stated in the Stolper-Samuelson theorem,

[9] It is assumed that unskilled labour is the factor of production used intensively in this country's exports.

[10] In this study Sachs and Warner use trade policy as a proxy for other liberal policies and emphasise the taming effect of openness on other policies, such as price liberalisation, budget restructuring, privatisation, deregulation, and the installation of a social safety net.

place (see for e.g. Berg and Krueger, 2003; Harrison, 2006; Ravaillon, 2004). Additionally, the most crucial evidence is that globalisation and trade openness create both winners and losers among the poor.

A recent study by Nissanke and Thorbecke (2010) demonstrate that despite the great potential of globalization to promote economic growth and development, through economic integration and technology transfer, its impact on poverty reduction has been uneven and marginal in some regions. They show that globalisation has been most beneficial in Asia where high growth rates were matched by a significant reduction in poverty. In contrast, Latin America did not experience growth nor higher employment effects, and sub-Saharan Africa continues to suffer from crippling levels of poverty despite substantial growth in many countries. Nissanke and Thorbecke (2010) identify both the process of institutional and socio-political change as well as the initial conditions such as institutional framework, the quality of governance and of human capital and natural resource endowment among reasons for the diverse effect of globalization on the poor in Asia, Latin America and Africa. This points to the importance of well-designed social protection policies to circumvent the undesired effects of globalization and increased trade openness. A recent study by The International Trade Center (2010) shows that at aggregate levels the poverty ratio declines when per capita real exports increase. However, when income inequality is the focus the impact of trade openness may change with the level of income. Milanovic (2005) finds strong evidence that at low average income levels, the income contribution of the poor is smaller in countries that are more open to trade. As the income levels increase, the share of income of the middle class and the poor also increases vis-à-vis the rich.

Alternatively, one can examine the literature on factors causing poverty to find empirical evidence on the relationship between trade, growth and poverty. In fact, this literature does not indicate any direct relationship between trade and poverty. However, several factors such as remoteness, quality of governance, availability of infrastructure and services (health and education), intellectual property rights (IPR) and their enforcement are correlated with both poverty and trade (World Bank, 2005). For example, remoteness deters trade and increases poverty. High quality of governance attracts trade (and investment) and reduces poverty. IPR rules, high levels of education, and good infrastructure all attract trade and also reduce poverty. This may suggest that trade may not only reduce poverty provided that enabling conditions are in place but also *because* it requires that they are in place. We do not know of any evidence that openness to trade promotes lack of good governance or lack of respect for IPR rules for example.

In summary, trade openness can contribute to growth by increasing efficiency in the use and allocation of resources, by allowing firms and industries to take advantage of economies of scale, by providing competition and opportunities for innovation and by avoiding wasteful activities such as rent seeking. However, growth effects of trade may not always be pro-poor and can result in changes in income distribution that may have a negative effect on poverty. In order for the poor to benefit from further economic integration through trade openness these countries have to invest in human capital, infrastructure, promote credit and technical assistance to farmers and promote pro-macroeconomic stability policies (Harrison, 2006). Furthermore, these countries have to implement carefully designed safety nets for the disadvantaged poor or targeted cash transfers, which have recently shown important poverty-alleviating effects.[11]

[11] One should also keep in mind that not all growth is due to trade. In addition, it is difficult to measure whether trade causes more income inequality within a country than other factors.

2.2 Policy Coherence for Development of Trade Policy

The EU's trade policy is one of 12 policy areas to which the EU agreed to apply its Policy Coherence for Development approach in 2005. The common commercial policy of the EU is one of the most significant policy area that has both a direct and an indirect impact on the achievement of the MDGs along with the CAP. The EU offers unilateral tariff and quota-free access to its market to 176 countries under its GSP trade arrangement. The primary objectives of the GSP are poverty reduction and to encourage good governance. This is one area where trade policy has a direct impact on developing countries. In addition, EPAs with the ACP countries, which have their basis in the Cotonou Agreement of 2000, are trade agreements with strong development support and objectives although they are exclusively dealt by the corresponding trade branches at both the European Commission and the Parliament. Finally the EU promotes capacity building to trade in developing countries through its aid for trade programme. The EU is one of the leading donors of aid for trade which reached €7.2 billion in 2007 (DG Trade).

The purpose of the common commercial policy of the EU has evolved over time since the adoption of Art. 133 (originally Art. 113) of the Treaty. Originally the common commercial policy ensured the establishment of a customs union between member states. Later it was extended to cover areas like services and intellectual property rights as well as goods with the Amsterdam Treaty. With globalisation and enlargement of the EU, and thanks to the common commercial policy, the EU has become an influential power in both bilateral and multilateral trade negotiations. With the TFEU the common commercial policy is extended to cover not only trade in goods and services but also investment. This implies that negotiating bilateral investment treaties has now become an EU competence. The future bilateral investment treaties (BIT) of the EU should be a policy area covered under PCD as investment has an even more significant impact on developing countries than trade.

The main concern of EU trade policy is to provide access to foreign markets for EU business and hence create jobs, boost competitiveness and ultimately economic growth in the EU. To this end, the directorate general (DG) for trade is involved in bilateral free trade agreement negotiations with several countries and actively pursues the conclusion of the Doha Development Round of the WTO. Although economic criteria are heavily present in EU trade policy, the EU also recognises that trade with developing countries is significant for their development. Even though the benefits from trade and its impact on growth and poverty is mixed, trade integration can help promote employment and increased welfare in developing countries (DG Trade, 2011). As the world's largest trading bloc, the EU27 is the main trading partner of ACP countries and many LDCs. The EU27 exports to and imports from ACP[12] countries reached €68 billion and €77 billion in 2008, respectively; exports to and imports from LDCs respectively amounted to €23 billion and €25 billion in the same year[13].

2.2.1 Doha Development Agenda

Until the Global Europe communiqué (2006), EU trade policy focused on multilateral trade negotiations, i.e. the Doha Development Round of the WTO which was launched in November 2001. During that period the EU maintained an effective suspension on the opening of bilateral or regional negotiations to conclude Free Trade Agreements (FTA). Lamy (2002) explained this policy as one "pursu[ing] all existing mandates for regional negotiations with vigour and fairness, but not to begin any new negotiations". The increasing number of bilateral agreements seems to create a 'spaghetti bowl' effect due to the overlapping trade preferences for developing countries (Messerlin and Zarouk, 1999) and were assumed to create problems

[12] Including South Africa

[13] 39 out of 49 Least Developed Countries are among the ACP countries, mostly in Africa.

in the medium term for the international trading system as a whole[14]. When the Doha Round started, the expectation was that it would be concluded by the end of 2004. However, following the collapse of the WTO Ministerial in Cancun in September 2003 and several rounds of negotiations, the Doha Development Agenda (DDA) negotiations were provisionally suspended in July 2006. Since then there have been several unsuccessful attempts to revive it; however, with the onset of the financial crisis in mid-2008, global attention has been diverted to economic recovery. The WTO mini-Ministerial round held in July 2008 did not bring a breakthrough as developing and developed countries disagreed on offers for agriculture and manufacturing trade liberalisation (ICTSD, 2008).

After the adoption of the Global Europe communiqué of 2006, the EU started pursuing 'deep' FTA negotiations with a number of trade partners[15]. Nevertheless the EU remains committed to the Doha Round as the total gains for both developing and developed countries from its completion are expected to be higher than gains from any bilateral trade agreement[16]. In its submissions to the WTO, the EU offered to significantly cut the tariffs on industrial goods and remove non-tariff barriers not just for developed countries but also for important emerging markets such as China, Brazil and India. In agriculture, the EU has offered to cut farm tariffs by 60%, reduce trade distorting farm subsidies by 80% and eliminate farm export subsidies altogether (DG Trade, 2011) (see chapter 5 for a detailed discussion). The EU also has been actively promoting a development package including the extension of unlimited market access to LDCs by as many countries as possible and a global 'aid for trade' assistance.

Several studies have estimated the potential gains from the conclusion of the Doha Round. For example, Francois et al (2005) estimate that the Doha Round can be expected to increase the GDP of Sub-Saharan Africa by 1 percent, of India by 1.9 percent and Asia-Pacific (other than China and India) by 3.2 percent. According to Anderson and Martin (2005), Polaski (2006) and CEPII (2006) the highest gains from the DDA to developing countries will come from liberalisation of the manufacturing sector while some countries will loose from agricultural liberalisation (see section 2.2.4). These results suggest that the DDA is to benefit mostly the emerging markets and more advanced developing countries, but least the LDCs (see for e.g. Scott and Wilkinson, 2010) (or even have a negative impact on LDCs when only agriculture liberalization is taken into account[17]). Nevertheless, multilateral trade liberalisation still accounts for larger gains for LDCs than any bilateral trade agreement, even though there will be both winners and losers among the developing countries from agriculture trade liberalisation. The potential impact of the Doha Round on agricultural products is discussed in section 2.2.4.

The Doha Round was meant to be a development round with the objective of reducing poverty. However, the negotiations have proven difficult for both developing and developed countries with many developing countries and NGOs blaming the developed countries for bringing the Round to an impasse. Some claim that the round is not going to bring developing countries closer to the MDGs either (Third World Network, 2010). Many NGOs point to the discrepancy between stated objectives of developed countries and their actions. For example Meyn (2008) argues that in July 2008 the EU and India were accused by the US of excluding many agricultural products from tariff cuts. At the same time, the

[14] The spaghetti bowl effect results from the application of different 'rules of origin' by developed countries in the increasing number of bilateral free trade agreements.

[15] The term 'deep' FTA used by DG Trade refers to bilateral free trade agreements that liberalise not only tariffs on goods, but also services trade and investment in services (mode 3 by WTO definition) and includes removal of non-tariff barriers and national treatment in public procurement.

[16] This statement can be explained by standard trade policy models (see e.g. Krugman and Obstfeld, 2008). These models show that bilateral free trade agreements have two effects: trade creation and trade diversion. Trade creation is a positive and trade diversion is a negative impact of FTAs. The net effect of an FTA is positive if the trade creation effect of the agreement is larger than the trade diversion. In contrast, there is no trade diversion effect in multilateral trade agreements, and all the gains come from trade creation .

[17] See Panagariya (2005) and discussions in section 2.2.4.

developing countries accused the US for its reluctance to bring down its trade-distorting subsidies. The EU and the US were also involved in a dispute over the definition of a trade-distorting subsidy as the EU and the US have different systems of subsidy. The outcome of the negotiations is difficult to predict from what was on the table in the final round of negotiations. As a result it is also difficult to estimate the impact of the Doha Round on growth and poverty reduction in developing countries.

2.2.2 Generalised System of Preferences (GSP)

In addition to the multilateral negotiations, the EU offers unilateral preferential access to 176 developing countries, including LDCs, to its market under the GSP. The EU was the first to implement a GSP system in 1971 following the waiver to Art. 1 of the General Agreement on Tariffs and Trade (GATT) which contains the most-favoured nation (MFN) clause. According to the Commission, the GSP's "primary objective [...] is to contribute to the reduction of poverty and the promotion of sustainable development and good governance" (EC 2008). The EU imports from GSP beneficiary countries amounted to €68.8 billion in 2008. The value of EU imports under the GSP exceeds that of the US, Canada and Japan combined (Gasiorek et al, 2010).

The GSP schemes were initially implemented in cycles of ten years, but now run in three-year cycles. The current cycle was established by Council Regulation EC (No 732/2008) that entered into force on 1 January 2009 and will expire on 31 December 2011. The current GSP scheme has three arrangements: 1) standard GSP arrangement offering preferential access to 176 countries, 2) the Special Incentive Arrangement for Sustainable Development and Good Governance (known as the GSP+), which offers additional preferences to support vulnerable developing countries that ratify international labour, environmental and human rights conventions, 3) and the Everything But Arms (EBA) arrangement that provides duty-free quota free access to LDCs (DG Trade, 2010).

The EU GSP covers over 6,200 tariff lines and grants duty-free access on more than half of those tariff lines to so called non-sensitive products[18]. To the other, so called sensitive products, a flat-rate tariff reduction of 3.5 percentage points of the MFN rate, negotiated at the WTO, is granted[19]. The sensitivity of the product depends on whether the EU is competitive or not in a certain product category. The non-sensitive category covers most manufacturing products excluding textiles, clothing and footwear. Agricultural products covered under the EU's common agricultural policy (CAP) are considered sensitive. For example, beef and other meat, dairy products, some processed fruits and vegetables, oils and processed sugar are not covered by standard GSP and GSP+ (Gasiorek et al, 2010). Some of the sensitive products under the standard GSP are the main export products of developing countries such as textiles, agricultural goods, carpets, clothing, apparel and footwear.

The current GSP scheme was revised in 2006 and it is significantly different from its predecessors. The three arrangements mentioned above make the current GSP simpler compared to the previous five arrangements. GSP coverage and country eligibility (i.e. graduation) are no longer determined annually and as such the current scheme provides better predictability to both EU importers and developing country exporters. **These changes are welcome as they improve the policy coherence of the GSP scheme with development objectives.**

The GSP scheme may encourage growth in developing countries by increasing their exports and by helping these countries to diversify their exports. If the benefits from the GSP can be matched by the right domestic policies and safety nets (for e.g. the impact of trade on domestic income distribution) these

[18] The GSP system excludes Harmonised System chapter 93 arms and ammunition.
[19] The flat rate for textiles and clothing is 20 percent.

schemes can help reduce poverty in the most vulnerable economies. However, evidence of the development impact of GSP is ambiguous, as is discussed further below.

First, the impact depends on how well the GSP preferences offered by the EU match the export structure of the developing countries. For example, Gasiorek et al (2010) find that on average the GSP does not account for a substantial amount of the GSP countries' trade with the EU. In fact for only 42 out of 176 countries the EU accounts for more than 50 percent of their exports. In addition, the analysis suggests that given the export structure of the majority of GSP countries, the preferential access offered by GSP gives these countries only a small preference margin over MFN rates that apply under WTO rules[20]. However, the seemingly low coverage of the export products of developing countries in the EU GSP can be due to the fact that there are other GSPs in competition (e.g. USA, Japan or Canada) and not all developing countries have the same export profile.

While the preference margin (i.e. the difference between the preferential and MFN rate) is an important factor in promoting development, the other factor is utilisation rates. Exporters will use EU GSP preferences depending on competition from other preferences, their supply capacity and the rules of origin. Gasiorek et al (2010) examine the impact of the utilisation rates on development. The authors measure the impact of five different measures of preference margins and utilisation rates on GDP per capita, and development (as measured by the UN Human Development Index and Human Poverty Index). The results are mixed: 1) higher rates of utilisation are associated with higher rates of growth but there is little relationship between growth rates and preference margins[21]; 2) growth in exports is largely due to growth in existing export products; hence GSP does not lead to diversification. The last two points are crucial as they represent the channels through which GSP can promote development. The most likely reason for the lack of diversification are tariff peaks in semi-processed and/or finished goods and the 'sensitive products' category. For example, out of 8,200 dutiable products 3,700 fall under the 'sensitive' products category. As mentioned above several agricultural products are classified as 'highly sensitive' and represent the main export products of poor countries. **The exclusion of certain products under the 'sensitive' category undermines the development objectives of the GSP scheme and is clearly not coherent with the PCD**.

Evenett (2008) provides a comprehensive literature survey on the EU's GSP. In this survey, the general finding is that the GSP has raised exports from beneficiary countries to the EU by 30-60% (see Table in Annex). However, there is also evidence that some of the increase was due to trade diversion from other (non-EU) trading partners. In addition, EU GSP caused trade diversion in EU imports away from non-beneficiary countries to GSP recipients. Hence even though trade has increased significantly between the EU and GSP countries, there are welfare-reducing effects both for developing and EU countries. For example, exports from Brazil, China, Colombia, Malaysia, and Thailand to the EU seem to have decreased (Borchert 2008). Other studies have focused on the welfare benefits of the GSP scheme. For example, some studies indicate that EBA beneficiaries gain in total $300-400 million, while the cost to the EU is $200-300 million and additional trade diversion away from non-GSP countries (e.g. Mensbrugghe, 2006; Yu and Jensen 2005).

Another issue related to the scheme is the utilisation rates. Brenton and Manchin (2003), Brenton (2003) and Gasiorek et al (2010) argue that the GSP preferences are underutilised and some suggest that this may be attributable to administrative costs, restrictive rules of origin and other obstacles (e.g. DeMaria, Drogue and Matthews, 2008). Manchin (2005) estimates that preferences margins less than 4.5 percent tend to be ignored by ACP exporters, who under these circumstances tend to pay the MFN tariff. However, Gasiorek

[20] The analysis is based on average preference margins.

[21] In the study there is some evidence that preference margins tend to be higher for countries with lower levels of GDP per capita.

et al (2010) show that underutilisation of GSP preferences does not lead to reduced gains compared to the full utilisation scenario. Another related concern is "preference erosion". Since GSP benefits are based on MFN tariffs, the gradual reduction of tariffs through WTO multilateral trade rounds has caused a reduction in preference margins. According to a recent study by the International Trade Center (2010) GSP schemes have a negligible impact under the current structure of LDC exports for most countries.

Finally another element of the GSP schemes that determine their effectiveness as a development measure is the 'rules of origin' (RoO). The RoO are used to determine where a product originates from to determine whether it is eligible for a GSP preference. In the previous cycles of GSP schemes, the RoO for the EU's GSP were broadly seen as relatively strict. As Townsend (2008) noted, GSP use "has not yet reached full capacity", and "to stimulate exports from developing countries further, the rules of origin need to be improved." The RoO have been criticised especially for preventing beneficiary countries from gaining from the " […] *export of higher value and processed products".* The new regulation by the Commission's DG Taxation and Customs Union (rather than by DG Trade), revising the rules of origin for products imported under GSP was adopted on 18 November 2010. The new simpler rules and procedures came into effect on the 1 January 2011. **The new regulation is a step in the right direction. Most importantly, the new rules allow LDCs to outsource up to 70 percent of input in their exports and still claim origin. This measure is likely to encourage export diversification and regional integration.**

In the 2009 PCD progress report the reforms towards policy coherence in the area of GSP scheme was found satisfactory. However, the above discussions highlight significant shortcomings. In theory, the GSP is a significant tool for development as it provides non-reciprocal market access to the EU. Even though there is evidence that exports from GSP countries have increased, the GSP has not encouraged diversification. The most likely reason for that is the existence of tariff peaks in semi-processed and/or finished goods and the 'sensitive products' category. **As indicated above the sensitive product category is in conflict with PCD**. Other issues that are raised by a stakeholder include problems related to the utilisation of the GSP from EU importers' perspective[22]. While several past problems have been resolved in the new cycle (e.g. annual graduation, short notice and delayed stakeholder consultation), the rules of origin still create problems with a view to legal certainty. EU importers use preferential regimes only if there is legal certainty with regards to the application of rules of origin. Currently it is the exporter's responsibility to fill in Form A to declare his/her eligibility to use the GSP scheme. However, in case of fraud, it is the importer who has to pay the undeclared duty. Even though Art. 220 II b Customs Code protects importers, the new Commission proposal for the 'list of registered exporters' undermines the Code and leaves the EU importers open to financial risk. Even though the list method was introduced to simplify the declaration procedure for rules of origin, this may not prevent exporters from filing false declarations. In the case of fraudulent behavior, DG Taxud charges the difference in unpaid duties to the importers. Hence it is reported that when there is high probability of fraud, the importers prefer to import from a non-GSP country. Finally not all of the 27 international conventions that the GSP+ countries have to ratify (to be eligible for the preferences) is a development priority for LDCs.

2.2.3 Economic Partnership Agreements (EPA)

The Commission considers the EPA with the African, Caribbean and Pacific (ACP) countries as an essential arrangement to foster trade flows, promote further economic integration of ACP countries into the global economy and through trade development, achieve sustainable growth and poverty reduction. According to the Commission, one of the motivations for the EPAs is to eradicate the preference erosion due to

[22] Interview with Ralph Kamphoner, Senior Trade Expert, Eurocommerce (9 February 2011).

reduced MFN rates with several WTO rounds in ACP countries. Despite preferential access to the EU market under the GSP scheme for more than three decades, the ACP exports have been declining.

The EPAs date back to the signature of the Cotonou Agreement in 2000. The Cotonou Agreement is more comprehensive than any other partnership agreement between developed and developing countries as it is based on three pillars: development cooperation, economic and trade cooperation and the political dimension (EC, 2011). However, the trade preferences offered under the Cotonou Agreement were not compatible with the WTO rules and the EU was given a waiver. The current EPAs are intended to replace the trade chapter of the Cotonou Agreement with WTO-compatible trade agreements after the waiver expired at the end of 2007. Hence the Commission initiated EPAs with 77 ACP countries before the Cotonou waiver.

The EPA negotiations with all ACP countries were launched in 2002 and regional negotiations started in 2003. The EU signed its first EPA with CARIFORUM[23] in October 2008. After the EC-CARIFORUM EPA several countries signed interim agreements: Côte d'Ivoire in 2008, Cameroon in 2009, Botswana, Lesotho, Swaziland and Mozambique signed in June 2009, Papua New Guinea signed in July 2009, South East African countries (Mauritius, Seychelles, Zimbabwe and Madagascar; Zambia and Comoros pending) signed in August 2009. The EPA covers goods and services, investment, trade related issues like innovation and intellectual property as well as links to development cooperation. The Commission argues that the agreement has a strong development dimension because sustainable development is its overarching objective. The EPA also aims at regional integration through common CARIFORUM commitments in goods and services and better rules of origin (i.e. by encouraging value added processing within the CARIFORUM). In addition, the EPA contains asymmetric and progressive obligations to CARIFORUM with longer transition periods. This is to allow these countries to protect their sensitive products for a longer period and to have time to build administrative capacity for implementing the agreements. **The asymmetry and transitional periods, as well as safeguard clauses on food security, are in line with PCD in the EPAs.**

There are several studies that assess the economic impact of EPAs. (see for e.g. Cali and te Velde (2006) for a survey) (see Table 3 In Annex 4). Karingi et al (2005) find that for Sub-Saharan Africa the welfare effect of the EPAs will be negative if regional integration is not achieved but will be positive if intra-sub-Saharan African barriers are removed. The regional breakdown of the economic impact indicates that West Africa is going to benefit from trade creation and increased welfare, however, within the region, Ghana and Nigeria will gain while Cape Verde and Gambia lose. Welfare effects are positive for Central Africa, the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), small and positive for Pacific, but small and negative for Caribbean and EAC. Within the ACP, Cameroon, Gabon, DR Congo, Kenya, Mauritius, Sudan, Ethiopia, South Africa, Zimbabwe, Papua New Guinea and Fiji are gainers, Zambia, Tanzania, Mozambique and Swaziland, Cape Verde and Gambia are among the losers (see Busse and Grossman (2004); Milner et al 2005; Tekere 2003; Keck and Piermartini 2005; Evans et al 2006; Gasiorek and Winters 2003; Roza and Szepesi 2003).

Brenton et al (2010) argue that the EPAs with Africa may help liberalisation in the services sector even though they may not be the most effective way. They argue that countries that liberalised services trade have observed faster GDP growth rates (Hoekman and Matoo, 2008). Services provisions of CARIFORUM EPAs may signal and create a lock-in effect for reforms and attract investors[24]. The TRIPS+ approach

[23] CARIFORUM includes Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Saint Lucia, Saint Vincent and the Grenadines, Saint Kitts and Nevis, Suriname, and Trinidad and Tobago.

[24] Following the signature of a trade agreement can indicate to investors or exporters that regulatory reform is about to take place in the service sectors covered in EPAs. Since barriers to trade in services are all in the form of regulatory barriers, removing these barriers may suggest an overall liberalisation in several sectors and makes these markets open to all investors and trades – not just the EU.

followed by the commission in EPAs, that was criticised by the Keller report, is a necessary (but not sufficient) condition to attract foreign investors. On the one hand, EU access to Africa's service market will be welfare enhancing for consumers and will increase efficiency of domestic providers by increasing competition. Allowing service providers can also have a positive impact on the development of the manufacturing sector. Some backbone services (e.g. telecommunication, transportation) are shown to be essential in the development of the manufacturing sectors (Javornik, 2004). On the downside, as one stakeholder indicated, services liberalisation may contribute to brain-drain in Africa[25]. Although African service providers will have access to the EU market, this will disproportionately favour skilled professionals, as EPAs do not allow temporary movement of unskilled labour. **On this, we concur with the conclusions of the Keller report that 'brain drain' issues due to EPAs have to be addressed by emphasizing the proper functioning of 'circular migration' policies as mentioned in the introduction**.

The above cited studies measure the potential economic and welfare impacts of EPAs assuming that the provisions of the agreements are implemented successfully by the ACP countries. However, some stakeholders have raised concerns over the capacity of sub-Saharan African countries not only to implement the agreements but also to negotiate them[26]. The negotiations are carried out by Regional Economic Communities (RECs) and some argue that the RECs do not have sufficient capacity as institutions (Kuhlmann, 2010). In addition, several sub-Saharan countries may be party to more than one regional arrangement with conflicting requirements as each region has its own set of commitments (Collier, 2007). Division within the continent is exacerbated between countries with differing levels of income. Progress in EPA negotiations and a successful outcome are to a great extent threatened by this divide, as some stakeholders failed to see any benefit from the agreement. For the non-LDC countries in Africa, the alternative to EPAs is the GSP scheme. However, EPAs provide more extensive and definitive liberalisation as compared to the GSP scheme[27]. On the other hand, for the LDCs in the continent, the EBA program continues to apply. As indicated by one stakeholder the LDCs already have market access under EBA and they think that EPAs will only bring them steep costs of adjustment. Hence they have little incentive to conclude EPAs. Stakeholders also raised concern over EU pressure to conclude the agreements when there is such divergence between countries in a certain region[28]. **Less than full country coverage of EPAs would seriously undermine its intended impact on regional integration, sustainable growth and reduction of poverty**. When this happens it is possible that EPAs can cause trade diversion rather than trade creation both within sub-Saharan Africa and with other regions (Bouet et al, 2007). **The gains from EPAs are maximised only when regional integration is achieved**. **However, the negotiations not only create different commitments between regions but also between LDCs and non-LDCs in the same region**. The US does not make a distinction between LDCs and non-LDCs with regards to its trade policy in sub-Saharan Africa. Following the US model may be the solution. The free trade agreements signed with the Mediterranean countries show that without intra-regional integration the gains are negligible (de Wulf et al 2009).

An early assessment of the EU-CARIFORUM EPA concludes that the EPA has a clear development objective: to alleviate poverty, promote regional integration and economic cooperation. **The development provisions strongly rely on financial and technical support to CARIFORUM countries to cope with the challenges posed by the EPA. However, there is uncertainty over the financial and technical support required and the means of delivery.** The EPA itself does not contain any financial commitments but the EU donors have earmarked €580 million to support CARIFORUM EPA until 2013. Spain and France

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[25] Interview with M. Karinge Githinji, Expert Multilateral Trade Issues, ACP Secretariat, (4 February 2011).

[26] Interviews with M. Karinge Githinji, Expert Multilateral Trade Issues, ACP Secretariat, (4 February 2011) and Francis Bokilo, Trade expert, African Union Brussels (2 February 2011).

[27] Even though there is no annual review for graduation and de-graduation in the current GSP scheme, graduation still exists. Hence GSP is less predictable compared to EPAs.

are expected to contribute under their aid for trade strategy. There is no guarantee they will be used in high priority area in a timely fashion, nor that the funds will be sufficient. Beyond 2013 there is no commitment on financial support (Meyn et al 2009). Concern was also raised by a stakeholder interviewed that financial assistance was used as a negotiating tool[29].

The EPAs are comprehensive and complex agreements to negotiate with the largest ever number of countries and with different needs. Lack of progress in negotiations is mostly due to lack of motivation (as mentioned above) and lack of capacity. Another difficulty of the EPAs is to strike the right balance between fairness and effectiveness. In order to be fair to less developed ACP countries, the EU offers tailor-made agreements (with longer adjustment periods and differing product coverages), however such agreements may prove difficult to administer both for exporters and importers.

The EPAs have been heavily criticised. Although their main objective is the integration of the ACP into the world economy, the interim agreements signed were seen as being unlikely to achieve these objectives (Fajana, 2010). They were seen to put more emphasis on market access and trade opening than building trade capacity. Restrictive rules of origin and different treatment of LDCs and non-LDCs are considered the main reasons behind weakening regional integration. In their statement the ACP Ministers voiced that the ACP and the EU saw the development aspect of the EPAs differently. While ACP countries expect the EPAs to deliver 'strong trade and development package' to build their industrial competitiveness, the EU sees development as the 'outcome' of trade liberalisation. Strong market access oriented approach in EPAs are due to the fact that EPAs are negotiated by DG Trade with limited input from DG Development (that has been restricted to provisions dealing with technical and financial assistance to ACP) (Hudson, 2006). Indeed, as a stakeholder indicated the EPAs are less development oriented than their predecessor, the Cotonou Agreement[30].

2.2.4 Other policies with an impact on trade and PCD

Raw Materials Initiative

So far we have discussed in detail the policy tools used by the Commission towards developing countries. There are also other trade policy areas that have an effect on the development objectives of the EU. In this section we cover the implications of the EU's Raw Materials Initiative (RMI) on PCD. The Commission adopted the RMI in November 2008 to secure sustainable supplies of the materials needed for the EU economy. In order to do so, the Commission has started to promote liberalisation of trade in commodities but also acknowledges that there is a need for transparency and to regulate commodity markets.

One of the actions taken so far by the EU is to force its trading partners to abandon all trade and investment policy instruments that limit free trade and investment in the area of raw materials at the WTO Dispute Settlement Body (Hachfeld, 2011). Several developing countries use export restrictions to stimulate local processing. Such export restrictions were identified by the EU as threats to the competitiveness of its own industry. The new communication launched on 2 February 2011 states that the EU should continue to include raw material issues such as export restrictions and investment aspects in ongoing and future bilateral and multilateral trade negotiations as was the case for e.g. in the South Korea FTA and Russia's WTO accession negatiations (COM (2011) 25 final).

Hachfeld (2011) argues that this may have an impact on future EPAs. For example. The EU-CARIFORUM EPA bans all quantitative export restrictions (on all goods) but allows custom duties, taxes and fees. This means that all quantitative restrictions are to be removed on raw materials in countries that signed an EPA. It is

[28] Interview with M. Karinge Githinji, Expert Multilateral Trade Issues, ACP Secretariat, (4 February 2011).
[29] Interview with M. Karinge Githinji, Expert Multilateral Trade Issues, ACP Secretariat, (4 February 2011).
[30] Interview with M. Karinge Githinji, Expert Multilateral Trade Issues, ACP Secretariat, (4 February 2011).

true that Africa is abundant in natural resources as it hosts 30% of the world's reserves and produces over 60 metals and minerals. However its current share in worldwide production is relatively small compared to large emerging economies such as China, Russia or Brazil (Ramdoo, 2010). **An OECD report (2010) shows that the impact of the RMI should fall disproportionally on China and Russia, rather than ACP countries**. According to the same report export restrictions on raw materials are heavily used by China, Russia, Ukraine and Tanzania and to a lesser extent by India, Gabon, and Ghana. For example, Tanzania as part of the EU-East African Community EPA can no longer use quantitative export restrictions on raw materials. This initiative may also have an impact on the GSP. During the latest review process of the GSP, BusinessEurope, DG Trade and Germany suggested that abolishment of export restrictions on raw materials should be a precondition to access GSP preferences (Hachfeld, 2011). Later this view was dropped. Future political pressures should be avoided to ensure predictability of the GSP.

<u>EU Trade policy in agricultural products and trade-distorting effects of Common Agriculture Policy</u>

Trade in agricultural products is at the heart of development efforts of some developing countries. Even though the EU acknowledges that agriculture exports are important for developing countries it continues to have high MFN tariff rates (tariff peaks) on several agricultural products. As discussed above, the GSP scheme provides non-reciprocal reduced tariff market access to the EU for developing countries in manufactures but several agricultural goods are not covered under the standard GSP and GSP+. Sensitive agriculture products are however covered by the EBA scheme. Tariff peaks on processed agriculture products and the exclusion of some agriculture products under the 'sensitive category' are weaknesses of the GSP. This section summarises access problems encountered by developing countries to the EU's agriculture market and concentrates on trade-distorting effects of tariff peaks and agricultural subsidies,

A brief overview of trade in agriculture shows that trade in processed agriculture products has fallen between 1996 and 2001 in developing countries. In contrast LDCs experience a 5 percent increase in the share of processed agriculture exports in the same period due to preferential agreements (ITC, 2010). Within the developing countries there are net importers and net exporters of agriculture products. While Brazil and India are net exporters, China is a net importer. LDCs as a group are net importers, however, most LDCs are not only net exporters but also have a high share of agriculture products in their exports. Hence tariff peaks and tariff escalations that are most prevalent on these products have a disproportionately negative effect on LDCs that are dependent on agriculture. According to the WTO Tariff Profile (2010) the average MFN tariff rate for dairy products in the EU is 53 percent with a maximum MFN applied tariff rate of 163 percent; 27.5 percent on sugar with a maximum MFN applied rate of 118 percent. Animal products, fruits and vegetables, coffee and teas, fats and oils all have applied MFN rates in excess of 100 percent.

The impact of tariff peaks can be significant for developing countries. According to the ITC report the EU's selective trade preferences offered to the ACP has created a forced dependency on specific export commodities in some countries. This was the case for sugar production that the EU imported as development aid (ITC, 2010). The same can be observed for cocoa, coffee and certain fruits. This forced dependency then has a negative impact on the development of those countries. Concentration in a few products has been shown to be a cause of underdevelopment and slow growth. Too much dependence on a few export products also exposes the developing country to income volatility and food insecurity. **Hence diversification is seen as a necessary condition for growth as well as developing higher value-added products (ITC, 2010). Tariff peaks restrict the exports of developing countries to existing products. This effect was also discussed under the GSP**.

Tariff escalation creates a barrier to trade and can be found in agriculture, textiles and clothing. Tariff escalation found on high-processed products also has a negative impact on diversification efforts of developing countries to produce higher-value added products especially in agriculture products. There is a link between domestic production and tariff escalation. For example, the EU is a net exporter of processed agriculture products and it has tariff escalation on several products such as on coffee and chocolate. On the other hand, when it is a primary product such as sugar that is domestically produced within the EU, tariffs are high at all levels of processing.

Several WTO negotiating rounds offered different formulas to cut agricultural tariffs. The 2008 revised modalities for agriculture presents cuts from 50 percent to 73 percent for different levels of tariffs ensuring process products are covered. Only in 4 percent of the lines in agriculture the tariff rate will be allowed to exceed 100 percent (ITC, 2010). In addition to the modalities, the WTO offered duty free quota free access to 97 percent of the product lines for LDCs; however, LDCs already have preferential access to the EU and the US markets. LDCs are more concerned over sanitary and phytosanitary standards (SPS) applied on the EU agriculture imports. Stevens et al 2008 show that African exports are restricted by SPS. While the stakeholders interviewed agreed that these standards are necessary and good for their own country, they indicated that it will take time to adjust, especially in some African countries[31].

The trade distorting effect of Common Agriculture Policy (CAP) is not only due to high tariffs but also substantial export and production subsidies paid out to the EU farmers. In order to indentify the impact on distinct groups of developing countries it is necessary to understand how CAP works. In this section, we concentrate on the mechanism through which CAP subsidies distort trade while we discuss their evolution in more detail in section 5.

In an effort to guarantee high prices to European farmers, the EU has been buying agricultural products whenever prices fell below specified support levels. The production subsidies artificially kept EU food prices higher than world prices over the years. This gave the incentive to EU farmers to increase production in excess of domestic demand. As a result, the EU was faced with huge quantities of surplus production. To prevent EU prices attracting huge quantities of imports, tariffs were set at a level that reflected the difference between EU and world prices. Krugman and Obstfeld (2009) argue that "*since the 1970s, the support price set by the EU have turned out to be so high that Europe, which would under free trade be an importer of most agricultural products, was producing more than consumers were willing to buy. The result was that the EU was obliged to buy huge quantities of food*". In fact, as EU is the largest trading bloc in the world its subsidised exports drive down world price of agricultural products. Hence countries that are exporters (e.g. the US and Brazil) of agricultural products see their incomes decrease as countries that are importers benefit.

The trade-distorting effects of CAP subsidies have to be analyzed carefully in order to understand who are the potential winners and losers from their abolishment. It is true that developing countries as a group are negatively affected by these subsidies, but this means that the loss of net-exporters outweigh the gain of net-importers. Anania (2009) shows that India and Brazil are net exporters whereas China (since 1995) is a net-importer of agriculture and agro-food products using FAO statistics. On the other hand we can see that LDCs have become heavily dependent on agricultural imports since the second half of 1980s (Anania, 2009). Under the standard GSP India, Brazil and China does not have access to the EU in agriculture products as they are excluded under the sensitive list. However, LDCs have tariff and quota free access to the EU market under the EBA. **Currently LDC exporters can sell their**

[31] Interviews with Paolo Giordano, Lead Economist, Inter-American Development Bank (31 January 2011), M. Karinge Githinji, Expert Multilateral Trade Issues, ACP Secretariat, (4 February 2011), Francis Bokilo, Trade expert, African Union Brussels (2 February 2011).

food products to the EU at the higher EU prices while they can import at the lower world prices. **When subsidies are removed, the LDCs will see these benefits eroding under market correction. Contrary to the report of EU agri-food products flooding poor countries (e.g. Keller report) the WTO Tariff Profiles (2010) shows that LDCs have high tariffs on almost all agriculture products that should shield them from imports displacing domestic producers as EU does not have preferential access to LDCs**. For the landlocked resource-poor LDCs that are net-exporters of agriculture products (where 90 % of population is dependent on subsistence farming) the removal of agriculture subsidies mean a decrease in their export earnings e.g. in Burkina Faso, Burundi and Malawi. On the other hand, for net-exporters that do not have a preferential access to the EU agri-food market such as for India and Brazil (also the developing countries in the Cairns group[32]) the removal of subsidies is to bring strong gains. In summary among the developing countries, the largest gains will accrue to the Cairns group, including middle-income countries with strong comparative advantage in agricultural products. The other set of beneficiaries from agricultural liberalization will be developed countries themselves (see earlier mentioned estimates in section 2.2.1)[33]. LDCs will actually be hurt by agricultural liberalization (see Panagariya (2005) for a detailed discussion).

[32] Cains Group is a group of 19 agriculture products exporters among which developing countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand and Uruguay.

[33] The cost of agriculture subsidies mainly fall on the consumer in terms of higher prices and high taxes that outweighs the benefits to the farmers.

3 EU MIGRATION POLICY AND POLICY COHERENCE

During the past three decades the migration policy of the EU has evolved. The Treaty of Amsterdam gave the Community a stronger mandate for immigration and asylum policies. Over the years the Commission has developed a strong policy arsenal on the issue. In the Treaty on the Functioning of the EU Articles 77-80 cover policies on border checks, asylum and migration. In addition Art 67(2) stipulates that the EU's policy on asylum and migration will be fair. The evolution of migration issues within the EU is now at a stage where the linkages between migration and development are being articulated forcefully. The link between the two started to be actively sought by the Commission in 2000 (Lavenex and Kunz, 2008: 440). Initially the target was to prevent illegal immigration. But the Commission also recognized that the real challenge was to make migration beneficial for the EU and to foster policy coordination amongst member states (COM, 2000, 757: 3-4). Another avenue used by the Commission was to commence the signing of association agreements including migration clauses. Art 13 of the Cotonou Agreement with the African Caribbean and Pacific Group of countries (ACP) is a good example. Among the elements included in the article are the prevention of illegal immigration based on respect for the dignity of third country nationals; conclusion of re-admission agreements that are consistent with international rules and the fight against xenophobia. In 2002 the Commission sought to put migration within the broader framework of the Union's external relations (COM, 2002, 703: 7) and also adopted a green paper on return policy of illegal immigrants (COM, 2002, 175).

But as the problem of illegal migration persisted the EU decided in Seville to highlight the security dimension of the policy (Lavenex and Kunz, 2008: 446). In 2005 attention of the EU was considerably tilted towards the migration development nexus (COM, 2005, 390; COM, 2005, 621). This was partly due to international efforts of the Global Commission on International Migration, the International Organisation for Migration (IOM) and the events in Melilla and Ceuta that resulted in the deaths of many alleged illegal immigrants who died in attempts to enter the EU. In December 2005 the Council adopted the Global Approach to Migration. It focused on responsibility-sharing between member states and partner countries (COM, 2006, 735: 2).

In 2006 two EU-Africa Ministerial meetings were held in Rabat and Tripoli. The conferences resulted in the articulation of more robust methods to curb illegal immigration (focusing on readmission) and on the development/migration nexus (focusing on root causes of migration). In the same year a communication was adopted which amongst others, outlined a program for the EU to deal with acute deficiency in supply of healthcare workers in poor developing countries (COM, 2006, 402). Increasingly keen on pushing The Hague Program on strict asylum and migration strategies, the Commission also adopted a communication on priorities to curb illegal immigration. It outlined actions in the following areas: cooperation with third states; securing the borders (with active role for Frontex); fighting human trafficking; securing travel and identity documents; addressing the issue of regularizations; dealing with illegal employment as key pull factor; having a common return policy and better information exchange.

A year later the Commission issued a Communication on circular migration and mobility partnerships between the European Union and Third Countries. It sought to ameliorate the management of legal movement of people between the EU and partner countries. It also explored ways of facilitating circular migration with special emphasis on needs of EU states. Furthermore it considered better synergies between migration and development seeking ways of mitigating *brain drain* for poor countries (COM, 2007, 248: 2).

In 2008 many policy and legal texts were adopted that sought to develop the issue further. These included the Blue Card Directive targeting the recruitment of highly skilled workers. Following the earlier creation of Frontex to re-inforce EU border controls, the Returns Directive was adopted in July 2008. It attracted serious criticism from poor countries given that it allowed member states to detain illegal migrants for up to 18 months and impose a five year ban on their return to the EU. In September 2008 the European Pact on Immigration and Asylum was adopted. It mainly underpinned the importance of migration efforts to mirror the capacities of member states to receive migrants. It equally advocated a comprehensive approach to migration that encouraged synergies between migration and development (European Council: 2008). 2008 was also marked by the signing of the Code of Conduct and Follow-up on Ethical Cross-Border Recruitment and Retention by the European Hospital and Healthcare Employers' Association and the European Federation of Public Service Unions.

Finally under the Swedish Presidency of 2010 the Stockholm Program in the Area of Justice and Home Affairs was adopted. It replaced the Tampere and Hague Programs. While some see the program as lacking ambition and caught up in process (Brady, 2010), others regard it as presaging illicit radical coercive anti-immigration platforms (European Civil Liberties Network, 2009). At the moment of writing the Commission is preparing a Communication (due in November 2011) on articulating actions within the Stockholm Program.

The following are identified as issues that are both a concern for migration and development policies e.g. access to the EU job market through Mobility Partnerships, ease to send remittances, treatment of illegal migrants, funds of the European Development Fund (EDF) for migration and political dialogue.

The current state of play reflects a tension between protecting the borders of the EU and safeguarding human rights. Member states of the EU especially those in the Mediterranean as well as bigger states lean towards a tough approach of controlling illegal immigration. But this varies from country to country and is shaped to a large extent by the political trends in the various countries. The current economic climate further complicates this. Giving priority to migration prevention may lead to making legal access to the EU also impossible for those with legitimate reasons. At the same time, restricting immigration may foster smuggling of people by gangs adept at exploiting legal and policy loopholes (Boswell, 2003: 619-620; Chetail, 2008: 185). On the other hand third countries prefer a more human and development-friendly approach to migration. These countries have much to gain for lenient migration approaches of the North. Even though there are genuine concerns on brain drain, remittance flows from migrants abroad have a strong effect on mitigating poverty (OECD, 2007).

There have been positive areas where the EU is mobilizing development money to support migration policies that ultimately have a positive impact for the EU and for partner countries. First is the area of remittances. The value of remittances is higher than official development assistance (ODA) (Chetail, 2008). That being said, remittances do not flow in the same patterns as ODA. Specific countries like India, Bangladesh and Ghana benefit more from remittances. This means that the EU and other donors could revisit how aid is calibrated and aligned to remittance flows (Nyberg-Sorensen et al., 2002). On the other hand, there are some indications that the current initiatives of linking development and migration policy have actually translated in 'misuse' of development funds for strengthening border management and combating illegal immigration often referred to as "migration conditionality", implying that development funds are offered to third countries as incentives for cooperation in the fight against illegal immigration, e.g. through readmission agreements. There is a risk of redirecting development aid from the poorest countries to countries of origin of migrants coming to Europe.

Specific projects have had positive effects. For instance the Joint Migration and Development Initiative (JMDI) in which the EU, the UNDP and the IOM participate has carried out useful projects in countries such as Nigeria, Senegal, Egypt and Georgia. In Nigeria JMDI projects have allowed young Nigerian graduates and others with savings to consider options of investing private funds in businesses back home rather than paying nebulous networks to ease travel to Europe in uncouth circumstances 34. Feedback on the projects

[34] Interview with Babatola, Muyiwa, Migration Officer, UNDP Abuja Nigeria; 10.30-11.00 (11 Feb 2011).

has been positive. This has also been the case for capacity building projects in Senegal that help young people consider business ventures. Even if the projects in Senegal have been useful their effects on rural-urban migration (that often precedes migration abroad) remain limited more so as the JMDI is a pilot scheme[35]. Those interviewed from Egypt also reported positive feedback for the JMDI projects[36]. In Georgia, projects have been aimed at enhancing the capacity of local authorities on migration issues. Actions have also been aimed at easing the return of migrants[37].

While these approaches are welcome to developing country partners it is not clear if they will have a long term and sustained impact on development. The underlying target seems ambiguous: is it to foster development of the countries; to prevent migration to the EU or both? Here lies the critical issue because studies have revealed that aid-sponsored local development projects cannot and should not prevent migration (Nyberg-Sorensen et al., 2002: 69-70)[38]. People will travel if they are determined to and if they are exposed to new information technologies that depict better standards of living in other countries (Chetail, 2008: 183). In other words, migrants are ready to seek alternative destinations (US, Canada, Southeast Asia, amongst others) if EU policies become stricter.

Difficult issues still abound. The first is the question of migrant integration in EU labour markets and wider societies. The current context of economic slowdown has complicated the situations faced by migrants in richer countries, where finding jobs has become increasingly difficult even for locals. In some countries like France, integration into the labour market for migrants is a challenge[39] . In Spain the crisis has been a strong catalyst for the return of many migrants that find it difficult to identify jobs, especially in the construction sector[40]. In Belgium and Germany efforts to improve immigrant access to jobs are ongoing even if they are dilatory[41].

What can be done to improve policy coherence? First, there is need to take into account the views of the civil society bodies and also to incorporate Diaspora organizations in decision making bodies. This is a position shared strongly by members of civil society interviewed. But Diaspora organizations should be encouraged to be active in helping their members integrate into host societies. Second, there appears to be lack of or flawed information on migration for EU citizens. This is often subject to electoral politics. The EU could continue to stress the linkages between migration and development policies and provide constant information to its people on the benefits of these linkages. Third, there is a shared view that in recent years the EU has placed disproportionate emphasis on control and there is a dominance of a security-oriented response to immigration challenges (Van Criekinge: 2008). Fourth, there are also institutional problems within the EU itself. In trade agreements that have impact on free movement of people it is not evident that trade officials of DG Trade appositely consult with those of JHA (ibid.). Also it is not always clear what the impact on other EU bodies like the Parliament are for Commission policies and reports on coherence. Moreover, there are institutional issues between the Commission and member states. This is obvious in the fact that while the Commission has been mandated to conclude Union-wide readmission pacts, member states like France and Spain have pursued independent agreements with partners. Finally, problems of communication and vertical coherence between field offices of the EU and its headquarters abound (Van Criekinge, 2008).

[35] Interview with Ba, Abdoul Wahab, Migration Officer, UNDP Dakar Senegal; 12.10-12.30 (11 February 2011

[36] Interview with Zohry, Ayman, President, Egyptian Society for Migration Studies, Cairo, Egypt (11 Feb 2011).

[37] Interview with Didbaridze, Khatuna, IOM Office in Tbilisi, Georgia, 11.30-12.00 (11 February 2011).

[38] Interview with Zoyem, Jean Paul, Coordinator, CASE DAFRIQUE, Paris, France, 14.00-14.20 (11 Feb 2011).

[39] Ibid footnote 33.

[40] Interview with Hemar, Jara, Migration officer, CEAR Foundation, Spain, 15.00-15.15 (11 Feb 2011).

[41] Interviews Van Der Meeren, Didier, Le Monde des Possibilités, Liège, Belgium 15.20-15.40 (11 Feb 2011, Diallo,Rahime, Officer, Institute for Social Innovation, Germany 13.00-13.30 (11 Feb 2011).

4 EU CLIMATE CHANGE POLICY AND POLICY COHERENCE

There are several links between development cooperation and climate change.

The EU's emissions of greenhouse gases (GHG) and its use of natural resources such as timber contribute to climate change.[42] Climate change, in turn, is expected to hit developing countries hardest. Thus, if the EU makes insufficient progress on reducing its GHG emissions, its main development objective, the "eradication of poverty in the context of sustainable development"[43] is likely to be further undermined by climate change.[44] The EU is making efforts to reduce its GHG emissions. Over the past two decades, EU GHG emissions have gone down by 16%, whereas the economy has grown by 40% over the same period. While the EU is making progress towards achieving its 2020 targets reducing emissions to 20% below 1990 levels and raising the share of renewables in its energy mix to 20%, its per capita emissions were still three times as high as in developing countries in 2007.[45] In March 2011, the EU produced a Roadmap for building a competitive low-carbon Europe by 2050. which describes a cost-effective pathway to reach the EU's objective of cutting greenhouse gas emissions by 80-95% of 1990 levels by 2050.

Negative impacts of climate changes on developing countries could be counter-acted to a certain degree by supporting adaptation to climate change through EU development cooperation.[46] At the same time, a reduction of poverty through development cooperation is itself a way to make people in developing countries less vulnerable to the effects of climate change, because more well-off communities are able to adapt to climate change more easily. Recent research on adaptation in developing countries suggests that a good development cooperation projects is at the same time more often than not also a good adaptation project.[47] In addition, EU development cooperation may contribute to support mitigation efforts in developing countries, by financing, e.g. investment in efficient energy or renewable energy projects. Efforts of the EU to ensuring that socio-economic development in developing countries takes places in a climate-friendly manner are, in fact, needed to ensure that the policies in the two policy areas do not conflict with each other. Otherwise, economic growth in developing countries may lead to increasing greenhouse gas emissions[48] and thus weaken efforts of mitigating climate change at the global level. The links between climate change and development have started to be recognised in EU development cooperation recently, at the policy level, at the level of funding and, finally, at the level of integration of climate change concerns into development cooperation programmes and projects.At the policy level, in

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[42] The EU CO2 emissions per inhabitant were about three times the per capita CO2 emissions in developing countries in 2007; the gap has narrowed in recent years, however. See Eurostat indicator CO2 emissions per inhabitant in the EU and in developing countries [tsdgp410], http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsdgp410.

[43] European Consensus on Development. Joint statement by the Council and the representatives of the governments of the Member States within the Council, the European Parliament and the Commission on European Union Development Policy: 'The European Consensus'. 2006/C 46/01. 24 February 2006.

[44] This has been recognised in a number of international reports, see for example the World Bank (2009), World Development Report 2010 – Development and Climate Change, Washington, p. 37ff, http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTWDRS/0,,contentMDK:20227703~pagePK:478093~piPK:477627~theSitePK:477624,00.html.

[45] See Eurostat, CO2 emissions per inhabitant in the EU and in developing countries, http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsdgp410

[46] CEC 2009. White Paper, Adapting to climate change: Towards a European framework for action, SEC (2009) 386, 1/4/2009.

[47] See Klein, R. J.T. (2008), Mainstreaming climate adaptation into development policies and programmes: a European Perspective, in: European Parliament (ed.) (2008), Financing climate change policies in developing countries - Compilation of briefing papers, Brussels, p. 41, http://www.europarl.europa.eu/activities/committees/studies/download.do?file=21631.

[48] This is evident from the growth of CO2-emissions per capita in some countries, e.g. China whose CO2-emissions per capita increased by 149.9% from 1990 to 2008 and India (80% in the same period), see IEA statistics 2010 edition, CO2 Emissions from Fuel Combustion, OECD/IEA 2010.

its 2003 Communication on Climate Change in the Context of Development Cooperation the Commission highlighted the adverse effects of climate change on poorer countries (COM (2003) 0085 final). The overall objective of the strategy set out in the Communication was to support partner countries in the implementation of the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol. In response to this Communication, the Council adopted an Action Plan on Climate Change and Development in 2004, covering the years 2004-2008 (EU Council, 2004). However, a 2007 review of the Action Plan concluded that the integration of climate change systematically in development cooperation had not yet been adequately addressed by EU donors and enhanced efforts were necessary to make progress (Brinn, w. y.).

In 2007, the Commission initiated the Global Climate Change Alliance (GCCA), involving the EU and those developing countries expected to be hit hardest by climate change (COM(2007) 540 final). Among its five priority areas are the development and implementation of National Adaptation Plans of Actions (NAPAs), reducing emissions from deforestation in developing countries, and the promotion of disaster risk reduction, by improving climate forecasting and information systems. A further priority is the integration of climate change into poverty reduction strategies and programmes; the Commission intends to systematically address this issue on the occasion of the mid-term review of country and regional strategy papers.[49] The need to integrate climate change into EU development cooperation has also been addressed in recent Council Conclusions (2009).

Climate-related funding to developing countries is provided through a number of initiatives and programmes. Funding under the GCCA is mainly made available through the Environment and Natural Resources Thematic Programme (ENRTP) (EC, 2007). A total of EUR 139.6 million has been pledged to the GCCA so far (Climate Funds Update, 2010). Another major funding initiative at EU level is the Global Energy Efficiency and Renewable Energy Fund (GEEREF), administered by the European Investment Bank (EIB). It invests in regional investment funds, rather than directly in projects, aiming at providing capital to otherwise under-funded investments. It is estimated that in 2002-2007 total climate-related funds managed by the Commission amounted to EUR 1.35 billion, with EUR 1.15 billion directed to mitigation projects, and about EUR 200 million to adaptation (Behrens, 2008). Member states also provide climate related funding. One example is the German International Climate Initiative, which is funded from auctioning emission allowances and has an annual budget of EUR 120 million.[50]

In addition, the EU and its member states contribute to *multilateral climate financing*. The Copenhagen Accord, recently endorsed by the UNFCCC COP-16 in Cancun, foresees significant financial contributions from developed countries to developing countries. There are two distinct processes to this end, fast-start and long-term finance. The EU has pledged to contribute EUR 2.4 billion per year for fast-start finance in 2010-2012. On long-term finance, the Copenhagen Accord and the COP-16 Conclusions both contain the goal of developed countries to jointly mobilise USD 100 billion per year by 2020. This encompasses both private and public funds, which makes it a 'soft goal'. Details, including the EU contribution, have not yet been settled.

COP-16 was also the starting point for the Green Climate Fund. The COP-16 conclusions stipulate that "a significant share of new multilateral funding for adaptation should flow through the Green Climate Fund". However, it remains unclear how it relates to the existing Adaptation Fund, which has been set up under the Kyoto Protocol to finance concrete adaptation projects and programmes in developing countries.

In sum, climate-related funding from EU sources for developing countries is available both for adaptation and mitigation, through multilateral, EU and member state channels. However, to this day there is no

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[49] So far only few countries have had their 2007/2008 – 2013 country strategy papers reviewed, see for example the status of ACP programming at http://www.acp-programming.eu/wcm/.

[50] See http://www.bmu-klimaschutzinitiative.de/en/home_i

consistent, transparent reporting system for monitoring of climate-related development cooperation. Such monitoring is made difficult by the fact that there is no clear definition of what constitutes climate change related financing. Most climate related initiatives contribute to other policy areas and goals as well, and initiatives in other sectors may have climate effects.

In addition to funding, the EU has also undertaken other steps to integrate climate change adaptation into its development cooperation planning and projects. In 2009, Europe Aid published the Guidelines on the Integration of Environment and Climate Change in Development Cooperation. They are directed at EU staff and EU partners; they describe how climate change is to be integrated in development cooperation in strategic planning, in sectoral approaches, budget support and when planning projects. For example, the guidelines demand a "climate risk screening" as part of the project planning, i.e. an assessment of the climate risks faced by the project that may affect its relevance, effectiveness, efficiency, and sustainability or developmental impact. Similar guidelines were also published by the OECD in 2009 and endorsed by the Council[51].

When assessing the coherence of EU climate change and development cooperation policies, it is important to note that the integration of both policy fields has begun only relatively recently. Generally, institutions and mechanisms for monitoring the integration of environmental aspects into EU development cooperation are rather weak.[52] This makes an assessment of the coherence between the two policy fields rather difficult at this stage. Moreover, adaptation policies and poverty reduction in developing countries are more closely linked to each other than mitigation policies and poverty reduction. Adaptation policies should particularly target those parts of the population most vulnerable to the impacts of climate change – these are, more often than not, the poor. A similar link does not exist between mitigation policies and development cooperation. Thus, coherence between adaptation and development cooperation is much easier to conceptualise than is the case with mitigation. Still, some progress in integrating climate change into development cooperation has been noted (SEC (2009) 1137 final p. 57). The numerous EU policy initiatives that address this interface and the EU's constructive role in the international climate change negotiations may be cited as examples of such integration. The Commission's intentions to systematically integrate climate change into country and regional strategy papers are also commendable.

However, additional efforts are needed. EU climate funding for developing countries is nowhere near the sums required. In a 2008 report, the European Parliament considered the EUR 60 million originally allocated for the 2008-2010 period "woefully inadequate" and called on the Commission to establish a long-term financing goal for the GCCA of at least EUR 2 billion annually by 2010 and EUR 5-10 billion annually by 2020.[53] The World Bank estimates that developing countries mitigation could cost USD $140 to $175 billion a year over the next 20 years and expects a need for adaptation investments of an average USD $30 to $100 billion a year.[54] Estimates on the share of funds that the EU public sector should provide range from EUR 27 to 64 billion a year, depending obviously on the methods used to calculate shares of different countries (see Behrens 2008). An additional problem is that a part of the EU and member states'

[51] Council Conclusions on Climate Change and Development, Brussels, 17 November 2009, para. 22.

[52] In 2006, the Court of Auditors observed that monitoring reports on EU-financed development cooperation project "are not systematically analysed by Commission headquarters to assess the overall performance of environment projects and the degree to which the environment has been integrated into other development projects." (see e.g. Court of Auditors (2006), Special Report No 6/2006; see Council of the EU (2009) Council Conclusions on Integrating Environment in Development Cooperation, 11474/09, Brussels, 26/06/2009.

[53] EP (2008), Report on building a Global Climate Change Alliance between the European Union and poor developing countries most vulnerable to climate change, Rapporteur Anders Wijkman, adopted by the Committee on Development on 19 September 2008.

[54] This has been recognised in a number of international reports, see for example the World Bank (2009), World Development Report 2010 – Development and Climate Change, Washington, p. 257, http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTWDRS/0,,contentMDK:20227703~pagePK:478093~piPK:477627~theSitePK:477624,00.html

funding to developing countries is invested in projects that foster climate change, rather than mitigate it. For example, the European Parliament's Committee on International Trade has recently pointed out in a draft report that half of all CO_2-emission-intensive industrial projects in developing countries had some form of support from export credit agencies.[55]

5 EU AGRICULTURE POLICY AND POLICY COHERENCE

The events over the last five years have shown how vulnerable the world is to a food crisis. In 2007-2008 the price of every agricultural commodity increased significantly, creating a global food crisis. According to the recent FAO report (2011) the food price index (FPI) has increased again from June through October 2010 where the index was just below its peak in 2008. Subsequently agriculture and food security was placed higher on the development cooperation agenda. One immediate response from the EU to the crisis was the Food Facility regulation that was adopted in December 2008 to ease the impact of soaring food prices in developing countries by providing a €1 billion fund to be spent over three years.

At its peak, prices of maize and wheat were three times higher than at the beginning of 2003, and the prize of rice was five times higher (von Braun, 2008). FAO (2011) reports that the prices of cereals, oils and dairy products all increased sharply during 2007-2008. Since its peak in 2007, the FPI has shown increased volatility not only in agricultural products included in the index but also in fruits and beverages. According to the FPI, the prices index for dairy, oils and cereals peaked in 2007, whereas sugar prices index peaked in 2009. Overall trend in the last five years (2005-2010) indicate that the FPI for all commodities included (cereals, oil, dairy, sugar and meat) in the index has soared since 2005, peaking in 2007-2008 and despite the downward trend, the prices are likely to stay above pre-crisis levels (FAO, 2011). The reason for the food crisis was a combination of negative supply side shocks (e.g. high oil price hence higher production costs) and positive demand effects (increased consumption by fast growing emerging economies). Critics of the EU agricultural policy also point out the current dependency of many developing countries on foods imports and the resulting vulnerability to changes in price levels, which – as one of our interviewees argued - is partly a result of export oriented EU agricultural policy and especially the widespread use of subsidies in the past decades.[56] As the main trading partner and an important global stakeholder, the EU plays a key role in determining the overall market conditions in developing countries.[57]

Originally, the purpose of the common agricultural policy (CAP) of the EU was to encourage EU farmers to supply agricultural products by offering them subsidies and helping them achieve higher productivity with financial assistance. The CAP has created and supported a viable EU agriculture sector and supplied EU consumers with affordable food products. Since its beginnings CAP has been reformed several times, but more significant reforms took place in 2003 and in 2008 with the CAP Health Check. The objective of each reform was to modernise CAP and make it more market-oriented. Formal public consultations took place about the future of CAP. Several respondents argued that CAP was essential for EU food security[58]. None of the respondents expressed concern over the impact of CAP on development of poor countries despite many voices in this area claiming detrimental effects of the former on the latter, as discussed in

[55] Draft Report on the proposal for a decision of the European Parliament and of the Council on the application of certain guidelines in the field of officially supported export credits (COM(2006)0456), p. 13, http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+COMPARL+PE-452.514+01+DOC+PDF+V0//EN&language=EN.

[56] Armin Paasch, Interview on 14th February 2011.

[57] Karin Ulmer, interview on 21st February 2011.

[58] See executive summary of the public consultations at http://ec.europa.eu/agriculture/cap-post-2013/debate/report/executive-summary_en.pdf.

section 2.2.4. Subsequently the Commission presented its communication "CAP towards 2020" on 18 November 2010.

EU net production surpluses for many commodities have considerably decreased over the past two decades (Haniotis, 2010)[59]. Nonetheless, the EU is still a major exporter of many foodstuffs and a main trading partner for many developing countries[60]. Agricultural subsidies are central, but not the only element, of the EU CAP that have brought the EU into this leading position. EU agricultural products are protected from import competition by high tariffs. In section 2 average MFN applied tariffs on agriculture products were shown to be in excess of 100 % for several primary and processed agriculture products depending on whether the EU is a producer or not. Products covered under the EU CAP are considered sensitive and are not covered under the EU GSP and GSP+. High protection levels also helped EU to become a net exporter of many agriculture products.

There are two main types of EU agricultural subsidies that may have an impact on developing countries: export subsidies and domestic subsidies. As explained in section 2.2.4, originally export subsidies were put in place to deal with excess production within the EU. As domestic subsides encouraged production in excess of demand, the EU found itself buying large quantities of products. *Export subsidies* have the aim of promoting EU products by keeping down their export prices. Prices are lowered, because subsidies provide an additional source of income for EU farmers which can thus sell their products at cheaper prices than they could without these subsidies. Evidently, this improves the position of EU producers as compared to producers in other countries and may thus have impacts on agricultural producers in developing countries. EU export subsidies are granted in the form of export refunds. The refunds are direct payments to EU exporters, which compensate the difference between the world market price and an EU minimum price level. Export refunds may differ depending on the country of destination[61]. The refunds allow EU exporters to sell their products at world market prices or even below. The payments are managed by national agencies. Exporters need to present an EU refund certificate, which is issued for each budget year. Refunds were originally established for oils and fats, milk and milk products, beef and veal, pig meat, eggs, poultry, sugar, isoglucose and insulin syrup, wine, cereals, rice, fruits and vegetables and processed fruit and vegetable products[62]. They are currently granted for beef, veal, pork, poultry and eggs[63]. The refund rates are frequently adjusted by the Commission via regulations.

In 2010, about EUR 4 billion was dedicated to the budget line of which export refunds are a part[64]. Export refunds have been decreasing substantially since the early 1990.[65] The decrease of export refunds is not only a result of policy change, but also correlates with world market prices. As world market prices for agricultural products have gone up in the past years, the EU had to pay less in subsidies for bringing the price of EU products to world market level. For example, the EU abandoned export refunds for milk and

[59] This was true notably for wheat, barley, beef and sugar.

[60] The EU is the second biggest agricultural exporter globally, with exports worth EUR 72.553 billion in 2006 - **http://ec.europa.eu/agriculture/capexplained/trade/index_en.htm**. COM(2009) 461 final, Commission Staff Working Document. The EU is also the biggest importer of agricultural products in the world. In 2006, EU imports of agricultural products were valued at EUR 67.876 billion.

[61] In case of refunds differentiated by country, the exporter needs to prove not only that his products have left the EU, but also to which country they have been exported.

[62] Art. 1 Regulation (EC) No 800/1999, O J, L 102/11; repealed by Regulation (EC) No 612(2009), O. J, L 186/1.

[63] See Regulation (EU) No. 1206/2010, O J, L333,49; No. 46/2011, O J, L018/16; No. 1207/2010, O J, L333/53; No. 45/2011, O J, L018/14.

[64] Export refunds are part of the budget line "Intervention in agricultural markets." For a breakdown of this line see http://eur-lex.europa.eu/budget/data/D2010_VOL4/EN/nmc-titleN123A5/nmc-chapterN50452281327-264/index.html#N50452281327-264

[65] In 1995, the EU paid about EUR 50 billion of those agricultural subsidies that are classified as particular trade-distorting under the WTO Agreement on Agriculture and are part of the so called "amber box"; in 2009 the amount was about EUR 12 billion, a reduction by more than 75 %, see the Eurostat indicator "Aggregate Measurement of Support" [tsdgp240], **http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsdgp240**.

milk products in 2007, but due to decreasing world market prices, they were temporarily reintroduced by January 2009 (COM(2009) 461 final). Export refunds for several other products, such as sugar and grain, are currently suspended.[66] Export refunds are likely to be further reduced in the future. The most recent state of negotiations at the WTO, dating from July 2008, is that all export subsidies would be eliminated by 2013.[67] However, the Commission's statement on the future development of the CAP does not include a commitment to end export refunds (COM (2010) 672 final).[68]

The case of *domestic subsidies* is more controversial. The Commission stated in 2009 that more than 90% of direct payments to EU farmers were decoupled and thus had no or only minimal effect on the world market (COM (2010) 672 final). Observers point out, however, that those types of subsidies that are not considered trade-distorting under the WTO Agreement on Agriculture actually have trade-distorting effects (UNCTAD, 2007)[69]. EU internal subsidies lead to production levels that would likely not be reached without these subsidies and make agricultural products cheaper than they would otherwise be. They allow EU farmers to sell their products at low costs and, thus also lower their production price for EU exporters.[70] This, in turn, is likely to increase cheap EU exports and therefore have influence on markets in developing countries. [71]

Domestic subsidies are predominantly granted via so called Single Farm Payments[72]. These were introduced in the CAP reform of 2003 to decouple payments to EU farmers from production and link it to certain cultivation and environmental requirements. The payments are calculated on grounds of historical reference. Direct aid amounted to EUR 39.2 billion in the EU's budget for 2010, of which EUR 28.4 billion came under the single payment scheme (Reichert, 2006)[73].

The future of these subsidies is unclear at present. The most recent state of negotiations at the WTO, dating from July 2008, is that the permissible level of the EU overall trade distorting domestic support (OTDS) would decrease by 80 % over a period of five years once the Doha Round is concluded (WTO, 2008). In practice the cuts will be much smaller than the 80 % figure suggests: The actual EU OTDS level is considerably below the ODTS level currently allowed by the EU. Thus, lowering the allowed level at the suggested rate may (or may not) have to translate into actual cuts in the EU OTDS level, but in any case cuts will be much lower than 80 % (Hepburn, 2008).

Whether overall EU agricultural subsidies have become less trade-distorting over time is controversial; the assessment depends on how the effects of domestic subsidies are viewed. The OECD in its 2009 review of the CAP concludes that the EU producer support estimate - an indicator of the annual monetary value of transfers from consumers and taxpayers to support agricultural producers - decreased from 40 % in 1996-98 to 27 % in 2006-8, compared to an OECD average of 23 % (OECD, 2009).

Agriculture is of particular importance for developing countries and plays a key role in their economic growth, poverty reduction and food security (COM(2007) 545 final). In its coherence report of 2009, the Commission recognised the particular danger of volatile food prices for developing countries. The exact impact of EU subsidies on developing countries depends on whether a country is a net-importer or net-

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[66] See Regulation (EC) No. 948/2008, O J, L258/61; No. 947/2008, O J, L258/60; No. 1555/2007, L337/91.

[67] See overview at http://www.wto.org/english/tratop_e/agric_e/ag_modals_dec08_e.htm

[68] This may be related to the fact there ongoing WTO negotiations on subsidies at the WTO.

[69] In WTO terminology, they are part of the so call "green box" under the Agreement of Agriculture.

[70] Who usually exports agricultural products to developing countries are not EU farmers, but rather food companies, who benefit from low producer's prices in the EU. Armin Paasch, Interview on 14th February 2011.

[71] The view that both export subsidies and other EU subsidies have an impact on developing countries was also supported by Armin Paasch and Dr. King-David Amoah during interviews on 14 February 2011 and Karin Ulmer during an interview on 21 February 2011.

[72] Council Regulation No 1782/2003, *Official Journal of the European Communities*, L 270/1.

[73] Budget: **http://eur-lex.europa.eu/budget/data/D2010_VOL4/EN/nmc-titleN123A5/index.html**

exporter of that product. However, it is by and large consensual that developed countries' protectionism in the agricultural sector, including notably subsidies and tariffs, has negative impacts on developing countries' economies. The International Food Policy Research Institute (IFPRI) in a 2003 study estimated that appropriate changes in EU agricultural trade policies would double net agricultural trade (exports minus imports) from developing countries (IFPRI, 2003).

NGOs have produced numerous case studies showing damaging effects of subsidised EU exports of cotton, milk powder, sugar, beef tomato concentrate, and frozen chicken on farmers in different developing countries (Herzfeld, 2001; Khor, 2010; Issah, 2007). These studies argue that by keeping EU export prices artificially low, the subsidies have the effect of lowering the world market prices and increasing competition for local producers in developing countries. In addition, they observe that subsidized EU products displace local products, hurting mainly small-scale farmers, create dependencies on import products[74] and destroy existing jobs.[75]

Overall, the effect of EU subsidies is ambiguous and depends very much of whether and how a country trades agricultural products with the EU. The point has been made that domestic production capacities in some developing countries may not cover needs, and thus cheap food imports are needed in these countries[76]. Even where domestic production capacities exist, consumers in developing countries, e.g. in China may benefit from lower-priced imports[77]. The World Bank has estimated that a total liberalisation of world agricultural trade would bring up prices for agricultural products by an average 5.5 %, with huge differences between products and countries (World Bank, 2008). These arguments point to the fact that the impact of EU subsidies will frequently not be the same for different parts of the population in a given country. Notably, people working in agriculture are likely to be affected differently from consumers buying food. With a view to coherence for development, the most important point is how the poorest segments of the population are affected. As more than 50% of the population in developing countries have their main source of income and employment in agriculture, pro-poor benefits of lower consumer prices are limited, if EU exports at the same time displace local production. Moreover, two interviewees have expressed the view that achieving long-term food security in developing countries requires reducing import dependencies.[78]

The effects in any specific developing country also depend on the country's socio-economic and trade profile and the sources of income of the poor and whether it has preferential access to the EU or not already as discussed in section 2.2.4. For example a developing country with significant agricultural exports to the EU, but few imports from the EU is likely to be influenced by EU subsidies differently from a net food importer[79]. Impacts also depend on the overall trade levels of any developing country with the EU. For example, the IFPRI study notes that changes in EU CAP would disproportionately benefit sub-Sahara Africa

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[74] Commenting on the situation in Ghana, Dr. King-David Amoah explained that the subsidized tomato paste being five times cheaper compared to local production, changes the Ghanaian consumers behavior and creating import dependency. Dr. King-David Amoha, interview 14 February 2011.

[75] For example, the NGO APRODEV analyzed for the period of a year in Cameroon that with every ton of imported chicken, five jobs in along the chicken production chain were destroyed, Karin Ulmer, interview 21 February 2011.

[76] See for an overview of the debate on EU dairy exports: World dairy markets and developing countries, 2010, **http://www.tcd.ie/iiis/policycoherence/eu-agricultural-policy-reform/dairy-case-study.php** Some NGO observers acknowledge that there is dependency of food imports in many developing countries today, but hold the view that it is largely the result of earlier developed countries' agricultural policies, for example with Armin Paasch, Interview 14 February 2011

[77] Interview with Paolo Giordano Lead Economist, Inter-American Development Bank (31 January 2011)

[78] Armin Paasch and Dr. King-Davi Amoah both rejected the argument that consumers in developing countries benefit from subsidized EU imports, since this is, at the most, the effect of an import dependence created by the increase of EU imports.

[79] The World Development Report 2008 concludes that removal of trade-distorting agricultural policies in developed countries has "mixed terms-of-trade effects on developing countries. Term of trade improves for developing countries exporting commodities currently protected in developed countries, but worsens for net importers of these commodities", (World Bank, 2008).

due to its role as a trade partner of that region (IFPRI, 2003). In addition, the effects of EU agricultural subsidies depend on other elements of the EU CAP, in particular the conditions at which developing countries are granted access to the EU market, as explained above. Moreover, policy measures in developing countries, such as the tariffs applied on imports, also play an important role.

In sum, the evidence suggests that EU agricultural subsidies – both export and domestic – are not fully coherent with the goals of development policy. Frequent demands have been made that the EU should dismantle export refunds and furthermore decrease EU exports to developing countries by restructuring the internal support for EU farmers. This would imply, that the EU focuses on production for its domestic market and supports developing countries in achieving the same.[80] However, even critics of the EU CAP do not request that all EU subsidies be phased out on the spot.[81] EU agricultural subsidies that promote environmental protection, for example, should certainly not be abolished.[82]

Whether the CAP reform will be used as an opportunity to make the CAP more development-friendly is doubtful at present. The recent Commission Communication on the "The CAP towards 2020" mentions the importance of bringing the CAP in line with the EU approach on Policy Coherence for Development. Even though the food crisis has brought food security higher on the EU agenda, CAP focuses much more on the competitiveness of EU agriculture, intra-EU coherence and environmental aspects than on the interests of developing countries (COM(2010) 672 final). Equally, the outcome of the current round of WTO negotiations and any new WTO commitments of the EU are uncertain at present.

[80] Armin Paasch, Interview, 14th February 2011; Dr. Kind-David Amoah, Interview, 14 February 2011.

[81] Karin Ulmer, Interview 21 February 2011.

[82] This was also voiced by Armin Paasch, Interview 14 February 2011 and Karin Ulmer, Interview 21 February 2011.

6 CONCLUSIONS AND POLICY RECOMMENDATIONS

Since the adoption of Policy Coherence for Development Communication in 2005, the four policy areas, trade, migration, climate change and agriculture policies of the EU have each seen considerable change. This report indentifies the specific areas where these policies intersect with the development objectives. The policy tools analyzed are chosen on the basis that they are the ones with the larger impact on development goals.

Trade

Overall assessment of policy coherence of trade and development policies is mixed. Trade policy is the most influential external policy of the EU with directly measurable impacts on poverty reduction. Even though the primary objective of the EU's trade policy is to provide market access to EU business and help increase jobs, competitiveness and ultimately growth in the EU, it is acknowledged now more than ever, that growth has to be inclusive by the Europe 2020 Strategy. Trade openness can contribute to growth by increasing efficiency in the use and allocation of resources, by allowing firms and industries to take advantage of economies of scale, by providing competition and opportunities for innovation and by avoiding wasteful activities such as rent seeking. However, growing trade does not automatically reduce poverty and can result in changes in income distribution that may have a negative effect on poverty. Most importantly trade openness may have a strong negative impact on wages in import-competing sectors whereas it may have a positive impact on wages in export sectors, hence creating both winners and losers. In order for the poor to benefit from further economic integration through trade openness these countries have to take several measures e.g. invest in human capital, infrastructure, promote credit and technical assistance to farmers and promote pro-macroeconomic stability policies. More importantly, these countries have to implement safety nets for the disadvantaged poor such as increasing public expenditure for e.g. in upgrading the skills of the disadvantaged poor and buy means of a fiscal system that ensures efficient allocation of transfers for the poor.

The EU has several trade policy tools towards developing countries. EU is actively involved in the completion of the **Doha Round of multilateral trade negotiations**. In addition, the EU has two policy tools that have development objectives. Under its non-reciprocal **Generalised System of Preferences**, the EU offers duty and quota-free access to its market to 176 countries. The **Economic Partnership Agreements** with ACP countries offer a comprehensive agreement that goes beyond traditional tariff liberalisation, to include services and investment liberalisation.

Even though the 2009 PCD progress report finds the coherence of the GSP scheme with development objectives satisfactory, there is still room for improvement. Particularly high tariffs on certain products and 'sensitive products' lists undermine the effectiveness of the GSP and exacerbate the already negative impact of the erosion of granted trade preferences as a result of multilateral trade negotiation. **Elimination of both would further encourage diversification in developing countries' exports which in return would promote growth**. **Strict and complex rules of origin also have a negative impact on the effectiveness of GSP and hence are not coherent with development objectives.** The new regulation on GSP RoO is a step in the right direction. Most importantly, the new rules allow LDCs to outsource up to 70 percent of input and still claim origin. This measure should encourage export diversification and regional integration. **Another outstanding issue is the legal predictability of the GSP scheme for EU importers.** Even though Art. 220 II b Customs Code protects importers, the new Commission proposal of the 'list of registered exporters' undermines the Code. 'List of registered exporters' is put in place to simplify rules of origin but it may not prevent false declaration of origin by exporters. When there is fraudulent behavior DG Taxud claims unpaid duties from EU importers. This leaves the EU importers open to financial risk, thereby reducing their incentives to import under the GSP. **This issue has to be addressed as the success of GSP relies both on supply and demand.**

Economic Partnership Agreements (EPAs) create a significant challenge, as there is both a lack of motivation to negotiate these agreements and a lack of capacity to implement them in some ACP countries. The lack of motivation in concluding EPAs is partly due to the fact that LDCs continue to benefit from full market access to the EU under EBA without having to reciprocate. For other countries, motivation to conclude EPAs is dimmed by lack of clear evidence on the gains from EPAs. **Studies show that the gains from EPAs are maximised *only when* regional integration can be achieved. However, the negotiations not only create different commitments between regions but also between LDCs and non-LDCs in the same region**. Furthermore some regions benefit more than others e.g. West Africa and Central Africa, while others observe a small but negative impact for e.g. Caribbean and EAC. **Regarding services provisions in the EPAs, while service sector liberalization should be welfare enhancing for the ACP, services liberalisation may contribute to brain-drain in Africa as it favours disproportionately the movement of skilled professionals but not the temporary movement of unskilled labour.** In order to overcome problems of motivation mainly by LDCs to conclude LDCs and to achieve regional integration the EU could consider following the example of the US that does not make a distinction between LDCs and non-LDCs with regards to its trade policy in sub-Saharan Africa. On the other hand, the funds earmarked for financial assistance and technical support for countries that signed the EPA should be legally predictable and transparent. **Any misunderstanding that funds are conditional on signing the EPAs should also be dealt with.**

Other policies that intersect with EU's trade policy with clear implications on PCD are the EU's Raw Material Initiative and the trade-distorting effects of common agricultural policies. While there is concern over the EU imposing strict trade rules on African countries to prevent export restrictions in raw materials, the evidence shows that the main impact of this initiative falls mainly on China and Russia. On the other hand, the strong negative effects of EU's CAP are unevenly distributed among developing countries. Among developing countries the major beneficiaries of agricultural liberalization will be the developing countries in the Cairns Group that have a strong comparative advantage in agriculture. **The LDCs will likely be hurt by the agricultural liberalization**. However, as gains of the first group outweigh the loss of second group, the overall impact of agriculture liberalization is expected to be positive. When efficiency concerns are taken into account the trade-distorting effect of CAP becomes more clear as the gain of LDCs in itself is a distortion and hence welfare reducing.

<u>Migration</u>

Our analysis concludes that migration is an area where the objectives of the officials working in the field of development policy and officials working in the area of immigration policy are contradictory and there is clear lack of prioritization of PCD over conflicting interests. Development officials are interested in contributing to long term/sustainable development of third countries, while immigration officials follow short-term EU migration consideration, mostly aimed at fighting illegal immigration. This is also evident within national governments in member states. The EP should constantly highlight the importance of institutional coherence and transparency as in the Keller report both between the DGs of the Commission and importantly between field offices/ delegations and headquarters.

The rationale of EU migration policy still appears to be "how to prevent more migration". This is understandable given electoral politics of various EU countries. As a result, the EU has become less attractive for needed skilled workers. **A measure like the adoption of the Blue Card was geared at mitigating this but its benefits have been diluted to such an extent as to defeat its intended purpose** (Brady, 2010). The EP can initiate or continue to advocate for informative programs directed at political movements and civil society groups on the long-term benefits of legal migration. Even when third country nationals are legally admitted into the EU the issues of discrimination may arise. Strong forensic measures to curb discrimination should continue and options for transferability of social rights, pursued. This will ease short-term flows that are legal and also reduce potential altercations with local constituents averse to immigrants.

The Commission has developed many rules and initiatives that reflect positive synergy between migration and development. Although there is a strong argument that the EU is driven by the proclivity to robustly and coercively control migration (Chou, 2006) specific actions on **improving cheaper remittances flow; circular migration and mobility partnerships** should be supported and duly extended to other beneficiaries by the EP. On the other hand, there are some indications that the current initiatives of linking development and migration policy have actually translated in 'misuse' of development funds for strengthening border management and combating illegal immigration often referred to as "migration conditionality", implying that development funds are offered to third countries as incentives for cooperation in the fight against illegal immigration, e.g. through readmission agreements. There is a risk of redirecting development aid from the poorest countries to countries of origin of migrants coming to Europe.

Furthermore the EP should push for a clear approach on low skilled migrants. There is an EU policy for skilled workers but there is no coherent and clear approach for low skilled workers. As argued within the context of EPAs, there is concern over trade agreements encouraging 'brain drain' in ACP countries. The EP should push for greater clarity on the tensions that may exist between political demands for successful integration by migrants and the economic exigencies of temporary workers. Finally the EP should adopt a strong stance in supporting regional migration policies in other regions.

Climate change

In the area of climate change additional efforts are needed. Especially, more EU climate-funding for developing countries is needed. An additional problem is that a part of the EU and member states' funding to developing countries is invested in projects that foster climate change, rather than mitigate it. For example, the European Parliament's Committee on International Trade has recently pointed out in a draft report that half of all CO_2-emission-intensive industrial projects in developing countries had some form of support from export credit agencies.[83] Climate change thus needs to be systematically and effectively be mainstreamed into all EU development funding. Climate-related funds should also be monitored more systematically than is the case so far.

Moreover, more efforts for mainstreaming climate change concerns into EU development cooperation at the level of programming and implementation appear to be needed. A 2009 survey of 19 Country Environmental Profiles and two Regional Environmental Profiles showed that the reports say very little about climate change and recommends that climate change should be covered much more in depth. In 2006, the Court of Auditors concluded that EU had made only limited progress since 2001 in mainstreaming the environment into its development cooperation, as Country Strategy Papers did not take sufficient account of environmental issues. The Commission has stated its intention to more systematically integrate climate change into development cooperation strategies at regional and national level. This announcement should be put into practice and its implementation should be monitored. In this context, it is of particular interest how the "ambitious EU wide environment integration strategy" that the Council had requested to the Commission in 2011 will look like.

[83] Draft Report on the proposal for a decision of the European Parliament and of the Council on the application of certain guidelines in the field of officially supported export credits (COM(2006)0456), p. 13, http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+COMPARL+PE-452.514+01+DOC+PDF+V0//EN&language=EN.

Agriculture

EU agricultural subsidies have a predominantly negative impact on developing countries hence there is little coherence between these and EU's development policy's objectives. To improve coherence, export subsidies should be phased out. In addition, the EU should critically and systematically assess the development impact of any CAP reform proposals. So far, the debate is focused predominantly on the EU internal effects – economic, social and environmental. Agricultural and other policies of the developed world have indeed created dependencies on imports in many developing countries, and reversing this import dependency – an import step to enhance food security – will have to be a gradual process. In addition, there are, to a certain degree, trade-offs between EU development goals and other objectives involved. For example, EU agricultural subsidies with an environmental objective or having strong positive employment effects should be kept, even though they may have trade-distorting effects.

Annex 1: The Economic Impact of EPS on ACP regions

Table 1:

Region and source	Trade creation (TC) / Trade diversion (TD)	Fiscal effects (loss of tariff revenues)	Welfare effects	Major gainers and losers
Sub-Saharan Africa (as a whole)[a]			Negative (EPA with no regional integration) Positive (removal of intra-SSA barriers or EU–SSA Free Trade Area)	
West Africa	TC larger than TD	Negative	Positive	Nigeria and Ghana (gainers); Cape Verde and Gambia (losers)
Central Africa[a]	TC larger than TD	Negative	Positive	Cameroon, Gabon and DRC (gainers)
EAC[c]	TC smaller than TD for Tanzania and equal to TD for Uganda	Large negative	Small negative for Tanzania; Negligible for Uganda	Tanzania (loser)
COMESA[a]	TC larger than TD	Negative	Positive	Kenya, Mauritius, Sudan and Ethiopia (gainers)
SADC[d]	TC larger than TD	Large negative	Large positive (EPA with regional integration) Small positive (EPA with no regional integration)	South Africa, Zimbabwe and Mauritius (gainers); Zambia, Tanzania, Mozambique Swaziland (losers)
Caribbean[e]	TC smaller than TD (for simultaneous MFN tariff cuts < 50%) TC larger than TD (for simultaneous MFN tariff cuts > 50%)	Small negative	Small negative (for simultaneous MFN tariff cuts < 20%) Small positive (for simultaneous MFN tariff cuts < 20%)	
Pacific[f]	TC larger than TD	Small negative	Small positive	Papua New Guinea and Fiji (gainers)

Source: Cali and te Velde (2006)

Annex 2: Major watersheds in the Evolution of EU migration

Major watersheds in the Evolution of EU migration/development coherence policies 2000-2011

Year	*Milestone*	*Key Elements from a Migration and Development Coherence Perspective*
2000	COM (2000) 757	Maximizing the gains of migration for all actors especially EU and better policy coordination
2001	COM (2001) 386	Setting out conditions of entry and residence of third country nationals for the Purpose of paid employment
2002	COM (2002) 703	Puts migration into the broader context of EU's external relations; discusses root causes of migration and management capacity of EU and partner states
	COM (2002) 175	Proposal for developing common EU return policy that is sound under EU International Law; need for common standards for return; need for better cooperation between member states services; determination of elements of a readmission policy
2004	Tampere Program ends	Developed platform for better coordination of member states in the area migration; start of the Hague Program (more coercive measures)
2005	COM (2005) 390	Areas of making migration development-friendly are identified: remittances; Diasporas; circular migration; and mitigating effects of brain drain
	COM (2005) 621	Need for a coherent approach highlighted; action plan on legal migration announced; dialogue with Africa to focus on capacity building for migration management and addressing root causes of migration; promotion of legal migration and Mediterranean Coastal Patrol Networks
	Policy Plan on Legal Migration COM (2005) 669	Migration must be dealt with jointly at EU level; Community preference preference principle is primordial; assuaging problems of free movement of citizens of new member states; better measures to fight illegal immigration squeeze the informal economy which is a bad pull factor
	Global Approach to Migration	Global Approach to migration adopted with focus on Africa and the Mediterranean countries (December 2005)
2006	COM (2006) 402	Issues: cooperation with third states; securing the borders (with active role for Frontex); fighting against human trafficking; securing travel and identity documents; addressing the issue of regularizations; dealing with illegal employment as key pull factor; having a common return policy and better information exchange
	COM (2006) 735	Considers how Global Approach is being applied (effects as requested by Council) and making the EU approach truly comprehensive; recognizing that Migration flows to the EU will likely increase
2007	COM (2007) 248	Promotion of circular migration
2008	Various Directives	Directives issued on Rights; Return and the Blue Card
2009	EU Report on PCD SEC (2009) 1137	Identifies areas of coherence (remittances; engagement with Diaspora and mobility partnerships)
2010	Stockholm Program	More robust border control envisaged; better migration/ development links Planned
2011	Planned Policy	Communication on further actions in the area as requested by the Council In Stockholm Program; Transposition of rules on Blue Card

Source: Collation from authors

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