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EUROPEAN TRADE POLICY

TUESDAY 17 JUNE 2008

MR EDWIN LAURENT and DR MOHAMMED RAZZAQUE

Evidence heard in Public

Questions 85 - 106

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Present

Cohen of Pimlico, B (Chairman)
Haskins, L
Maclennan of Rogart, L
Moser, L
Renton of Mount Harry, L
Woolmer of Leeds, L

Witnesses: **Mr Edwin Laurent** and **Dr Mohammed Razzaque**, Commonwealth Secretariat, examined.

Q85 Chairman: Good morning, Mr Laurent and Dr Razzaque. Welcome to you both. You have our list of questions. If you would like to make an opening statement, please do. If not, we will go straight to questions. It is entirely up to you.

Mr Laurent: I would like to make some brief opening remarks and then we can proceed to questions. My Lord Chairman, my Lords, I wish to place this whole matter in context, first of all, and give a bit of a background on the Commonwealth. Of course you all know the Commonwealth very well but its role in trade and economic matters is probably less well-known. We are a grouping of 53 states, with two billion citizens, and responsible for one-fifth of world trade and one-quarter of the world's governments; therefore the Commonwealth has the legitimacy to be heard and to make a difference. We are best known, of course, for our role in promoting democracy, good governance, human rights and the rule of law, gender equality, and sustainable economic and social development, but these goals really can only be achieved in an environment in which poverty, under-development, and gross inequities among and within nations can be dispensed with. Therefore, we consider that we have an important role in promoting economic development. Recent developments in the world economy of course have overshadowed a lot of what has been going on; particularly the

problems with petroleum prices, the credit squeeze, and the general economic slowdown. This is something which has been of great concern to us, because the larger economies, the developed economies, might be able to withstand this pressure as well as some of the major developing countries (China, Brazil, et cetera) but many of the others, that do not have access to those commodities (particularly minerals and petroleum products) that are on the up, might be really facing some serious difficulties. It is those countries that we are particularly worried about because of the threats that they currently face. But of course situation is not all bleak. The last decade was one of really spectacular growth in the global economy. We saw something like a 20 per cent overall increase in global incomes during that decade and things were looking good. The problem, though, is that that bonanza was not being evenly shared within in the world. Some countries, particularly in sub-Saharan Africa, rather than keeping up were generally falling backwards. Towards the end of the last century or maybe at the start of this century, there probably was a growing sensitivity among world leaders, and maybe in the world generally, of a shared responsibility for tackling those sorts of problems which stemmed from poverty and inequity. Indications of that new awareness were things like the Doha Development Agenda, as well as the Monterrey Consensus, and, most particularly, the Millennium Development Goals. We know, unfortunately, that these very well-meaning objectives and goals that were set to be met by the year 2015 are really no way close to being achieved, and that is something which is exceedingly serious, not just for those leaders who committed themselves to these goals way back in September of 2000 but also to the billions of people whose lives really might be affected and improved if there is progress in the Millennium Development Goals. Earlier this year there was a review of the Millennium Development Goals by the UN and it is clear that the world is not on target. What can be done? There is no point moaning over spilt milk. The world has not performed well so far, what can be done between now and the future to really make a difference, to raise those

millions out of poverty? According to the UN, it is projected, despite what is going on, that by the year 2015 one-sixth of the world's population will still be living on less than one dollar a day. That is their projection. There will be little improvement with respect to maternal health in sub-Saharan Africa and the progress in some of the major diseases (HIV/AIDS, malaria, et cetera) will not necessarily be any more favourable than it does seem now. But change is possible. We believe that what is necessary is to increase incomes in countries. Increased incomes improve governance, so that there would be an improvement in the distribution of income but attention could also be paid to addressing the social issues in countries and to ensuring that there is empowerment of women, because we think that for certain of the Millennium Development Goals the empowerment of women, of mothers, is essential. How do you get income into countries? Of course aid is important, but aid will not be the only thing. We believe, as far as aid is concerned, that there should be an attempt to move towards these promises that have already been made by G8 and others, and the increase in aid should probably be in keeping with the principles of the Paris Declaration on Aid Effectiveness. But that is not all. Countries need to earn for themselves as well and this is where trade comes in. It is through export and generating income from export that countries will be able to get the necessary funding to address their domestic needs. Many countries have considered that the structure of world trade was not favourable to them. They hoped that the Doha Development Agenda would review the rules, the basis on which they would be trading, and maybe ensure that some of those governmental actions that impede free trade would be addressed, and that there would be a greater opportunity for rebalancing and permitting opportunities to those countries that are currently less competitive. This of course would have been the Doha Development Agenda. The final area to raise where additional income can come from and which is essential is that of investment. Aid provides support via the public sector, but if one is to bring about real change and the ability of countries to

produce, one needs to ensure that the private sector in developing countries is strengthened. There is the need for investment and there is the need for appropriate technology. The Commonwealth considers itself, given some of the features that I alluded to earlier, to be well placed as a partner to work with other countries, with governments, in seeking to ensure that the Millennium Development Goals gets back on track. I do know that this is not the specific focus of the questioning, but I thought that this would be important as a background and as a backdrop to this. Thank you, My Lord Chairman.

Q86 Chairman: Thank you. I think we all understand the extreme importance of trade for countries' income. It extremely important to enable countries to earn money and raise the income of their citizens. One of the things that has puzzled us when looking at what is going on is that many developing countries have taken steps towards unilateral trade liberalisation and some have taken steps towards bilateral agreements with trading partners. Everybody is trying to move in different directions. At the same time, there is a reluctance to give any concessions during the Doha Round talks. What do you think is causing these contradictory positions?

Mr Laurent: That is a clear and apparent contradiction, My Lord Chairman. However, in reality, if one digs a little deeper one will find that many of those unilateral concessions which have been made by developing countries were not really done voluntarily. That is one sense. Many of those tariff reductions, et cetera, were undertaken during the 1980s and 1990s under IMF/World Bank conditionality, attached to loans which were required by these countries, so they did not have much choice. Of course, there were some other reductions that were undertaken within the context of bilateral and regional trading arrangements. In these cases, the countries were able to clearly see a benefit from giving these concessions. By giving these concessions they were doing two things: first, they were of course lowering the cost of imports into their markets, but more significantly, they were buying the opportunities for their

own exporters to be able to enter more competitively the markets of their trading partners. There was a very obvious benefit, therefore, and, as you would appreciate of course, when there is an obvious benefit it is much easier politically to sell a concession to one's domestic audience. That is as far as the reductions both unilaterally and within a bilateral context. Within the multilateral context, why is it that they have been unwilling to provide those concessions? One is because many of them consider that they have already made very substantial reductions in tariffs and they are worried about further reductions that would even reduce their scope for policy flexibility later on, and they consider that they might not necessarily be obtaining the reciprocal benefits from further reductions at the multilateral level.

Q87 Lord Maclellan of Rogart: Mr Laurent, could I amplify your answer and try to draw out of it the message which we might want to reflect on. You said that there were two opposing sets of circumstances almost in dealing with the bilateral liberalisation, where developing countries are doing things on the one hand involuntarily or subject to some sort of pressure and on the other where it is obvious to them there is an advantage, but I have no clarity in my mind from that what are the differences that lead to those two sets of circumstances. Can you describe more particularly the sectoral examples, perhaps, even if you do not feel willing to mention the names of particular countries falling into the two camps? I am not sure what lesson we have to draw from this analysis really. That is the problem.

Mr Laurent: With your permission, My Lord Chairman, I would like for this particular question and maybe for some subsequent ones to ask my colleague Dr Razzaque to assist with the answer. I think my Lord is referring to those countries which were obliged to reduce tariffs by the Bretton Woods Institutions. These countries, of course, were under structural adjustment programmes of the Bretton Woods Institutions, and this was a requirement for

them to do so, to reduce tariffs, which generally went way below the bound rates. At the moment, several developing countries, particularly in Africa and in South Asia, have tariff levels that operate way below their bound rates.

Q88 Lord Maclennan of Rogart: Do you accept that these changes were a design fault or do you think that there were some problems?

Mr Laurent: I was not expressing an opinion at all as to the desirability or otherwise but merely indicating that this was the factual situation and therefore it explains the apparent contradiction. They reduced, as it were, involuntarily, whether it was good or bad. Many countries, particularly in Latin America, would say that this enforced openness had very positive, pro-development results, whilst in some other countries they might be of a different view. So I am not at all getting into that discussion.

Q89 Lord Maclennan of Rogart: In a sense this Committee might want to take a view about some of these issues. We do not just want to describe the situation; we want to look at charting the way ahead, so, if you have a view, it would be very interesting to hear it.

Mr Laurent: I am not sure that I would be permitted the liberty of a view on this, but I would ask my colleague Dr Razzaque to give his personal view, as opposed to the view of the Commonwealth Secretariat which is quite neutral on this particular matter.

Dr Razzaque: Thank you, My Lord Chairman, my Lords. The issue is very involved. It is quite perplexing. On the one hand we say that multilateral liberalisation commitments are there, and I understand that currently almost all countries are members of bilateral arrangements or regional trading arrangements. The issue is that, for some of the low-income developing countries, the way the WTO arrangements are framed they are not expected to undertake new commitments. That is a binding constraint for these policy makers, because here the issue is what you call the political equivalent factors. With, for instance, a group of

LDCs, they are not expected to undertake new commitments but that does not help the policy makers because the exporters are not in a position to access markets. I can give you one clear example: the duty-free/quota-free access to LDCs. Although all views support that LDCs should get duty-free/quota-free access to developed countries, still some of the South Asian LDCs are not in a position to access duty-free/quota-free access to the US. What are the choices for them? These countries can unilaterally take commitments under WTO multilateral arrangements, or they can go into bilateral arrangements and make sure that their exports get duty-free access to these markets. That is what those partners are arranging every time. My view – and it is not necessarily the Commonwealth Secretariat’s official position – is that right now the issue is that many countries are not sticking to ensure that their exporters have ready access to their neighbouring countries or large developed countries and that is why these bilateral interests are emerging, because politically it is more sustainable to assure the people at home that the export market has been ensured through these bilateral interests. Although economists in general have this understanding that when countries liberalise or open up unilaterally it is in the interests of the consumers and that is welfare enhancing; for the policy makers it is very difficult to sell this idea only to open up, not ensuring their exporters access to other countries. That is where I see these contradictory developments taking place.

Q90 Chairman: Dr Razzaque, I thought I caught you saying that it is more interesting for a country to conduct an agreement with its neighbours because those are the people it can export to. If you were a country in sub-Saharan Africa, it might be of great concern to you that the South African market is open and not very interesting as to whether bits of the American market are open. Is that what you were suggesting?

Dr Razzaque: My Lord Chairman, as you know there is a problem with the export structure of developing countries. Developing countries, especially in the regions, basically compete for similar kinds of export goods in the global market. Also, because of the fact that the

consumers in these countries tend to concentrate on similar kinds of products, and especially when countries are relatively less developed they tend to focus on the primary commodities, the market is not well diversified. On the other hand, when they trade with developed countries, then as partners they can take advantage of their already existing resource endowments. For example, if a low income country is trading with high income countries, the low income country can take advantage of trading labour intensive goods. If they are forming regional integration, only within the region, then the problem is that they cannot take advantage of this particular thing, because in terms of the production and infrastructure probably those countries in the region are more or less similar. Of course there is a point of co-operation amongst the regional countries so that they can take advantage of what is known as economies of scale. That can definitely be enhanced through regional co-operation, that is not an issue, but the main problem for them is that if their trade is to expand at a satisfactory level then they will have to trade with more developed countries or relatively advanced developing countries.

Q91 Lord Woolmer: Is the concern amongst the developing countries principally to secure more open export markets or are they more concerned about protecting their domestic market? In other words, do politicians in developing countries see these as two sides of the same coin, or are they really only interested fundamentally in seeing the benefits of getting export markets opened up, but really they would rather like to do that but protect their domestic market at the same time? What is the impetus? Is it protecting their domestic market? Is that the political goal before they go multilateral? Or is it that they really see a lot of benefit in opening up export markets? What is the driver in the politician's mind in the Commonwealth, for example?

Mr Laurent: Thank you very much, my Lord. I would say, first of all, that even within the Commonwealth developing countries are not homogeneous, and beyond the Commonwealth

the diversity is even greater. Both of these factors exist in the minds of policy makers of developing countries, but the circumstances of the countries have a lot to do with which of those two would be much more significant. For instance, in countries with a large internal market, the protection could be more important, but for countries that are exceedingly small, for instance, that is much less significant. It is really a mix of motivations.

Q92 Lord Woolmer: Some members of the Commonwealth have raised concerns about the loss of preferential trading terms in any WTO agreement. Is this a roadblock to a successful conclusion of the current round? If so, how can it be avoided?

Mr Laurent: It would seem that this was a possibility sometime ago. Several countries – small countries/LDCs – are dependent on preferences. They felt that if they did not enjoy those preferences, they would lose the ability to trade, and if they were not able to trade, then what is the point in having a new agreement if that agreement was going to deny them the ability to participate in the global economy in a meaningful way? So there was that threat. However, in the negotiations now there is a proposal which seems to have general acceptance amongst most of the membership. Our understanding is that there are just a couple of countries that still are not happy, but the likelihood is that this will be agreed by all when a final package is ready. That proposal is that products that rely on preferential access arrangements (bananas, sugar, et cetera) would be given more favourable treatment; in other words, there would be a longer period for the reduction of tariffs particularly in the developed country markets. For instance, if bananas were to enjoy such an arrangement – the tariff for Europe is currently €76 per tonne – instead of the reduction being over a period of, say, six years at, say, ten per cent per annum – and I am just using an arbitrary figure – it would be over a much longer period at a lower reduction rate. That is the way in which the WTO is looking at dealing with this, but there are more fundamental approaches which we at the Commonwealth think could also be used by the international community to facilitate the

development of these preference-dependent countries. Because, in a sense, merely retaining or permitting preferences to continue for a longer period of time, whilst this might be desirable, in the long-term is not really a developmental approach. We think that what is needed is to find means to ensure that there is an increased competitiveness of those countries. The reason why they need the protection is that they are not competitive with other countries: their costs of production are too high. We need to find some means to make them more competitive. Another thing which needs to be done is to support the economic diversification, because countries cannot develop if they are going to be reliant just on one or two commodities. We think that this is an area in which Aid for Trade could have a particular benefit, but it is not Aid for Trade in the way that has often been spoken about but in a much more creative way, and certainly not Aid for Trade which is merely a repackaging of existing foreign aid to those countries.

Q93 Lord Moser: In your introduction, which I found very helpful, you made very clear the state of developing countries: hunger, poverty, disease, et cetera, and you made very clear the importance of increasing income not just through aid but also through trade. That is the background, and you referred to the Doha Round. I just wonder whether, given the present state of the Doha Round – which, I suppose, to put it kindly, is confusing – some countries are just fed up, impatient, and have lost the appetite for multilateral approaches generally. When you talk about that, I personally would find it very helpful for all our discussions and thinking, to have your thoughts and your colleague’s thoughts about the categories of countries we are talking about. We are all talking about developing countries, but that cannot be the right term we should be focusing on. Is India in your thoughts as you talk? Your colleague talked about “low-income developing countries” and that is another category. The “least developed countries” is a category in some UN documentation. It would help me at

any rate and probably my colleagues too if we could begin to focus on categories of major concern, whatever they are.

Mr Laurent: I would ask my colleague to go first.

Dr Razzaque: This is a very interesting question. There is a general consensus among developing countries on the whole about the importance of multilateral trading systems and the multilateral element. That is the general consensus that we can fill in on the list, per se, in the discussion. That is very much there. But then the issue is how different groups of countries within the developing countries, as rightly pointed out, are there even waiting the way forward from this particular Doha Round. Here I would like to emphasise, first, the LDCs (that is, the group of least developed countries – that is the UN definition) and then I would like to shed some light on the perspectives from the relatively advanced developing countries like India, China, and Brazil. First of all, the Doha Round was dubbed as a development round and, essentially, it was considered that the interests of LDCs and small, vulnerable economies would be taken into consideration by all other countries. After seven years of these negotiations in Doha, we find that the LDCs have not been given unconditional duty-free/quota-free market access. That is one issue. Also, the fact is that, in the course of the Doha Round, there is also a discussion on providing preferential treatment with regard to services trade – and this is called in WTO’s language, LDCs moderator(?) on services – but still no progress has been made with regard to what kind of preferences LDCs are going to get out of this. One issue that we discussed earlier was with regard to the liberalisation or the unilateral liberalisation that many of the LDCs have already undertaken at the behest of the World Bank, IMF, and international donor organisations. These LDCs now realise that although they have taken unilateral liberalisation actually the export response to liberalisation has been very low, because of the fact that they have got serious export constraints in developed countries’ markets and also relatively advanced developing countries’ markets. That is why

developing country policy makers are more concerned to ensure that that they have got duty-free access in other countries which is currently absent, and this whole thing makes LDCs frustrated at this moment. That is with regard to LDCs. For relatively advanced developing countries, for instance India, Brazil, and China, the issue is quite different. Here, again, I would like to emphasise the fact that this is not an official opinion of the Commonwealth but more our personal views. Here the issue is that these countries, the developed and developing countries, consider the Doha Round as not very ambitious for them. I can give you some figures. If what is on the table realistically, and if there is a deal as if on Doha, then the total gains for India, Brazil, and China will be something like only three to 80 days economic growth, because these countries are growing so fast that even if there is a successful conclusion of the Doha Round from the current situation on the table then, basically, gains to China would be just about three days of economic growth. For these countries, therefore, this round is not very ambitious. That is the problem. We are talking here about difficulties with regard to expectation of different sets of countries, but certainly the LDCs, in terms of the market access, have received nothing additional out of this Doha Round. That is frustrating for them.

Q94 Lord Moser: For those three fast-developing developing countries, it is not so much that they have lost appetite; they do not think there is much in it for them. It is not impatience; it is that they feel they are not going to get much out of it.

Dr Razzaque: Yes.

Q95 Lord Moser: That is what you are saying. Going right to the other extreme, do you call them now the “least developed”? Is that the category?

Dr Razzaque: Indeed. Yes.

Q96 Lord Moser: The least developed countries. Have they lost appetite or are they still praying that the Doha Round will ultimately help them? You are going to the other extreme with under-development.

Mr Laurent: It is not certain that they have lost their appetite – maybe not for the multilateral approach, but there is growing cynicism in the negotiations. The developing countries, for instance, put up something like 88 proposals on special and preferential treatment, but these have really not made any progress whatsoever in the negotiations. Speaking with representatives in Geneva, the chorus one tends to get quite often is that there is attention being paid to liberalisation, market opening, and regulation, but not to their developmental concerns. They consider that the Doha Round is very much a traditional round of the old GATT/WTO format. They had hoped for something different, with focus on their needs, but this has not materialised.

Q97 Lord Moser: That is a very interesting answer. Thank you very much.

Dr Razzaque: My Lord Chairman, with permission perhaps I can add to what Mr Laurent has just said. With regard to this particular issue, before the beginning of this Doha Round, if we say the “agreement”, actually there is no multilateral agreement on providing duty-free/quota-free access to LDCs. The bulk of European Union was already providing duty-free/quota-free access to most of the LDCs anyway, but under the Doha Round there was created a provision of the developed countries that they are bound to provide 97 per cent of their tariff plans, duty-free/quota-free access, to the LDCs, and LDCs do recognise it as a positive development. Also, before the beginning of this particular round there was no mention about getting preferential treatment in services, but since the Doha Round has begun there is now this discussion going on into how to provide preferential treatment giving services trade to LDCs. From those perspectives LDCs do recognise that some positive developments are

taking place, but they are perhaps not being materialised as fast as they were expecting that this round was going to deliver to them.

Q98 Lord MacLennan of Rogart: Mr Laurent, you may feel that you have said what needs to be said in answer to the question I want to put, but, to try to make it a little more concrete for me I wonder if you could give any indication whether historically you feel that developing countries have drawn benefit from multilateral trade agreements. If so, could you exemplify? If not, would you say what has been the problem?

Mr Laurent: Again with your permission, My Lord Chairman, I would ask Dr Razzaque to comment. My view is certainly that developing countries have benefited. I would reiterate what I said earlier, that the group of developing countries is very diverse. One has had countries that have benefited tremendously, and there have been some developing countries, particularly those on the margins, that have not benefited at all. The total picture is certainly a positive one for developing countries if we go back to the end of the Uruguay Round. That would be my view, but it is a subject in which we have a lot of internal discussion and I would like to ask Dr Razzaque to give his perspectives on this.

Dr Razzaque: My Lord Chairman, my Lords, this is an interesting question once again. Here the issue is, if we think in terms of the relative significance of countries, first I would give you the figures for developing countries. The Uruguay Round began in 1988. Then the share of developing countries in world trade – and I am talking about marginalised exports, their share of exports – was about 27 per cent. Now it has increased to about 40 per cent, and side-by-side the share of development has fallen from about 73 per cent to 60 per cent. If we are considering these figures, then some would draw the conclusion that these whole multilateral arrangements or trade liberalisation have benefited developing countries, but actually it is very difficult to link tariff liberalisation or trade liberalisation, as such, with the performance of the developing countries. For example, and now let me focus on the poorest of the

developing countries, the group of the least developed countries. Their share also within this field has increased from 0.5 per cent to 0.74 per cent in the past ten or 12 years. But if we compare their share with that of the early 1970s, then we cannot compare, because in the early 1970s the share of LDCs was 1.5 per cent of global trade. That is my view. The main issue is that even in the academic and empirical literature it is very difficult to establish a clear-cut relationship between liberalisation at the global level and the country's performance. Even if we are putting aside this measurement of how one can link those two issues, there is a general consensus that by setting clear-cut rules and multilateral disciplines, the whole trade environment has benefited the developing countries, and particularly the low-income developing countries or the least developed countries. In general, this has been perceived as beneficial to them.

Q99 Lord Maclennan of Rogart: In answer to my colleague Lord Moser you have very helpfully distinguished between the predicament of the least developed countries and India, Brazil, et cetera. Institutionally, are you saying that in these multilateral discussions prioritisation should be given to one or other group, or that there should be parallel consideration given to the interests of these different categories of developing countries? In particular, can you say anything about how rapidly the least developed countries should be invited to remove their import tariffs? That is the very specific question.

Mr Laurent: Maybe I could address the first, general question. The Doha Round was set up essentially to address the problems of development. There were several countries, as I indicated in my opening, that had been really falling back. The Doha Round was about helping those which had serious problems. It was not to be business as usual. The previous rounds were about market opening, liberalisation, just the removal of trade barriers for the purpose of trade expansion. Then it was recognised that that model had not served everyone, but that model works quite well for the more advanced developing countries, so I would not

think that the purpose or the focus of the Doha Round was in fact to have been on those more advanced countries but really those at the bottom; those that were, as it were, dropping off the end of the table. There was a second, specific question, and Dr Razzaque will answer this.

Dr Razzaque: The particular portion I would like to answer to is what we can expect from further tariff liberalisation in LDCs. Sometimes the LDCs, this group of least developed countries, are still considered to be countries with high tariffs and all these protection measures imposed in this economy, but, actually, over time these countries have opened up significantly. One critical issue here is the way that tariffs are defined in the WTO and negotiated. They use what are known as “bound rates” in order for negotiations to take place, but on the ground it is more important to consider the applied rate of tariffs: the actual rate that is being applied. I can give you some figures to illustrate this particular issue. For example, Bangladesh: in the beginning of the 1990s its applied tariff was 94 per cent and this has now come down to only 17 per cent. If we consider another sub-Saharan African country, Guinea: it used to have something like 44 per cent tariff rates and it has now come down to only 15 per cent. If we are looking at the average applied tariff rates that these LDCs currently have, then we will find that they are not far from, or their experiences are more or less similar to, any other developing country. Let us think about the case of Vietnam: Vietnam has more or less a similar tariff structure as Guinea and Tanzania or Bangladesh, but still it has managed to raise export growth rate/GDP growth rate at a very high rate compared to other LDCs. Here the issue is not about how to liberalise this further. From an LDC point of view, the issue is how they can ensure that, with this liberalisation, they can also achieve high export growth rate and also GDP growth rate. The main issue for this policy maker is how to address those two issues. The other problem that the LDCs have – which is sometimes not very well recognised in the academic literature or in the policy discussion – is the fact that these countries critically rely on tariff revenues. For government revenues, tariffs

are a very important source for them. When most of the revenues are coming from import tariffs, the issue is that, if they are going to liberalise further, there is a clear implication for public expenditure, and if the public expenditure is going to benefit the poor then certainly it would also have other poverty alleviation effects. The basic point the LDCs and their policy makers highlight is the fact that, despite the liberalisation measure that they have already undertaken under the World Bank or IMF prescriptions, export response or growth response in those economies has been very low. That is why they are not in a position to diversify the economy and, also, not flexible enough to rely on other taxes to generate resources. But if the resource is coming from imposing tariffs it can bring benefits.

Q100 Lord Maclennan of Rogart: Thank you very much. Mr Laurent, this Committee, of course, is focusing principally on European trade policy. What steps do you think the European Union should take to help less developed countries reap the benefits of global trade?

Mr Laurent: The European Union approach has really been through its preferential negotiated arrangements. In the case of the African, Caribbean and Pacific, it is the EPAs; in Latin America it is in a number of association agreements and so on. That approach is probably a sensible one in general, given what is happening at the multilateral level, but maybe what Europe can ensure is that these agreements are genuinely pro-developmental and do not impose upon their partners conditions that go unduly beyond the requirements of current multilateral rules. I give one particular example: in the negotiations with the African, Caribbean and Pacific group, the EU has been quite aggressive on the so-called Singapore issues, such as investment, competition policy, government procurement, et cetera. Its requirements go way beyond what is being envisaged in the debate in the WTO. Maybe this might be one of the areas in which it could step back. Some of the other approaches of

Europe, for instance with respect to aid, are very positive, very constructive. These are just two of the areas that I want to mention.

Q101 Lord Renton of Mount Harry: Mr Laurent, you say that some of the ideas put forward by the EU are “very constructive”. Could we talk for a moment about two particular types of agreement that the EU is putting forward at the moment, and let us talk about economic partnership agreements first. They are being negotiated to replace the 1990s Cotonou Agreement. I think they are designed to give special trade conditions to the poorest countries. We are an EU Committee, so we are particularly interested in what the EU is doing. Do you feel that they are working, that they are fair? Or do you think in general terms that the EU is asking for too much?

Mr Laurent: Thank you very much, my Lord. I would certainly not, as a member of the Commonwealth Secretariat, be as presumptuous to explicitly answer this. But maybe I could look at the position of the governments. We have 18 countries in Africa. Two in the Pacific and the Caribbean group have considered that what the EU has proposed to them is generally acceptable. That is a minority, so the position of the governments of the ACP countries would be that what is proposed is not acceptable, or even that, of those that have indicated their support for these economic partnership agreements, some of them are a bit ambivalent. Of those that have not, some of them are strenuously opposed to this, and they cite a number of reasons. They say that the arrangements are not in the economic interest; that they are likely to retard rather than promote the attempts of the industrialisation and agricultural development as a result of the opening up of their markets too quickly, before their domestic production has been strong enough; and some also claim that it is not in their interests to grant concessions in a bilateral framework and it would be more appropriate to do so multilaterally. The reason they cite for this is that doing so just to Europe imposes on them significant trade diversion costs, since they might currently have been importing from the most competitive

suppliers internationally (Japan, Canada, the US) but now, because of this deal, they divert to the EU. I believe Dr Razzaque referred to the issue of the loss of tariff revenue, and that is a serious concern as well for several of those countries which are very heavily dependent on tariff revenue. This would be my response to this.

Q102 Lord Renton of Mount Harry: You raise a very interesting point there because there are, of course, also the EU preferential trade agreements as well as these partnership agreements. You mentioned in your opening remarks to us that the Commonwealth represented two billion citizens. The EU represents now close to 500 million citizens, and therefore I would think that there would be every advantage for the poorer Commonwealth countries to try to work with the EU. Can they use a bilateral trade agreement in your experience? Are they doing so? Are they fair?

Mr Laurent: I would say that there definitely is interest – and maybe more than an interest, a determination – amongst the African, Caribbean and Pacific countries to work with the EU. A few years ago, all of them committed to concluding these EPAs by the end of last year. The problem is that many of them had concerns over the content of the EPA. It is not the principle but the content.

Q103 Lord Renton of Mount Harry: The principle does not mean much if the content is not right, does it?

Mr Laurent: With due respect, my Lord, I would say that maybe it was a little bit even more than principle. For instance, for the countries that are not least developed, they are determined to have an arrangement with Europe, because, unless they have that arrangement, the products that they currently export would lose their duty-free entry, which for many of them would be an economic disaster. Some persons would consider that in fact this is probably the reason why the majority of those that committed to EPAs did so: not because

they were happy, but because they realised that they had no choice. For many of the countries they consider that the economies are very closely linked – at least within the short- to medium-term to Europe, and they have no intention or option but to stick with Europe.

Q104 Lord Renton of Mount Harry: That is very interesting. Do you think that large developing countries should negotiate preferential trade agreements with each other? Does it make good sense?

Mr Laurent: I do not want to commit to a personal view on this but I would say that we certainly believe that the preferred arrangement is multilateral. Multilateralism is superior to regionalism/bilateralism. But we live in the real world and large developing countries do embark on those arrangements. This, we consider, though, can be damaging to other developing countries, since there could be the diversion of the exports of LDCs and other developing countries to the markets of these advanced developing countries. So there is a real cost. There are ways in which that cost could be alleviated. Maybe if two or more major developing countries embark upon a tariff reduction arrangement amongst themselves, maybe they could multilateralise this, extend this concession to LDCs, and maybe even some other developing countries, to reduce the negative impact.

Lord Renton of Mount Harry: That is a very interesting answer.

Q105 Lord Haskins: The issue of food has dominated trade negotiations for the last 40 years. For most of the last 30 years, at any rate, the problem has been oversupply of food, cheap food, surpluses, being dumped from countries in surplus into markets and creating chaos there, and those same countries having tariff barriers to protect their farmers. In the last two years the rules of the game have changed very dramatically, with food prices changing and moving up as rapidly, and turning the issue almost on its head. I have two questions: first, do you think this is a long-term issue? Second, is it going to change people's attitudes

radically towards the present arrangements, including European food policies? Where do you think all that is going to be developing?

Mr Laurent: I will make a quick introductory remark and then, as I know we are moving on in time, I will ask Dr Razzaque to make a quick comment. UNCTAD recently seemed to suggest that this was not necessarily a long-term phenomenon. It considered that the current problem came out of certain conditions, certain factors which have been reached – and Dr Razzaque will elaborate on that – but there is adequate scope for ensuring that those problems do not persist into the future, so there is no reason why this needs to be a long-term feature of world trade. I will pass this on to Dr Razzaque because he has done quite a lot of research into this area.

Dr Razzaque: My Lord Chairman, my Lords, this issue is on the food price hike of recent times. When the Uruguay Round was being concluded there was some concern from some of the net food importing, least developed countries (LDCs), that the Uruguay Round implementation of an agriculture agreement was going to raise the food price in the world economy. Actually, in agricultural liberalisation there are two important elements: one was the tariff reduction; the other was the costs and subsidies, particularly in the western developed countries. We all know that tariff reduction is to have a depressing effect on prices; on the other hand, costs and subsidies in the western developed world, who are also very large producers of many of the food products, will have some effects on rising prices. There was that kind of disagreement: Which effect is going to dominate? Is it the tariff cuts or the costs and subsidy? At the Commonwealth Secretariat we have done research on this particular issue. Even before this food crisis, our results were published, and we found that if under the Uruguay Round agreement on agriculture and, beyond, that if there are 100 per cent tariff cuts in agriculture and also significant amounts of subsidy cuts in the western developed markets, in general the effect on prices is going to be positive. This liberalisation in

agriculture will tend to raise food prices. We did some simulation work particularly in the context of rice, because we considered rice was very important for some of the South Asian countries, where the livelihood and food security issues clearly depend on the production of one single commodity. In our study, we found that the liberalisation could lead to something like a 10 to 15 per cent rise in rice prices – but actually, because of other factors, the price rise has been much more. We also studied the implications of this rice price for many of the poor developing countries, particularly in South Asia. We found, for instance, that in the case of Bangladesh, just a ten per cent rise in the rice price could lead to an additional 400,000 households slipping back into poverty. That was about to increase the poverty incidence in the main food importing countries. That we have been able to establish, using a very large amount of data and good methodology. Here the issue is that there is another important feature that is related to many of the food commodities, which is known as the thinness of the market. For example, in the case of rice, if we look at the global supply, the global supply that is coming through the world market is only six per cent of the total global production. This is because of the fact that the rice producing countries are also largely rice consuming countries, so there is not much available in the global market. Even during this crisis, what happened when the food prices, especially the rice price, went up? Many of the countries looked for an international market, and the market never existed. That was one factor. The other factor is that some countries, for example, India and Pakistan, who are traditional rice exporters, given that the food crisis was being experienced by many other countries, also decided to put some restrictions on their exports. Basically, therefore, those countries being dependent on food imports could not avail themselves of those supplies from the world market and so that was a serious problem for them. Since the question is all about attitude, it is a fact that food dependent countries, the main food importing countries, do realise that for their food security, especially when they rely on one or two particular cereal crops and given

the experience from the crisis, now think that for them probably the best possible issue is to refocus on their agriculture. It is to consider the fact that, in order to attain food security, they will have to readdress, if possible, their agriculture policies. Some countries are already thinking of doing some tariff adjustments or some countries have already proposed providing additional incentives to the agriculture. For net food importing countries, the attitude is that, because of this crisis, they will try to achieve or at least be well placed in the food self-sufficiency that the western economy will be achieving. That is one other aspect of it. With regard to the net exporters of food, suddenly they have gained from this windfall, but still in these countries a lot depends on the situation in the world market. If the prices are going to be this high, certainly the surplus from the net exporting countries will also increase. I would also agree with Mr Laurent that this might not be a very long phenomenon, this food price hike. On previous occasions the price hike was a short-lived episode – it never existed for more than five or six years – but maybe this time that can be slightly longer than the previous experiences we have had in terms of the rising food prices. Those episodes could be slightly bigger than the previous ones.

Q106 Chairman: Thank you very much indeed. We have already kept you rather longer than we said we were going to, but it has been most helpful and most interesting. Thank you very much indeed for coming. It has been a real pleasure.

Mr Laurent: Thank you very much, My Lord Chairman, my Lords.

Dr Razzaque: Thank you very much, My Lord Chairman.