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Discussion Paper

Trade and Poverty: A Case Study of the Netherlands

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Abstract

This paper is about the contribution that international trade and Dutch government policy make to poverty alleviation in developing countries. It will argue that the Netherlands' efficient infrastructure facilitates the importation of goods from these countries into Europe. These goods continue to meet many EU-wide trade barriers but the Dutch government is using its influence to bring these barriers down. The Dutch government has also taken several initiatives to help strengthen the capacity of developing countries to participate in international trade and in multilateral trade negotiations. Enhanced export opportunities for agricultural products are widely seen as a good way to help poverty alleviation but the European market for these products continues to be heavily protected; agricultural subsidies continue to distort world markets. The EU's Common Agricultural Policy (CAP) is being reformed but the speed with which this is taking place is influenced more by intra-European considerations and progress at the World Trade Organisation (WTO) than by concerns related to trade with developing countries.

Abbreviations

ACP	(former European colonies in) Africa, the Caribbean and the Pacific
ACWL	Advisory Centre on WTO Law
ASEAN	Association of South-East Asian Nations
BRC	British Retail Consortium
BSE	Bovine Spongiform Encephalopathy (“mad cow disease”)
CAFTA	Central American Free Trade Agreement
CAP	Common Agricultural Policy
CBI	Centre for the Promotion of Imports from Developing Countries
CUFTA	Canada-US Free Trade Agreement
DDA	Doha Development Round
DFI	Direct Foreign Investment
EurepGap	Euro Retailer Produce Working Group “good agricultural practice”
EBA	Everything but Arms Initiative
EU	European Union
EC	European Communities
FDI	Foreign Direct Investment
FTAA	Free Trade Agreement of the Americas
GDP	Gross Domestic Product
GM	Genetically Modified
GSP	Generalised System of Preferences
ICTSD	International Centre on Trade and Sustainable Development
ITC	International Trade Centre (WTO/UNCTAD)
IF	Integrated Framework (IMF/ITC/UNCTAD/UNDP/World Bank/WTO)
JITAP	Joint Integrated Technical Assistance Programme (ITC/WTO/UNCTAD)
HACCP	Hazard Analysis and Critical Control Point
LDC	Least Developed Country
MFN	Most Favoured Nation
MNC	Multinational Company
MRL	Maximum Residue Level (of pesticide residues allowed in EU food products)
NGO	Non-Governmental Organisation
NAFTA	North American Free Trade Agreement
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PCD	Policy Coherence for Development
QUNO	Quakers United Nations Office
RoO	Rules of Origin
SPS	Sanitary and Phyto-Sanitary standards
SSA	Sub-Saharan Africa
TBT	Technical Barriers to Trade
T&C	Textiles and Clothing
TRIPS	Trade Related Aspects of Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
WTO	World Trade Organisation

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1
Introduction

On the whole, the Dutch population is genuinely concerned about poverty in developing countries and is supportive of initiatives to help alleviate it. Solidarity and fairness are the foundations on which the Dutch welfare state was built. Concern over poverty elsewhere in the world can be seen as a spillover of this feeling of solidarity. Development activist and religious groups help keep the issue high on the political agenda.

Most frequently this concern is translated into pressure to maintain or increase the flow of public and private funds to developing countries. The share of the government budget that is allocated to Official Development Assistance (ODA) has broad support. The percentage of Gross Domestic Product (GDP) that is set aside as ODA year after year is steady at around 0.8 percent. Poverty reduction is a priority of Dutch ODA. In addition to these official flows, private funds are channelled through the many Dutch not-for-profit organisations active in developing countries in such areas as health care and education.

International trade, including trade with developing countries, is uncontroversial in the Netherlands. The general public is well aware of the benefits of international trade. The cost of living in the Netherlands is comparatively low thanks to international trade, a competitive retail environment and efficient infrastructure. Clothing, shoes, toys, computers, furniture, and many other products are all or nearly all imported, many from developing countries. At school, children learn about the Dutch "Golden Age", i.e., the 17th century, when the Netherlands became possibly the world's wealthiest country, thanks to international trade.

International trade policy is also uncontroversial in the Netherlands, but for a different reason. As a founding member of the European Union (EU) and its predecessor the European Communities (EC), the Netherlands gave up its autonomy over trade policy many years ago. The Dutch feel far removed from decision making on trade policy. EU trade commissioners receive their mandate after prolonged discussions in a Brussels committee (the Art. 133 Committee) but the inevitable compromises usually fail to excite many other than the groups directly affected.

Contrary to, say, the US or Canada, the broader effects of trade liberalisation are not a "hot" political issue in the Netherlands. The link between trade and poverty raises a host of conceptual and political issues, as section three points out. Yet whilst across the Atlantic the impact of multilateral and regional trade negotiations such as the Canada United States Free Trade Agreement (CUFTA), the North American Free Trade Agreement (NAFTA), the Free Trade Area of the Americas (FTAA), or the Central America Free Trade Agreement (CAFTA) are the subject of intense debate at the academic, political and popular level this is much less the case in Europe, and the Netherlands is no exception.

But to the extent that there is debate on these issues in the Netherlands, it has become more sophisticated than in the past. Calls for the across-the-board opening of the EU market to developing country exports have been overtaken by more detailed discussions of who stands to gain and who to lose. Will quota-free international trade lead to world clothing production moving to China; and, if so, what to do with the thousands of people in e.g. Cambodia and Bangladesh who risk losing their job? Is agricultural market opening likely to benefit middle-income Latin American and Asian countries more than net-food importing sub-Saharan African (SSA) countries? May the SSA countries even see their situation deteriorate? What to do if the EU's former colonies see their preferential access deteriorate in favour of the least developed countries (LDCs)? And who in the export countries (smallholders; large commercial estates) does stand to gain and who to lose?[1] Simply "defending the interests of the developing countries" may involve some difficult choices.

The debate has also become more complex on the import side. What is the cost of intra-EU solidarity? How much above the world market price should Dutch consumers pay to help food producers in Italy or Greece? In the Netherlands, sugar is produced by 13,000 farmers and makes up two percent of agricultural production (CBS Webmagazine). Production is concentrated in certain regions. Which are the alternative sources of income for these farmers and these regions? How generous should compensation be? Who does really benefit from the EU sugar regime? Are long transition periods needed to help these farmers or are the suppliers and processors the main beneficiaries?

This paper is organised as follows: Section two briefly introduces the financial and economic – and particularly trade relations between the Netherlands and the developing countries. Section three deals with some conceptual issues related to trade and poverty. Section four asks why preferential access given to imports from developing countries has had only limited impact and discusses the barriers to these imports still in place. Section five explains the initiatives taken by the Dutch government to eliminate or reduce these remaining barriers and asks how successful these efforts have been. Section six focuses on agriculture, which is seen to hold the key to further progress in the area of trade and poverty. The paper ends with a summary and conclusions.

It should be said from the outset that time and resource constraints did not allow this paper to do more than give a brief overview of what by all accounts is a complex subject matter. It is also the reason why it only deals with official trade policies and does not discuss fair trade flows such as Max Havelaar coffee or Fair Trade bananas. The paper intends to discuss some key issues and serve as the basis for discussion. It deals only with trade in goods.

2
The Netherlands and Developing Countries

The Netherlands has an open economy, society and outlook. In view of the country's small size, high population density and strategic location this is not entirely unexpected (compare Singapore and Hong Kong). The openness is reflected in its sizeable participation in world trade and investment flows (see below), but also in the movement of people. On the one hand, more and more retired people now enjoy their pension (including their state pension) in a sunnier environment (Spain, South-East Asia, South Africa). Many foreigners call Holland their home, on the other.

2.1 Migratory Flows and Remittances

Over the centuries, the Netherlands (or Holland, as the Kingdom of the Netherlands is often called abroad) was known as a safe haven for people who had to flee their country of origin because they could not freely practise their religion, speak their mind, or were discriminated against for other reasons. These people brought in their skills, contacts and (on occasion) capital with them to become a major contributing factor to Dutch culture and prosperity.

The second half of last century saw, in addition to refugees, the immigration of people from former Dutch colonies (Indonesia, Surinam and the Dutch Antilles- the latter in fact still part of the Kingdom) and "guest workers", mainly from Morocco and Turkey, who were recruited to work as low-cost labour in industries that were no longer competitive at prevailing (Dutch) labour costs and levels of productivity.

This last wave of immigration, in particular, has changed the face of Dutch society. Currently, a little over 3 million Dutch people (or close to 20 percent of the population) have at least one parent who was born abroad[2]. Over half of this group has its origins outside of Europe or other 'western' countries. Descendents of 'non western' immigrants are forecasted to make up 20 percent of the Dutch population by 2050, with descendents of 'western' immigrants making up another 13 percent (CBS, 2004). Such a high number of immigrants naturally influences both consumption and import patterns.

The immigration pattern also influences the volume and direction of financial flows between (temporary and permanent) immigrants in Holland and their country of origin. Remittances, because of their low overhead costs are generally seen as a particularly efficient way of transferring funds to low-income countries. Contrary to export earnings, these are net earnings for the country concerned (i.e. no need to subtract imported raw materials or components). However, many of these funds go through informal channels or are not registered for other reasons. Depending on the definition used, BUZA 2004 estimated total remittances for 2002 at between €650 million (US$780mn[3]) and US$1,500m (Netherlands ODA in that year was US$3,338mn).

2.2 Foreign Investment

The Netherlands is an important source of foreign direct investment (FDI). In 2000, the country was responsible for no less than 6.4 percent of world FDI flows and 5.5 percent of world stock of FDI or US$326bn (WRR, 2002). The Netherlands is home to some large multinational companies (MNCs), whose origins have close links to the country's colonial past, its trading tradition, or both. Indonesian oil was of key importance to Royal Dutch Shell. Unilever started life as a producer of margarine out of imported oils and fats.

The majority of Dutch investments abroad go to other Organisation for Economic Cooperation and Development (OECD) countries but investments by Dutch companies in developing countries are sizeable. Royal Dutch Shell (RDS) is active in more than 140 countries. Philips has over 140 production sites in 32 countries; some 40 percent of its 164,000 employees are active in Latin America, Asia or

Africa. Unilever operates in around 100 countries; fully two thirds of its 223,000 employees are active in Africa, Latin America or Asia.

2.3 International Trade

International trade is a principal component of the Dutch economy and a major source of the country's wealth. Even on a world scale the Netherlands is a country to be reckoned with. With only 0.25 percent of the world population and one percent of world production, the country's share of world trade is 3.2 percent[4]. Holland has been a major trading nation for over 500 years. By the 16th century the country had achieved a dominant trading position in North Western Europe. When the shipping routes from Europe to America and Asia were discovered, the country's traders became also active in intercontinental trade (spices, cotton, coffee, sugar, silk, precious metals). Trading posts were set up at critical places along the shipping routes (e.g. South Africa, Sri Lanka) some of which developed into full-fledged colonies (e.g. Indonesia).

Entrepot trade- imports from outside Europe for subsequent distribution to the rest of Europe- is a key feature of Dutch international trade. Transit and re-export make up a large share of Dutch exports (41 percent in 2000). In addition to good ports (the port of Rotterdam is one of the world's leading seaports) and airports (Amsterdam airport Schiphol is ranked among the world's most efficient airports) the country has an excellent system of roads, railways and inland waterways linking it to its main export markets (Germany, Belgium, France and the rest of Europe).

2.4 Trading Patterns

The Netherlands trades mainly with the rest of Europe. In 2002, 57 percent of all imports originated from other EU members and 76 percent of all exports went to these countries. If trade with the rest of Europe (including Russia) is added these figures rise to 65 percent and 84 percent respectively.

Trade with developing countries is growing rapidly. Africa accounts for two percent of exports and imports and Latin America for three percent of imports and two percent of exports. But Asia outside of Japan accounts for no less than 17 percent of imports and six percent of exports. The importation of goods from China is particularly dynamic; it increased from €2bn (US$2.6bn) in 1996 to over €14bn (US$18.2bn) in 2004. In 2004, China became the Netherlands' fifth most important source of imports. In the first three months of 2005, China surpassed the UK to become Netherlands' fourth largest source of imports (exports to China are a little over €2,000mn [(US$2.6bn, CBS Web magazine)].

The Netherlands thus appears to be particularly good at importing goods from the rest of the world for re-export (possibly after some repackaging or processing) to other European countries. Computers, telecom equipment and toys – the main import categories from China – are mainly for re-export[5] (CBS, Web magazine). In 2000, 90 percent of all imported organic bananas were for re-export[6]. The contribution to agricultural value added made by the processing, supply and distribution of imported agricultural raw materials reached 38 percent in 2003 (up from 34 percent in 1995); 211,000 people are employed in this sub-sector [(up from 190,000 in 1995, Minaf 2004a)]. The number of poultry processing plants increased by 20 percent between 2000 and 2004, thanks to the massive importation of cheap poultry meat from Thailand and Brazil for further processing in the Netherlands (Productschap Vee en Vlees, press release). Official trade statistics illustrate the role of the Netherlands as a gateway to the rest of Europe but they understate it.[7] Re-exports account for approximately €100bn (US$130bn) out of total exports of approximately €250bn (US$325bn). In all, 87 percent of all re-exports go to another EU member country.

One reason for the strong position of re-exports is the attractiveness of the Netherlands for establishing distribution centres by foreign companies in combination with the disappearance of barriers to intra-EU trade post-1992 (CPB 2001 in WRR 2002). But there is more. In the world cut-flower trade, for example, the Netherlands plays a major role, thanks to its auctions, its know-how as well as its efficient handling, transport and storage facilities. It is not uncommon for flowers from Ecuador to Russia or from Kenya to Switzerland to be transported via or sold in the Netherlands (van Liemt, 1999). The share of imported flowers sold via the Dutch auctions reached 29 percent of the total by volume in 2004. The auctions now sell roughly as many domestic as imported roses (from Kenya, Ecuador and Colombia-VVDB, 38, 2005).

Many imported goods are only being repacked or undergo some stages of simple processing[8] but the processing of imported raw materials from developing countries is an important industrial activity in the Netherlands. We mentioned the preparation of margarine out of imported vegetable oils. Another example is the preparation of chocolate or cacao butter out of imported cacao beans. Rotterdam harbour is a leading centre for the refining of (imported) mineral oils. The Philip Morris factory at Bergen op Zoom produces close to two percent of the world's cigarettes (almost exclusively for export) using only imported tobacco leaves (van Liemt, 2002)[9].

In sum, this section has stressed that financial flows from the Netherlands to the developing countries (ODA, remittances, DFI) are sizeable and that Dutch based multinationals employ thousands of people in these countries. In trade, the Netherlands plays an important role in facilitating the flow of goods from developing countries to the rest of Europe. In addition to distribution, the processing of imported raw materials such as cocoa, coffee, oils and fats, mineral oils, tobacco and soybeans is an important component of the Dutch economy.

3

Trade and Poverty- A Brief Conceptual Note

> **"Tracing the links between trade and poverty is going to be a detailed and frustrating task, for much of what one wishes to know is just unknown. It will also become obvious that most of the links are very case specific" (Winters in Hertel et al, 2006, p.25).**

The effects of trade liberalisation on poverty are complex, rarely direct, occasionally strong and often ambiguous[10]. To use international trade as an instrument for poverty eradication is no easy matter. The poor are typically engaged in subsistence agriculture or active in the urban informal sector. They consume few imported goods and use few imported inputs. Their capacity to participate in exports is limited. So to target this group through trade requires sophisticated policy making.

At the macro-economic level, trade liberalisation and poverty alleviation are generally seen to be linked through two mechanisms. First, growth in the incomes of the poor is positively related to a country's overall economic growth. Secondly, trade liberalisation leads to more efficient resource allocation and thus contributes to economic growth. In short, economic growth helps reduce poverty, and trade liberalisation is beneficial for economic growth.

However, whilst few would disagree with the above as stated in such general terms, it also leaves a number of questions unanswered, including:

- How strong is the link between trade liberalisation and economic growth?
- How quickly will poverty reduction follow trade liberalisation?
- Will all see their situation improve?
- Is trade liberalisation a sufficient condition for poverty reduction?
- How comprehensive should market opening be to achieve the desired results?

Trade liberalisation strengthens the motivations for firms to modernise but they may lack the means to do so successfully. Small economies, where growth has been restricted because of the small size of the domestic market, should be the prime beneficiaries of trade liberalisation. But due to technological and other constraints it may take time for these small economies to fully realise the benefits offered by scale economies. In any case, these scale economies are normally associated with manufacturing. They may not be so important for poor, primary goods producing countries with a small manufacturing industry. Also, the substitutability between import competing goods and export goods can be low in poor countries. When the import competing sector contracts as a result of trade liberalisation, this does not automatically release resources for the expansion of other sectors when the differences in the product mix and skill requirements are wide[11].

Trade policies that target the poor must first identify who is being targeted. The poor can be defined in different ways, which include:

- by their income level (people below the 'poverty line');
- by the extent to which they participate in the "formal' economy (most poor people are found in the 'informal' economy);
- by geographical situation (urban poor vs. rural poor);
- by socio–economic status ('working poor', unemployed, underemployed),
- by economic activity (many poor people are active in subsistence agriculture); and
- by country (many people in low income countries are poor; but most poor people live in middle income countries).

The interests of these different groups need not run in parallel. Devaluation may be favourable for the rural poor (because their products are now more competitive on world markets) but unfavourable for the urban poor (who have to pay higher prices for imported products).

The impact of trade liberalisation on overall poverty may thus be mixed. In their sample of 14 developing countries (Hertel et al (2005) found cases where the poverty rate among agricultural households fell but the overall poverty rate rose, and conversely examples of countries where poverty rose among agricultural households even though the national poverty rate fell (quoted in OECD, 2005). OECD 2005 also points out that while the effects of agricultural policy reform in rich countries can be expected to be pro poor on average, the impacts for specific countries will depend on the extent and nature of price transmission which is influenced both by government policies in developing countries and market structures, and by the structure of poverty.

Trade economists are most comfortable with the notion of poor (i.e. low-income) countries. That is why several schemes give preferential treatment to imports from these countries (see the next section). But while poor countries have the highest percentage of poor people, in absolute terms most of the world's poor live in lower middle income countries and only 15 percent in the least developed countries [(LDCs, OECD 2005)] leading Hoekman (2001, p.4) to conclude that "from a poverty perspective, it is therefore vital that market access improves for all developing countries".

An alternative approach would be sector based and provide preferential access to products from those sectors in which poor countries appear to have a 'comparative advantage". Examples are sectors that make intensive use of low skilled labour such as clothing and agriculture. The importation of garments into the Netherlands is now uncontroversial. Domestic clothing production has virtually disappeared. All clothes are imported, mostly from developing countries. For agriculture, the case is different. Agricultural imports from developing countries still face high import barriers (see below). The rest of this paper will discuss the remaining barriers to imports from developing countries and the initiatives taken to reduce their impact. Special attention will be given to the situation in agriculture.

In sum, this section has argued that to use international trade for poverty elimination raises a number of questions. Important ones for our purposes are (1) should policies focus on the least developed countries (which have a high percentage of poor people) or also help promote exports from middle income countries (where the highest number of poor people live)? and (2) how can one be sure that enhanced trade will actually improve the situation of the poor (i.e. who benefits from trade within poor countries)?

4

Trade with Developing Countries: Preferential Access and Remaining Trade Barriers

The Dutch government believes that developing countries should participate more in international trade because of its favourable effects on economic development and poverty alleviation. As a member of the EU it has been instrumental in ensuring preferential access (GSP, EBA among others) for these countries and for the poorest among them in particular. But the increase of these countries' exports has been below expectations due to supply constraints and remaining import barriers.

As a result, the focus of analysis and policy making has shifted to, in developing countries, the domestic factors that keep exports low and the question what can be done about it; and, in the EU, the intended and unintended barriers to imports from developing countries and the question what can be done to eliminate these. The Netherlands has no autonomy over its trade policy (which is determined in Brussels) and so it must seek alliances with like-minded countries, and persuade other EU member states to agree to lifting trade barriers. But resistance, particularly from the well-organised farm lobby is considerable. Protection of agriculture remains much higher than that of industry. In addition, tariff peaks-rates above 15 percent - are often concentrated in products that are of interest to developing countries (Hoekman, 2001).

This section will discuss why preferential access has been less than successful in raising developing country exports (sub-section 4.1) and which are the remaining barriers to these exports (sub-sections 4.2 and 4.3). The next section (section 5) discusses supply constraints and considers the policy initiatives taken by the Dutch government: (1) to help developing countries participate more in international trade; and (2) to lower EU trade barriers.

4.1 The declining Relevance of Tariff Concessions[12]

Preferential access for developing and least developed countries has long been a principal component of the use of international trade as an instrument of foreign policy for poverty alleviation. The EU offers tariff concessions to many countries[13]. Well-known examples are those awarded under the Generalised System of Preferences (GSP[14]); the Everything But Arms initiative (EBA)[15]; the treaties with the countries in Africa, the Caribbean and the Pacific (ACP); the Mediterranean; South Africa; Mexico and (the Association of South-East Asian Nations (ASEAN). Whatever the relevance of trade preferences for export-led development has been, this relevance is declining as multilateral rates come down following round after round of multilateral trade negotiations (preference erosion). That is one reason why potential beneficiaries do not make use of preferential access.

Other reasons why a large share of the imports from beneficiary countries comes in at the 'normal' Most Favoured Nation (MFN) rate[16] are: (1) the product is also the subject of quantitative import restrictions and that its quota has been filled; (2) the exporting country is unaware of the possibilities on offer or is overwhelmed by their complexity and lack of transparency[17]; (3) the additional costs to qualify for preferences are considered to outweigh the benefits of tariff reduction; and (4) exporters find it difficult to comply with the complex rules of origin (RoO)[18 19]. Rules of origin are designed to ensure that trade preferences go to the countries for which they are meant and to avoid that products from non-preferential countries are being re-exported after only minimal local processing. But stringent demands on verifiability of origin can lead to such high costs that these outweigh the benefits.

Buza 2002 provides an inventory of the trade distorting commercial measures and trade distorting subsidies in the EU that limit developing countries' market access. Much of the following discussion is based on that paper. We make a distinction between import barriers for industrial (sub-section 4.2) and for agricultural products (sub-section 4.3). The reader is referred to the source for a more elaborate discussion.

4.2 EU Protection against Industrial Exports from Developing Countries

EU industrial tariffs are low on average but there is considerable variation. The EU's low average unweighted MFN tariff of 3.9 percent is calculated on the basis of products with and without tariffs. Taking only products for which import duties need to be paid lifts the unweighted average to 5.1 percent. In all, seven percent of industrial products have an MFN tariff of over 10 percent and 0.6 percent of industrial imports have duties in excess of 15 percent (which can be considered a "tariff peak").

Typical developing country export products such as clothing, other textile products and shoes have an average duty of over 10 percent, but again these averages say little about the 'true' rate of protection. Many sub-items can be imported duty free whilst others, particularly products that are being produced in EU, have import duties well in excess of 10 percent. Until January 2005, the importation of textile and clothing (T&C) products from developing countries was also subject to limitations in volume.

4.3. EU Protection against Agricultural Exports from Developing Countries

EU agricultural protection is particularly complex and opaque. One-third of all agricultural products are subject to ad valorem tariffs with the other two-thirds being subject to volume-based tariffs (see also note 16). It can be difficult and time-consuming to compute ad valorem equivalents for the latter group of tariffs, one source of difficulty being that the ad valorem equivalent of a given specific rate depends on the world price, and this may vary considerably from one reference period to the next (OECD 2001). Ad valorem tariffs are more transparent[20].

The degree to which individual developing countries are affected by EU tariffs depends on the composition of their exports. Countries that specialise in such products as coffee, cacao, hides and skins, which are used as raw material for the processing industry are hardly affected because these products can be imported at low or zero duties on the basis of some preferential regime. The effective limitation through tariff peaks is above all relevant for exporters of beef, fruit and vegetables from Latin America because they can comply with the high EU quality requirements and produce efficiently. For processed raw materials the story is different (see section 4.3.1 below).

4.3.1 Tariff Escalation

Tariff escalation (when the level of the tariff increases with the degree of processing) can make the processing of raw materials uneconomical for exporting developing countries. Cocoa beans for example can be imported duty free, but for chocolate the duty is eight percent. The same goes for tomatoes –and canned tomatoes, coffee beans- roasted coffee, olives-olive oil, fresh fruit- fruit juice, soy beans - soy oil, wheat-flour etc. According to OECD (2001), tariff escalation is particularly noteworthy in product groups such as coffee, cocoa, oilseeds, and fruit and vegetables (all products that are being processed in the Netherlands). Rates may not appear high but when related to value added (effective protection) the extent of tariff escalation becomes clear.

4.3.2 Export Subsidies

Developing countries see export subsidies as possibly the most trade distorting practice of them all. Subsidised exports and food aid can displace local producers who have to compete without receiving any government aid. They also lead to the destabilisation of world markets and to greater price fluctuations (but lower export subsidies do not lead automatically to more developing country exports; they can also benefit countries that already have a strong position on the market)[21].

Export subsidies and other forms of export support are widely seen as a morally indefensible 'dumping on the poor' but export subsidies overall are now relatively small in absolute terms (OECD, 2005). Nonetheless, for particular products (sugar, livestock an dairy products) these subsidies do play a greater role; "and their targeted nature also means that they have the potential to cause major disruption to countries with small domestic markets" (OECD, 2005, p.35). At the WTO it has been agreed to end all export subsidies by 2013. The challenge is to "front load" (i.e. eliminate first) those subsidies that are particularly harmful to developing countries' interests.

4.3.3 Product and Production Standards

As agricultural trade has shifted towards high-value, perishable commodities, such as fresh fruits, vegetables, meat and fish, consumer concerns about food safety have grown (OECD, 2005). After the bovine spongiform encephalopathy (BSE) and dioxin crises, food safety moved up the list of priorities in Europe. There is a trend towards stricter Sanitary and Phyto-sanitary (SPS) norms (Buza 2002). The EU is introducing more and stricter legislation, especially on maximum residue levels (MRLs), food safety and traceability (CBI News Bulletin Nov/Dec 2004). The higher standards have changed the rules of the game for all suppliers, but small producers in developing countries are finding it particularly hard (and costly) to comply with them.

Governments as well as major supermarket groups have developed a growing array of regulations and standards. Food standards are a necessary part of international trade. "No one will want to argue that developing countries should be allowed to export unsafe food simply because of their development needs." (OECD 2005, p.62). Nonetheless, SPS regulations are likely to bear heaviest on developing countries, both because the 'regulatory gap' between measures in place in export and domestic markets is likely to be greatest for these countries, and because of more limited availability of compliance resources at the country and firm level (ibid). These countries need to reform and upgrade standards setting regimes; they must also establish efficient testing, certification, and laboratory accreditation mechanisms to conform to SPS norms and technical product standards (Hoekman 2001).

4.3.4 Private Standards

Developing country producers are also concerned about the rise of private standards, which can be higher than official standards. Big retailers do not want their reputation to be damaged by selling food that is found to be unsafe. They require full chain control in order to give consumers the assurance that products are safe, are grown under environmentally safe conditions and with social accountability. This chain control has been translated into quality standards regarding production (such as EuropGap-see the Box-1 below) as well as packaging, processing and storage (HACCP; BRC). Suppliers that do not meet these high standards lose their right to deliver.

Box 1: EurepGAP

Eurepgap started in 1997 as an initiative of the European retailers belonging to the Euro Retail Produce Working Group (EUREP). Food safety had become a major problem following some major scandals such as BSE (mad cow disease), the discovery of pesticides and other toxic matter in food, and the introduction of genetically modified (GM) foods. The need to reassure consumers became a priority. Rather than each establishing their own criteria, the retailers decided to develop together widely accepted standards and procedures for the global certification of Good Agricultural Practices (GAP).

Technically speaking, EurepGap is a set of normative documents suitable to be accredited to internationally recognised certification criteria. Representatives from all stages of the food chain are involved in the preparation of these documents. For each sector, committees that consist of 50 percent retailers and 50 percent producers' representatives approve both the standard and the certification.

The goal of adhering to good agricultural practices is to reduce the risk in agricultural production. EurepGap provides the tools to objectively verify these practices in a systematic way. Requirements include traceability (from which farm does the product come?); site history (what was the land used for previously? Risk of contamination); fertiliser use (is the fertiliser used stored under the responsibility of a technically competent person?); water use (is untreated water used for irrigation?); pesticide use (pesticide use must be documented in detail; workers must be trained; pesticides must be stored safely); and workers' safety and health. Workers must have access to clean facilities and must have had basic instructions in hygiene; and they must have been trained in how to act in accident and emergency situations.

Major European supermarkets now only sell EurepGap certified produce. Due to their market power and the fact that they sell some 80 percent of all food and vegetables (by volume) it has become virtually impossible for any large European producer not to conform to EurepGap.

(Source: EurepGap; CBI News Bulletin; Plantconsult, 2003; and others)

In fact, small-scale producers in developing countries are being threatened by two trends. Big retailers prefer to source large quantities from a select group of large suppliers generally, so contributing to enhanced concentration of production everywhere. But they are also affected by the traceability and EurepGap requirements (and the costs thereof- see Box-1). Self- employed out growers selling to export operators are at risk of becoming marginalised by the EurepGap demands (Plantconsult, 2003).

Eurep argues that it does not demand more from developing country suppliers than it does from others and that it cannot apply two sets of standards (one for developed and one for developing countries) as this would undermine the credibility of the system. On the other hand, it cannot remain insensitive to accusations that its demands put small producers out of business. Yet if developments in Europe are anything to go by[22], more concentrated forms of production (e.g. through cooperatives) may well be unavoidable. Training to comply with EurepGap requirements seems essential. But who should be responsible for this training?

In sum, the participation by developing countries in international trade is below expectations. This is partly due to supply constraints (discussed in the next section). This section has argued that trade preferences have proven to be less than effective in reaching their goals. Reasons include preference erosion and complex rules of origin requirements. The lack of transparency of remaining trade barriers as well as tariff escalation were seen as other handicaps. Export subsidies are widely condemned for their market distorting effects (they are being phased out) but standards, and private standards in particular, are seen as particularly problematic.

5

The Netherlands' Initiatives to Eliminate Trade Barriers and Promote Developing Countries' Participation in International Trade

The previous section showed that merely giving trade preferences does not lead to developing countries participating more in international trade. Many trade barriers and supply constraints remain. This section discusses the policy initiatives taken by the Dutch government, with the Ministry for Development Cooperation (located within the Ministry for Foreign Affairs) usually taking the lead in encouraging or facilitating developing country participation in international trade. In some cases, it was possible to take concrete measures comparatively rapidly. In others, this proved more complex, either because of resistance from the sector concerned (e.g. agriculture) or because decision-taking power lies in Brussels (trade). Unsurprisingly, decision taking on agricultural trade reform is proving particularly tricky, but there are several reasons for this, as section six explains.

This section will deal with initiatives in the following areas: how to remove supply constraints (sub-section 5.1); how to better comply with EU standards (sub-section 5.2); how to enhance developing countries' capacity to function well in the multilateral trading system (sub-section 5.3); and how to improve market information (sub-section 5.4). Whilst the first four sub-sections discuss initiatives that can be and have been taken unilaterally, the subject of sub-sections 5.5 and 5.6 is more complex. How to improve market access is a EU responsibility because policy on trade with developing countries (as is the case with all trade policy) is determined collectively in Brussels, for all EU member states. The last sub-section (5.7) deals with a policy area that is being given considerable priority by the Netherlands' government: how to improve policy coherence, i.e. how to ensure that development policies are not undermined by other (EU and Dutch) policies, which impact on developing countries.

5.1 Removing Supply Constraints

Trade liberalisation may lead to greater economic activity and mor participation in international trade but these potential benefits need not or need not automatically materialise. Due to technological, organisational and other constraints, countries may simply not be in a position to produce and export goods competitively (van Liemt, 2001). Particularly in the case of high value, perishable goods (fruit, vegetables, cut flowers) it is essential for exporters to comply with the demands of their overseas customers in terms of quality, product and production standards (including food safety, animal welfare, ecological and social standards), "tracing and tracking", and timeliness of delivery.

Bringing development assistance policies more in line with trade promotion is a priority area for the Dutch government. These policies address the institutional capacity constraints of developing countries, both in the analysis and formulation of trade policy, and in the implementation of complementary reforms. Trade and customs procedures and institutions may need to become more efficient, and port and airport management improved.

The Dutch government believes that technical assistance in this area is best channelled through multilateral initiatives. It supports the Integrated Framework for Trade Related Technical Assistance (IF), a multi agency[23], multi donor programme that assists the least developed countries to expand their participation in the global economy, and the Joint Integrated Technical Assistance Programme (JITAP) that aims at strengthening export organisations and the analysis of export sectors and market surveys that is jointly implemented by ITC/WTO/UNCTAD.

It makes sense to co-ordinate donor activities in this area. However, critics argue that there is a risk that assistance and advice become less tailor made as a result. They are concerned that such co-ordination might lead to institutions providing "one-size-fits-all" advice. More seriously still, it might be hard for developing countries to ignore this advice because to do so would stop or slow the flow of funds from IMF and World Bank.

The recognition that domestic constraints hamper effective participation in international trade and the assistance offered to help countries overcome these constraints should be seen as a welcome development. But countries may be facing a multitude of constraints and it may be highly ambitious to try and overcome all these within a set time frame[24]. Also, the focus on export must take account of the uncertainties involved (price and demand fluctuations; persistent protectionism on main markets; enhanced competition; transport and storage risks). And it must be set against the benefits of alternative projects for economic development and poverty alleviation, such as improving the efficiency of the domestic market.

Some experts (Powell, 2003; Rodrik, 2004) squarely question the wisdom of placing exports at the centre of low-income countries' social and economic development strategy. The objective of mainstreaming trade into development planning was found to be vague and did not go unopposed in 'beneficiary' countries, as a Dutch government evaluation noted (IOB, 2005b). Powell questions the World Bank's "dogma" that openness leads to growth and poverty reduction and, just like IOB (2005b), raises the issue of "ownership": "Who sets the agenda? Who carries it out and how? And who evaluates its impact?" (Powell, 2003). Rodrik (2004) is not convinced of the supposed superior effect of trade liberalisation on economic growth. He notes that its proponents tend to add more and more additional layers of policy reforms to their original message of "stabilise, liberalise, and privatise". These focus heavily on reforms in institutional and governance areas, which may take a long time to come about.

> …if trade liberalisation did not produce the expected boost to economic activity, it must be because labour markets were not sufficiently flexible, the fiscal system was not robust enough, and the educational system not good enough…. If the poor did not receive much of the benefits and ended up feeling more insecure, it must be because targeted anti-poverty programmes and social safety nets had not been in place (Rodrik, 2004, p.5)

In his view, the problem with adding these new items is that they end up reflecting what a rich country already looks like. "If a developing country can acquire, say, Denmark's institutions, it is already rich and need not worry about development" (ibid, p.6).

5.2 Complying with EU Standards

Developing countries' difficulties in complying with the EU's SPS and other standards is seen to require action on two fronts. First, these countries must have the opportunity to participate in the relevant standard setting bodies. This is a matter of fairness; it helps these countries to understand better why these standards are being suggested; and it gives them a chance to explain why they find it hard to comply with certain standards, suggest less costly and less cumbersome alternatives, and negotiate longer transition periods. Second, the EU should offer technical assistance to exporters to help them comply with these standards (see also Box-2 below on the CBI) and assist them in the creation of the institutional capacity to do the same.

5.3 Enhancing Developing Countries' Capacity to Function Well in the Multilateral Trading System

The Dutch government attaches great importance to the strengthening of developing countries' capacity to negotiate, to improve their understanding of trade issues, and to make better use of the WTO dispute settlement mechanism. It has taken several initiatives to that effect. It has given generous support to three Geneva based organisations: UNCTAD for its technical assistance activities, the International Centre forTrade and Sustainable Development (ICTSD) for its work on enabling dialogue, facilitate interaction and supporting participation in trade policy issues; and the Quakers United Nations Office (QUNO) for its work on TRIPS and development. The Dutch government also supports the WTO Doha Development Global Trust Fund, and helped the West African cotton producing countries with their case at the WTO. It finances World Bank research and training in the area of trade.

The Advisory Center on WTO Law (ACWL) also receives financial support from the Netherlands government. After the establishment of the WTO in 1995, it became clear that many developing countries did not have access to the organisation's dispute settlement mechanism, because they lacked the expertise in WTO law and in the management of complex trade disputes.Most of these countries also faced financial and institutional constraints to acquire such expertise. The Netherlands then took the initiative (together with Colombia) to examine ways in which a level-playing field could be created for countries to access the dispute settlement mechanism. The ACWL was established in late 1999 and is based in Geneva. It provides legal training, support and advice on WTO law and dispute settlement procedures to developing countries, in particular the least developed among them.

5.4 Market information

The Dutch government gives financial support to the International Trade Center (ITC), a joint undertaking of WTO and UNCTAD that provides developing country exporters with market information and marketing asistance. It also finances the Netherlands Centre for the Promotion of Imports from Developing Countries (CBI- see Box 2).

5.5 Improving Market Access

In contrast to the initiatives mentioned above, the Netherlands government has no autonomy when it comes to improving market access, which is a collective, EU wide responsibility. The Dutch government has targeted a select number of priority areas for market opening and is seeking broad support for these (Buza 2003). It is advocating reforms in the trade of products that developing countries have potential to produce and export and which would contribute to sustainable development, which include: rice, cotton, sugar, fruit and vegetables. It seeks a substantial reduction of peak tariffs for selected products (such as fruit and vegetables); a reduction of tariff escalation; more transparency in the way developing countries can make optimal use of quotas; a more limited use of the special safeguard weapon; and a reduction of subsidies for a select group of products.

5.6 Achieving a Consensus

Before it became a EU responsibility and trade policy was still decided in the Netherlands, these proposals would have been discussed with the sectors concerned and a compromise would have been found. In such a discussion, interested parties would exchange views on how they feel Dutch society and economy should be organised, what the place of the Netherlands should be in the world economy, and what this implied for industrial, social, innovation and trade policies. More defensive producers in declining sectors and more liberal producers in expanding sectors, consumers, retailers, importers, wholesalers, and developmental and environmental non-governmental organisations (NGOs) would try and convince each other of their viewpoint and seek alliances in what was essentially a national bargaining process.

In a 25-member EU, the discussions and bargaining are more complex[25] and less transparent. Nominally, government representatives negotiate with representatives from the other member states in an effort to achieve a common position. But the need

Box 2: The Centre for the Promotion of Imports from Developing Countries (CBI)

Based in Rotterdam, the CBI (cbi@cbi.nl) aims to strengthen the competitiveness of small-scale developing country producers and exporters. It wants to help these countries to diversify their range of products and services for export and to enable exporters to meet the requirements of the international market in terms of management, marketing, technology and production processes. The CBI assists producers in their need to cope with regulations, traceability and chain control in e.g. environmental, labour and quality standards (such as EurepGap and HACCP).

The CBI offers technical assistance and training and helps in finding partners in targeted markets for a wide range of sectors: from fishery products, timber products, flowers and garments to organic food, software services and tourism.

Much CBI supplied information is available on-line. Most of its technical assistance goes to low- income countries. The CBI has a permanent staff of 17. It works closely together with the International Trade Centre (ITC)

(Source: CBI)

to aggregate 25 national positions with many products, rules and interested parties involved, make this a highly complex exercise. And because trade negotiations take place behind closed doors this process provides further ammunition to those who all along were unhappy with the lack of transparency in EU decision making and the perceived "accountability gap".

An additional complicating factor is that trade policy is becoming less and less about swapping tariff concessions and more and more about reconciling different regulatory norms[26] "Another way of putting this is that trade policy is divided into two broad components: market access and rule making, and that rule making has become more and more important" (Woolcock 2005, p.237). The problem is that change in domestic regulatory regimes is more complex than adding protection here or market opening there in order to favour this or that sector (ibid).

The Netherlands government may find it hard to steer EU trade policy its way, but NGOs find it even more difficult. NGOs wishing to influence trade policy formulation must chose between taking up the matter with national or European parliamentarians, national or European bureaucrats. The larger and better financed lobby groups and those organised in federations can do all of the above (NOVIB/ OXFAM, the Consumers Association Consumentenbond, and agricultural lobby group LTO – all have representatives in Brussels). Some of these groups (Consumentenbond, LTO) are represented in the EU's Economic and Social Committee (ESC) but opinions vary on the effectiveness of this committee in influencing policy. Woolcock (2005, p. 244) notes that the ESC is seen "more as a product of the corporatist past than as a reflection of a current desire for transparency".

"Seattle" (the 1999 WTO Ministerial Conference) was quite traumatic for all involved, including the European Commission and the Dutch government. Both now organise regular consultations with NGO representatives, but the impact of these consultations on EU trade policy is unclear. The Netherlands NGO consultations take the form of question and answer sessions; however, there is no dialogue. The NGOs are unhappy about this lack of dialogue. The record of the NGO consultation is published on the website of the Ministry of Economic Affairs but the record of the consultations with business, which are held separately, is not available (de Veen et al, 2005).

Lack of transparency is also an issue at the EU level. EU preferences are aggregated at two levels, first by national governments and then within the Article 133 Committee. Woolcock (2005) notes that this leads to quite considerable insulation of trade policy from societal interests (with the exception of agriculture). The 2002 Danish EU presidency started to introduce more openness in trade policy decision-making but its initiatives were discontinued (WWF, 2003).

5.7 "Policy Coherence for Development"(PCD)

Policy Coherence for Development (PCD) aims at ensuring that the objectives and results of the government's development policies are not undermined by other policies. The Dutch government promotes policy coherence not just at the Dutch but also at the EU and OECD level. But achieving PCD is a complex process. Development ministers must persuade their ministerial colleagues to consider the impact of their policies on economic development and poverty reduction, and so avoid a situation emerging whereby aid efforts merely offset the costs imposed on poor countries by other policies.

The current Dutch Minister for Development Cooperation has also taken policy cohesion to the WTO ministerial conferences. EU member states have limited scope to voice their own views at these conferences because trade is a part of the exclusive competence of the EU. In principle, the EU speaks with one voice. However, "trade and development" is a "mixed competence", meaning that both the EU and the individual member states can present their own views at a Ministerial conference. The Minister has challenged the dividing line between trade and development, arguing that every trade issue is a development issue. She (the Minister) encourages her EU colleagues to actively participate in Ministerial conferences (Buza 2005, p.49).

Agriculture is arguably the greatest challenge to policy coherence. It is a difficult dossier that involves the structure of international food production, in which strong and often conflicting forces operate. It is about supply, about the right of developing countries to compete in the world market on equal terms and about countries wanting to maintain production capacities of their own. It is also about the survival of rural areas, farmers' livelihood, the localisation of the food industry and food safety guarantees (UD 2005). The liberalisation of trade in agricultural products would benefit growth in the developing countries and would also benefit consumers in the European countries. But vast sums of money are at stake for the interests that benefit from today's agricultural policy (ibid). The reform of the EU's Common Agricultural Policy (CAP) has enhanced the trade opportunities for developing countries but from a developing perspective more reform is desirable. The next section deals with agriculture.

6

Agriculture: A Key Sector

> **"The vested interests that defend the status quo for OECD country agricultural policies have much political clout. Until recently the 'development lobby' has been no match for them. Development concerns have played a limited role in the face of pressures to support domestic farm household incomes and an array of societal concerns. Even though it is empirically proven that most farm support benefits the wealthiest farmers, the agrarian myth persists….The complexities of making agricultural and development policies more coherent should not be minimised. The issues are context, commodity and country specific" (OECD, Agriculture and Development: the case for Policy Coherence, Paris, OECD, p.9)**

Agriculture is a key sector in EU. The EU agricultural budget for the period 2000-2006 amounts to no less than €40bn (US$52bn) per year and takes up 45 percent of the total EU budget. The fact that those involved in such a small fraction of total economic activity manage to capture such a sizeable share of the EU budget is explained by some as a remnant of the past when food security was a major source of concern. Others see it as a monument to effective lobbying (and wonder why research and education, which are the essential components of the "Lisbon agenda"[27], are being allotted not even a fraction of that amount). The sector itself likes to point at the US, Switzerland, Norway, Korea or Japan where financial support to agriculture is as high if not higher as it is in the EU.

Agriculture is also seen to hold the key to making progress in the current round of multilateral trade negotiations. Slow progress on this dossier is in part explained by the special place of agriculturen in EU's external trade policy. The Council of Agriculture ministers in effect determines the EU position on agriculture. Normally, the Commissioner responsible for external trade has overall control of negotiations. But on agriculture he or she has to share this with the Commissioner for agriculture (Woolcock, 2005). The relevant fact for developing countries is that trade distorting policies are often a residual impact of EU polices. For example, price support may lead to surpluses that can only be sold on world markets with the aid of an export subsidy (OECD, 2001)

Agriculture is also seen as a key sector for poverty eradication in low-income countries, where it generates between 60 and 80 percent of rural income[28]. For those countries, the relevant questions are: will changes in the Common Agricultural Policy (CAP) lead to better market access for their products; to fewer subsidised exports on relevant third country markets; and to less support for domestically sold products so that they have better chances of competing on the EU market (see on this also BUZA 2003)?

Lastly, agriculture is a key sector for the Dutch economy. The Netherlands is one of the world's three largest exporters of agricultural products after the US and France. But in this very heterogeneous sector many products (such a flowers and pot plants) compete freely on the world market whilst others (such as sugar) receive considerable protection and support. Intra-sector solidarity is remarkable at the national level. It is equally impressive at the European level. Dutch consumers willingly pay above world market prices for products protected under the CAP but not produced in the Netherlands.

The ongoing CAP reform means that Dutch agriculture will need to adjust to more intense foreign competition and to the prospect of lower EU support. The sector must also adjust to calls to make agriculture more sustainable. Intensive livestock raising in particular has a poor public image as, first, the Dutch population is becoming increasingly critical of the poor treatment of animals and the

Box 3: Energy Saving in a Closed Greenhouse System

Dutch horticulture has done a remarkable job in maximising output per hectare and per person. But the high cost of energy is still seen as a serious handicap for the future of the sector's competitive position *vis-à-vis* countries with lower energy costs. So the development of the world's first solar-powered greenhouse was quite a breakthrough. The closed cover greenhouse operated by Theo Ammerlaan in Berkel and Rodenrijs for tomato production became operational in 2004. Excess heat is trapped under the closed cover and removed to 100-meter-deep wells near the glasshouse. The heat is stored in the groundwater. In winter, the warm water is pumped up and brought into the glasshouse in the form of hot air. The cooled water disappears under the ground, where it is used to cool the glasshouse in summer. In addition to saving energy, such a closed system makes it easier to use biological pest controls.

Sources: Minaf 2004b; PT 2004

environmental pollution that seem to be unavoidable in intensive livestock production, and second, the periodic outbreak of disease[29] have led to a loss of faith in food safety and in the institutions charged with ensuring it.

It has been decided at EU level to "decouple" direct income support from production. CAP subsidies will continue to be paid but they will be paid independently of the volume of production with the emphasis shifting to supporting the income of the producer. "Single farm payments" will be linked to respect for environmental, food safety and animal welfare standards (Minaf 2005).

The Dutch government is in fact suggesting that the agricultural sector be split into two parts. On one side, there would be a sector that is not meant to compete at all. Farmers in this sector will be keepers of a "living countryside"[30]. In the words of the Ministry of Agriculture, "the farmer supplies an important, and in some landscapes essential, contribution to the quality of the landscape and nature values. In the light of exceptional quality of certain landscapes and the role played by agricultural management, the government would like to show recognition of this management function by supporting agriculture more directly" (Minaf, nd, p.10)[31].

Farmers provide services to society other than just food production. A number of these services can, in principle, be commercially run, such as providing childcare on the farm, farm campsites or educational activities. For others "there is (as yet) no market but [these] contribute a great deal to social objectives, and go beyond what could normally be expected of businesses in the course of their normal operations. These [are called]… "green services" or "country stewardship activities" (Minaf 2004 pp.32/33)[32].

On the other side, the Dutch government intends to maintain a market-oriented and internationally competitive agricultural sector in the Netherlands (Minaf 2004). This sector should seek continuous efficiency improvements, scale economies, high tech applications and closely follow shifts in demand. The greenhouse horticultural sub-sector is seen as a shining example. This sub-sector is considered viable in the long run, thanks to continuous innovation and internationalisation (see Box 3 above). But there are also plans for raising productivity in intensive livestock production (bio industrie) whilst respecting environmental, food safety and animal welfare standards. Annex I describes the plans for varkensflats (apartment buildings for pigs). These plans have yet to be realised but they give an indication of the type of plans that are being discussed to keep certain activities in the Netherlands by drastically raising productivity

In sum, this section has stressed the critical importance of agriculture for the EU (it eats up an impressive share of the EU budget), the WTO (progress on the agricultural dossier is widely seen as holding the key to the conclusion to the Doha Development Round (DDA), low income countries (where agriculture generates between 60 and 80 percent of rural income), and for the Netherlands (one of the world's leading agricultural exporters). Developing country exporters naturally want to know to what extent changes in the CAP will lead to better market access for them and fewer subsidised EU exports. But the answers to these questions depend largely on intra-European dynamics.

In the Netherlands, large-scale, highly efficient, unprotected and unsubsidised production should ensure a continuation of the country's leading position in world agricultural trade. In parallel, the Ministry of Agriculture intends to create a protected, subsidised sub-sector with farmers charged to look after the landscape and provide "a living countryside". How the two sub-sectors will co-exist and what will be done with the output of the protected sub-sector is as yet not entirely clear.

7

Summary and Conclusions

The Dutch government believes that developing countries should participate more in international trade because of its favourable effects on economic development and poverty alleviation. It has taken a number of initiatives to encourage or facilitate the participation of these countries in international trade by helping them to remove supply constraints; better comply with EU standards; and enhance their capacity to function well in the multilateral trading system.

Improving market access is another policy goal. But this is a EU, not a Dutch responsibility. Trade policy is determined collectively in Brussels, for all EU member states. Calls for the across-the-board opening of the EU market to developing country exports have been overtaken by more detailed discussions of who stands to gain and who to lose both among and within importing and exporting countries. Outstanding questions are: (1) whether policies should focus on the least developed countries (which have a high percentage of poor people), or also on exports from middle income countries (where the highest number of poor people live); and (2) how can one be sure that enhanced trade will actually improve the situation of the poor (i.e. who benefits from trade within poor countries)?

Preferential access to the EU market is a main instrument for the EU to stimulate developing countries' exports. But these preferences have become less relevant because of preference erosion following round after round of multilateral trade agreements. Complex rules of origin requirements, lack of transparency and tariff escalation are other reasons why exporters make comparatively little use of the preferences offered. In agriculture, developing countries continue to face many EU trade barriers.

The Dutch government is seeking support from other EU member states for market opening in such products as rice, cotton, sugar, fruit and vegetables. It seeks a reduction of peak tariffs for selected products; a reduction of tariff escalation; more transparency in the way developing countries can make optimal use of quotas; and a reduction of subsidies for a select group of products.

Supply constraints are another factor hampering developing countries' effective participation in international trade. It can be argued that this is less of a problem for middle-income countries with well-functioning institutions and an efficient production, transport and administrative infrastructure. But it is a problem for low-income countries that lack such an efficient infrastructure and such functioning institutions. For these countries in particular, poverty alleviation is usually associated less with international trade than with popular housing policies; access to safe drinking water; the provision of basic health care; universal basic education; income redistribution and agricultural policies.

The Dutch government wants to make sure that its development policies are not undermined by other (EU and Dutch) policies, which impact on developing countries. Agriculture is proving a major challenge in this regard. Agriculture is of key importance for the Netherlands (being one of the world's leading agricultural exporters), for the EU (it eats up an impressive share of the EU budget), for the WTO (progress on agriculture is seen as the key to the conclusion to the Doha Development Round), and for low income countries (where agriculture generates between 60 and 80 percent of rural income). Developing country exporters naturally want to know to what extent changes in the CAP will lead to better market access for them and fewer subsidised EU exports. But the answers to these questions depend largely on intra-European dynamics.

Standards are a significant trade barrier, especially for small producers in developing countries, where the ‘regulatory gap’ between measures in place in export and domestic markets is the greatest. As argued by OECD (2005), it is therefore vital that new and existing standards are examined for their impact on exports from these producers and that, where possible, alternative options are explored. Standards that serve no other purpose than to stop imports should be eliminated. Developing countries should be encouraged to participate in the bodies, which set international standards. The testing and certification regimes in developing countries should be improved.

Given the enormous market power of the big European retailers, developing country producers- as indeed all producers- probably have no alternative than to comply with the standards (such as EurepGap) that they impose. The implications of this private standard setting for government policies as indeed for the multilateral system are as yet unclear. The trend towards greater concentration in food production is probably unavoidable. Training to help exporters comply with these standards is badly needed. Who should be responsible for organising this training is an urgent but as yet open question.

This paper has argued that the openness of the Netherlands’ economy and the country’s efficient infrastructure play an important role in European trade with developing countries. As “the Gateway to Europe”, many exports from developing countries enter the Netherlands for subsequent distribution to the rest of Europe. In addition to distribution, the processing of imported raw materials, such as cocoa, coffee, oils and fats, mineral oils, tobacco leaves and soybeans, is an important component of the Dutch economy.

However, in the medium term, this reliance on the processing and distribution of imported products could become a source of concern for the Netherlands. For one, these processing facilities may become less competitive when effective protection levels decrease as a result of multilateral tariff reductions. The problem with the distribution activities is a different one. When European economic growth picks up pace again it is likely that the share of re-exports and distribution activities in the Netherlands economy will increase further giving a welcome boost to the Dutch economy. However, international markets have become more transparent, competition is fierce and margins are thin. Environmental pollution will increase and so will road congestion. The value added on re-exports is much lower than the value added on domestic products. As a source of wealth creation there is no comparison with what this type of trade did to the Dutch economy in the 17th century.

Annex 1

Raising Productivity in a Sustainable Manner: Apartment Buildings for Pigs

(“Varkensflats”)

Intensive livestock production (“bio industrie”) has a poor public image. Environmental pollution is considerable. Millions of animals (many of them healthy) are being killed during the periodic outbreaks of contagious diseases. But this is also a principal export sector. The challenge for the sector is to be internationally competitive and produce in an ecologically sound manner, with short distances between different components of the production chain (to avoid animals being transported unnecessarily and so improve animal welfare, and to reduce transport costs).

The idea of raising pigs in apartment buildings (“Varkensflats”) was launched in 2000. These varkensflats or ‘agro-productionparks’ would house up to 300,000 pigs in apartments each with their own balcony to allow the animals to get some fresh air. Different production units would be placed one above the other in large-scale industrial complexes. These units would be working closely together, share facilities for the treatment of industrial and animal residue, and make use of each others’ rest products such as energy. Ideally, they should be located close to a seaport so as to facilitate the import of animal feed and the export of the final product. The biggest varkensflat of all was foreseen for the Rotterdam port area and would be one kilometre long, 400 meters wide and 20 meters high. In addition to pigs, this park would be used for the production of poultry, fish, and certain vegetables such as mushrooms. Slaughterhouses, meat processing facilities and an energy generating facility would be located close by.

The proposals received a mixed reaction. The discussion of the varkensflats became part of the broader discussion of what is acceptable and unacceptable treatment of animals and the even broader discussions on the future of Dutch agriculture and the role and importance of rural areas in an ever more densely populated country.

Proponents argued that the animals in a varkensflat would not be worse off than they are now. Hygienic conditions would be better controlled. Combating illnesses would be done more efficiently. Animal feed is mainly imported so a location close by the harbour would save transportation costs. Concentrated production would save energy. Waste treatment could be done collectively.

Opponents argued that the animals would be worse off than before. Moreover, rather than accepting the argument that veterinary control is easier and more effective (thus improving food safety) when production is concentrated, they feared that diseases might spread more rapidly precisely because of the high concentration of animals in a limited space (Sources: Daalder et al.2004, Moerland, 2000, among others).

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Endnotes

1 *Take sugar. After years of discussion, the EU's sugar market is being opened up. The EU internal market price, which is three times the world level, will come down. But who stands to gain and who to lose? Mauritius is a main sugar exporter to the EU. Tanzania's exports also enjoy privileged access. When prices come down and the EU market opens up, these countries can no longer compete at their current cost levels. Likely beneficiaries are low cost producers in middle income countries such as Brazil.*

2 *The number of people staying and living in irregular status is unknown but thought to be sizeable.*

3 *The US dollar figures in brackets are for illustration purposes only. The exchange rate used (1Euro = 1.3 US dollar) is the one prevailing in late 2006*

4 *This paragraph and the next are based on WRR, 2002*

5 *The composition of re-exports is quite different from the exports produced domestically. Re-exports consist for 55 percent of electro-technical goods, textiles, clothing and leather, which make up only five percent of all goods made in the Netherlands (figures for 2000). The Netherlands appears to be good at distributing over the rest of Europe goods without actually being good at making these.*

6 *www.fao.org/DOCREP?004/Y1669E/y1669e)c.htm acceded at August 10, 2005*

7 *For instance, soybeans from Brazil being transhipped in Rotterdam to a smaller vessel for subsequent transport up the river Rhine to a German customer do not show up in Dutch trade statistics. Goods in "quasi" transit (approximately €30bn (US$39bn) per year) that pass customs in the Netherlands but are not purchased by a Dutch based party also do not show up in export statistics. But goods that do find a (temporary) Dutch owner before being re-exported do.*

8 *For instance, imported computers may be moved from Rotterdam harbour directly to their final export destination; or they may be moved from one container to another before re-export; or some software may first be loaded on to them.*

9 *Intensive livestock breeding (see section 6) has been described as turning (imported) vegetable proteins (soybeans) into animal proteins (pork) for export*

10 *See e.g. the discussion in chapter 2 of OECD 2005*

11 *The potentially adverse short-run effects of trade reform are at the heart of concerns over the impact of trade liberalisation on poverty. There is also the fear that greater openness, by increasing the exposure of the economy to external shocks, may result in higher levels of poverty and reduced effectiveness of policy measures for its alleviation. And even if growth reduces aggregate poverty, there is no guarantee that certain groups among the poor will not be left behind. Those are the reasons why economists plead for 'social safety nets' to accompany trade reform. These nets are a mechanism through which the winners compensate the losers. Nonetheless, it is not always clear what such a net should look like, how it should be financed, whether the gains from trade can be so easily calculated and, above all, whether the losers of trade reform can be identified in an unambiguous manner.*

12 *Buza 2002 is an important source for this section*

13 *In fact the EU offers concessions to so many countries that there are only five countries (the US, Canada, Australia, New Zealand and Japan) left that pay the MFN rate for most of their products*

14 *Under the GSP non-sensitive products can enter the EU duty free; sensitive products receive a 3.5 percent tariff discount. Textiles and clothing receive a specific tariff discount of 20 percent.*

15 *That stipulates that the 49 least developed countries can export their products to the EU duty and quota free (with the exception of sugar, rice and bananas for which there is a transition arrangement).*

16 *There are no hard facts available but Buza (2002, p.3) estimates that developing countries end up paying the MFN rate for 70 percent of the exports that qualify for preferential treatment.*

17 *The EU has 12,000 tariff lines. For a little over 90 percent of these 'ad valorem' tariffs apply, i.e. tariffs that are expressed as a percentage of the value of the imported good. The remaining tariffs are special and compound tariffs. These are based on volume, on volume in combination with an ad valorem tariff, or based on a technical calculation (e.g. based on the amount of milk or sugar used in the product). Some special tariffs depend on the world market price (so that protection increases when the price goes down), on a special 'intervention price' related to European production costs, or on the sales price of a particular quantity (in e.g. fruit and vegetables) on the European market whereby the tariff is used to eliminate foreign competition (Buza, 2002, p.2)*

18 *A more fundamental criticism from a development perspective concerns the implicit assumption that the difference between domestic prices prevailing in the protected market granting preferential access and the world market price accrues to (is captured by) the exporting firms (country). However, importers and distributors know that the price wedge exist and may offer lower prices to suppliers in the preference receiving country and so capture some of the difference themselves thus reducing or even eliminating the possible advantage for the exporter (Hoekman et al., 2005).*

19 *Anderson (2005) argues that preference schemes reduce the willingness for developing countries as a group to press for more access to developed country markets. Countries that have been awarded preferences become advocates for rather than against the continuation of MFN tariff peaks for agriculture and textiles, so diminishing considerably the number of WTO members negotiating their reduction. Had these schemes not been offered, developing countries would have negotiated more vigorously in previous GATT rounds for lower tariffs on imports to developed countries. MFA 2005 (p.5) makes a similar point. Developing countries, by focusing on securing exemptions for themselves in market access, may be partly responsible for existing WTO rules primarily reflecting the economic and political interests of developed countries. It names as examples tariff peaks for labour-intensive industrial products, the policy of tolerating agricultural subsidies and the Agreement on Trade-Related Intellectual Property Rights (TRIPS).*

20 *A WTO/UNCTAD study (The post Uruguay Round tariff Environment for developing country exports: tariff peaks and tariff escalation, UNCTAD, 2000 –quoted in Buza 2002; p.20) recalculated all special tariffs as ad valorem equivalents. It found that over 1400 agricultural products, or 40 percent of the total, had tariff peaks of over 12 percent for developing countries. For 114 products the equivalent tariff was over 100 percent. Even imports from ACP countries were facing tariff equivalents of over 12 percent in close to 500 product categories, particularly in diary products, meat, grains, fruit and vegetables. Tariffs for fruit and vegetables go up when their import price goes down and the date of importation approaches the European harvest season for the relevant products. Other variable tariffs are those related to specific ingredients. A higher sugar or milk fat content leads to higher tariffs.*

21 *See Buza 2002 for other examples of market distortion and their relation with the Common Agricultural Policy.*

22 *It is hard to overstate the market power of European retailers. The last few years have seen some public conflicts between Dutch market leader Ahold and several of its suppliers, including Unilever, a major multinational. Collectively, the market power of European retailers is even greater*

23 *IMF/ITC/UNCTAD/UNDP/World Bank/WTO*

24 *A recent EU rapport on how to make Tanzania's sugar sector more competitive in the wake of the EU's sugar reform concluded that in addition to the need for producers to become more competitive by lowering ex-factory costs, their competitiveness would also increase by reducing internal transport costs (through more efficient rail*

systems), reducing port handling charges and reducing sea freight by increasing the harbour capacity to handle larger vessels. The problem is that these projects have been discussed for several decades.

25 *Compare the stalemate that developed in early 2005 after the Agreement on Textiles and Clothing expired when Southern European clothing producers protested against a surge of imports from China and Northern European importers threatened to take the European Commission to court for blocking these imports.*

26 *Woolcock 2005 and WWF 2003 discuss EU trade policy formulation*

27 *The Lisbon agenda aims at making the EU the most competitive and dynamic knowledge-driven economy by 2010*

28 *Buza 2003, p.37*

29 *Such as foot and mouth disease, swine fever, avian flu and BSE*

30 *But the large-scale, competitive agricultural sector is also seen as an important pillar of the rural economy and thus of the "living countryside". The challenge will be to find an optimal way for these two types of functions to work together.*

31 *These plans are not uncontroversial though. Critics argue that these payments are simply a way of perpetuating the flow of subsidies to a small and declining sector of the economy*

32 *Still, this new emphasis on landscape management and care for the "living countryside" leaves many questions unanswered: for instance, how will the price for these services be determined (and who will do this); who will be eligible to provide these services (only those registered as farmers or through an open tender)?*

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