



House of Commons
International Development
Committee

**EU Development and
Trade Policies: An
update: Government
Response to the
Committee's Fifth
Report of Session
2006–07**

**Sixth Special Report of Session
2006–07**

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International Development Committee

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Sixth Special Report

On 14 March 2007 the International Development Committee published its Fifth Report of Session 2006–07, *EU Development And Trade Policies: An update*, HC 271. On 21 May 2007 we received the Government's response to the Report. It is reproduced as an Appendix to this Special Report.

In the Government Response, the Committee's conclusions and recommendations are in bold text. The Government's response is in plain text.

Appendix: Government response

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

We welcome the observation on DFID's advocacy of a greater focus by the Commission on poverty reduction in low-income countries. We are committed to this focus which is reflected in our departmental target countries. The low-income focus of Commission aid has increased from 51% in 2002 to its current level of 56%. There is no scope to increase this level significantly during the current Financial Perspectives (which runs from 2007–2013).

The 10th European Development Fund (€22.682 billion over 6 years from 2008) represents a substantial increase in funding for partner countries especially in Africa over the 9th EDF (€13.7 billion over 5 years). As the Committee's report notes, this fund is more focused on low income countries, with more than 90% of its disbursements made to least-developed countries.

We would not wish to withhold our funding in support of the European Commission's development cooperation. The effectiveness of the European Commission has increased substantially over the last six years. We intend to continue to promote a more effective Commission aid programme through vigorous and constructive engagement.

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

The Government would welcome a dialogue with other member states and the Commission as to the most logical arrangement for managing the European Commission's development assistance, and the Committee's comments on the current arrangement are valid. It would seem appropriate to have such a substantive dialogue in the run up to 2009, when a new Commission will be formed, and European Parliamentary elections will take place. This remains subject to the outcome of the June European Council, which will discuss the issue of future institutional reform.

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

We welcome the proposal from the European Commission to develop a more predictable budget support instrument, called an "MDG Contract". Improving the predictability of aid to governments is a high priority for DFID and we will work with the European Commission to ensure that this new instrument is designed to maximise the predictability of aid flows. The European Commission has been linking budget support payments to results for some time, and we are keen to work with them to ensure that the approach has the most beneficial impact possible—and improves the effectiveness of budget support. We will continue to work with the European Commission to clarify how they plan to take the MDG Contract concept forward and to support them in both design and delivery.

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

HMG has made it very clear that we believe donors' aid for trade commitments should be delivered urgently, and irrespective of progress on the Doha Development Agenda (DDA), Economic Partnership Agreements (EPAs) or other trade negotiations. The UK will deliver its pledge to increase Aid for Trade (including economic infrastructure, such as roads, ports, power and telecommunications) by 50% by 2010 to \$750 million a year. Developing countries need aid for trade to benefit fully from the current access which they already have to developed markets, as well as any additional access which they secure through new trade agreements. At the meeting of G7 Ministers on 13th April 2007 the Chancellor announced that the UK will contribute up to 20% or as much as £38 million over 5 years (\$74 million)

towards the multilateral fund for the Enhanced Integrated Framework (EIF) for Trade Related Technical Assistance to Least Developed countries. The UK is one of the first countries to make a public pledge to the EIF before its launch in July 2007 and before a high-level donor meeting in May 2007.

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

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

The UK has been the leading voice calling for an ambitious, pro-development conclusion to the Doha Development Round which delivers real benefits for developing countries. The Prime Minister, the Chancellor and other Ministers have called on all the key parties in the talks, including the US, the EU, India and Brazil, to show the political will and flexibility to secure a good deal. In addition to the Doha Development Round, the UK has also been a leading proponent of key supporting measures to enable developing countries to benefit fully from a successful Doha deal. Under the UK's Presidency in 2005, the G8 committed to simplifying preferential Rules of Origin and to provide \$4 billion a year (by 2010) in aid for trade.

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

We agree that it is vital that business speaks out in favour of a Doha Development Round which is good for both the EU economy and developing countries. The Government is in regular contact with business leaders about the Doha Development Agenda (DDA) and will maintain this contact. The letter to the Financial Times signed by 82 business leaders on 28 February 2007 calling for political leaders to give these negotiations the highest priority demonstrated the importance that business places on a successful conclusion to these negotiations.

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

All WTO members recognise that a successful Doha Development Agenda will require the agreement of all WTO members, including the 110 developing country members. The UK consistently makes this point in discussions on the DDA with key players. In addition, the UK is providing direct support to the Least Developed Country group including help with co-ordination in Geneva and research and analysis to help them define their trade policy positions in the negotiations.

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

The UK's position paper on EPAs, published in 2005, makes our position clear on these issues. We have welcomed the fact that a number of regions, such as the Caribbean, have indicated that they do wish to negotiate on some of these issues, as we believe that they can bring real development gains if implemented appropriately. However, we continue to argue that no region should be required to negotiate on new issues if they do not want to. We welcome recent indications from the Commission that the priority in the short term is to complete those elements of the negotiations needed to ensure that EPAs are WTO-compatible, and that negotiations on other issues can proceed on a slower timetable.

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

Good communication is central to both sides of the negotiations to ensure a genuine understanding of the other's position. The Cotonou Agreement provides for formal communication structures and the EC has built on these to engage with the ACP during the negotiations. The German Presidency has done an excellent job of increasing the contact at political level between the EU and the ACP, for example by inviting ACP Ministers to the annual EU Informal Development Ministers' meeting which took place in Bonn in March of this year. We have supported this initiative.

UK Ministers and officials take every opportunity to meet representatives of the ACP. In the last six months alone:

- Hilary Benn and Alistair Darling met ACP Ministers and their chief negotiators;
- Hilary Benn attended a meeting of EU Development Ministers and ACP Ministers and UK officials attended the Joint Ministerial Trade Committee meeting between the EU and the ACP;
- Gareth Thomas met with African farmers' representatives in October;
- Ian McCartney and Gareth Thomas met with a delegation of Pacific Ministers and negotiators in January; and
- Ian McCartney and Gareth Thomas meet with UK NGOs and Members of the European Parliament in order to listen to any concerns they are hearing from their networks in the ACP.

In addition, our overseas posts regularly engage with their host governments to get their views and Whitehall officials regularly engage with the European Commission to press for EPAs to reflect the UK position.

The UK has put much emphasis on the importance of the review. Our view of its outcome will be guided, in part, by how it is received by the ACP. The recommendations of the review will be formally adopted at the EU-ACP Council meeting in May.

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

All ACP regions have agreed their commitment to working towards meeting the deadline. Negotiations are now focussing on those elements which are required for WTO—compatibility—i.e. trade in goods. This is a very welcome development.

The UK maintains that an extension of the WTO waiver will be very difficult to achieve. While the US has applied for a waiver for its African Growth and Opportunity Act, it is currently being blocked by some WTO Members.

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

The UK and the EU are firmly committed to the development benefits of regional integration. The respective ACP regions have their own regional integration plans. The EPAs should build on these.

However, EPAs do require reciprocity. Least-developed countries (LDCs) could decide that they do not yet want to sign an EPA and want to continue with EBA, which gives them duty free quota free market access to the EU, although with more restrictive rules of origin than are available under Cotonou.

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

We welcome the increased flexibility which has been shown by the Commission in recent weeks, particularly in the EU's market access offer and its signals on ACP implementation periods. We continue to work with the Commission to ensure they act flexibly in all of the regional negotiations.

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

We agree.