



STACKED CARDS

Trade and struggle against poverty

Gonzalo Fanjul Suárez

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Gonzalo Fanjul Suárez is Research Coordinator of the Department of Campaigns and Studies in INTERMON OXFAM.

“It is urgent to subordinate development, trade and international relations to the basic enquiries of humanism: What progress? For whom? With what results? And for whom? (...) The only true antidote for poverty is a society which does not produce more exclusion.”

President Lula da Silva in his discourse during the awarding of the Prince of Asturias prizes

1. BIG STATISTICS WHICH HIDE HUMAN FACES¹

The expression “international trade” calls up images of big firms, big economic super-powers and negotiations in big international organisations like the World Trade Organisation (WTO).

But world trade also has a human face. In South Asia it is the face of a young girl sewing shirts for an important chain of shops in Europe and the United States. In Africa it is the face of a coffee grower. In West Asia the face of a woman assembling electronic circuits for computers. And in Latin America, of a peasant who has to compete with imported products from the United States. So trade links the lives of people like these with the businesses and consumers of the wealthiest countries in the world.

But in our world, only a few take the decisions which marginalize millions of poor and vulnerable people. The rules they impose generate huge differences: in world trade only a few countries and big firms dictate the norms. It is as if they were playing with stacked cards, as if the football field were not equally level on both sides, as if the runners in a race set off at different times and were handicapped by weights.

1.1. Unjust trade generates inequality and poverty

Why is it important to act so as to change the rules of world trade? And why is it important to do it as soon as possible? There are three replies to this question.

– In the first place, it is unacceptable that world trade should continue in its present model. No civilized community should tolerate the extremes of prosperity and poverty generated by the present conditions of world trade. And nobody should be obliged to accept the abuse of power, injustice or suffering that these extremes produce.

Perhaps more than any other economic phenomenon, trade has been the main motor of the globalization process we are living. Over the last twenty years international trade flows have grown twice as fast as the total of world wealth, and have become an essential source of income for most regions in the world. Poor countries, in particular, are increasingly dependent on international trade although, in volume, trade continues to belong to the rich. One in every three dollars of the Gross Domestic Product (GDP) of low income countries comes from exports.

The participation of poor countries in the multilateral trade system is plagued by ambiguities. Although they import more and more industrial and technological products, developing countries in general depend mainly on the exportation of primary products. And the prices of these have fallen substantially over the past twenty years.

The greater part of the extraordinary benefits generated by trade are concentrated in a disproportionate manner in a handful of industrialised countries and, increasingly, in a small group of their transnational corporations. Rich countries and big firms have become the real winners in this model of international trade. The losers are the faces of world trade: hundreds of millions of peasants and workers whose future depends on an increasingly unstable and unsustainable system.

An example of this paradox is sub-Saharan Africa. If its share of world exports (that is, sales to other countries) were raised by only one percent, an annual income would be generated five times greater than all they receive in aid and debt relief.

Yet Africa is increasingly replaced in trade circles, condemned to produce primary products for export. Thus the poorest continent in the world remains outside the opportunities trade offers for development, a fact that poses serious doubts about its future.

Other regions show that involvement in trade offers very positive results. For example, in Southwest Asia trade has permitted considerable reduction in levels of poverty. In the last forty years, this region of the world has succeeded in wresting from poverty more than 400 million people, thanks to a development strategy based on increasing exports. In this way it has obtained income, developed technology and generated opportunities.

– The second reason for acting is well-informed self-interest. What is happening is not only indefensible but also unsustainable. There are huge areas in poor countries that are turning into enclaves of despair and marginalization, among other things because they remain outside the wealth generated by trade. One thousand two hundred million people are living in the world today on less than a dollar a day. In many cases their expectations are progressively worse. According to the 2003 Human Development Report, 21 countries in the world are worse off today than at the beginning of the 90's. Their populations have less access to drinking water or health care, there is greater illiteracy and more children die before reaching the age of five.

Like the economic forces of globalization, the anger, despair and social tension accompanying such enormous inequalities in wealth and opportunities do not respect national frontiers. They generate an instability that threatens all. The experience of the past two years shows that, as a global community, we swim or sink together. No country, however powerful or rich it may be, is an island.

It is possible to change the rules

– The third reason is the conviction that change is possible. The international trade system is not a force of nature. It is a system of exchange regulated by norms and institutions that reflect political options. These options can give priority to the interests of the weak and vulnerable or the interests of the rich and powerful. Trade, as it is organised at the moment, increases poverty and inequality in the world. The rules of the

game are designed to maintain power and acquired privileges. But this can be changed by a coalition uniting North and South in an organised public campaign. The best proof of this was the World Trade Organisation Conference in Cancún in September 2003 whose result allows one to entertain some hope with regard to the future of that institution.

This booklet is divided into five parts.

The first section describes briefly what the World Trade Organisation is and how it functions. Though it is not the only agreement regulating trade relations between North and South, its rules mark the starting point for other regional and bilateral agreements. So the functioning and regulation of this institution is an essential reference for understanding the theme of this enquiry.

Sections 2, 3 and 4 analyse the three principle areas under negotiation: agriculture, intellectual property and access to markets. For each a critical view is offered together with proposals for reform. Finally section 5 offers some conclusions in the light of the results of the Cancún Conference that took place in September last year.

2. THE WORLD TRADE ORGANISATION (WTO): A MANUAL FOR USE AND ABUSE

Few multilateral institutions are as important as the WTO for the daily life of thousands of millions of people all over the planet. Its rules affect the basic aspects of life and survival, such as access to food or proper treatment for illnesses. Nevertheless the WTO was almost unknown to the majority of citizens (including social organisations) until its III Ministerial Conference took place in the North American city of Seattle in 1999. The events that happened there awoke millions of people to mobilize, giving a definitive impulse to a movement for an alternative globalization as we have known it since.

2.1. Who is concerned with the WTO ?

Why is the WTO so important for the economic and social policies of the countries belonging to it ? It is true we are dealing with a very young institution. It was born on the 1st. of January 1995 as a result of the trade negotiations known under the name of GATT (General Agreement on Tariffs and Trade). Today the WTO represents 148 countries which, apart from notable exceptions such as Russia, account for almost all international trade transactions.

The WTO is therefore a multilateral institution. Its members are countries represented through their governments, in particular, by the ministers responsible for trade. These make up what is called the Ministerial Conference, the supreme organ which should meet at least once every two years. Below it the General Council carries out the day-to-day work in Geneva and in it are represented the trade ambassadors of the different member countries. The rest of the organization chart is made up of innumerable commissions and working groups which promote negotiations and discussions in the WTO's fields of competence. The fields are very many and of great importance. In fact its various agreements affect vital areas, such as the water we drink or the antibiotics we give our children.

In spite of the fact its members have the prerogative to set up new rules and bearings, the WTO was born with a slant that nobody dares question and which weighs heavily on its decisions. Its mandate speaks of "removing trade barriers". That means, it is not a question of establishing where the general interest lies and then making rules, but it is taken for granted that greater liberalization in trade is always good and in every situation. In some areas, such as agriculture, evidence rather suggests the opposite.

2.2. To reform the WTO or abolish it?

Currently the WTO is considered one of the "villains" of the world economy, a role it has taken over from other institutions, such as the IMF. Among social movements the opinion is spreading that the WTO should be abolished because its existence leads to many more risks than opportunities for global welfare. On the other hand, most governments in the world, especially those of the wealthy countries, consider the WTO

a highly valued asset and a safeguard from the chaos and inefficiency common to other international organisations such as the UN.

Who is right? The answer, as almost always, needs to be sought in a middle position. If we look at what this institution consists in, there is no doubt the WTO has three essential advantages:

– It is a representative organisation: 148 countries are WTO members: from the four principal economies in the world (USA, EU, Japan and Canada) to a melting pot of political regimes and economic systems in the developing world. It can be said that, with the exceptions we have already noted, all trade goes through the WTO. The existence of a space for multilateral negotiation which, at least in theory, seeks the common good through the interplay of demands and concessions, is a rarity worth preserving, especially in these times of crisis for multilateral institutions.

Although in theory the WTO has a decision-making system based on the model ‘one country, one vote’, the normal practice is the taking of decisions by consensus. This means, there can be no agreement till each and every one has expressed their accord.

– It has a system of rules that all the members are committed to observe. The present norms were approved in 1995, and the trade agreements are the result of the Uruguay Round which took place under GATT. Once again, the content of these agreements can be more or less acceptable, but the countries which join the “club” know what the rules of the game are.

– Finally, and this is without doubt its most special characteristic, the WTO has a coercive system to ensure the observance of its rules, known as System for the Solution of Differences (SSD). Any member country which does not fulfill one of the agreements established multilaterally is subject to prosecution from any other member. For this a panel of experts is set up to settle the dispute and impose whatever compensations are considered necessary. This system should not be underestimated: some countries use it continually and ensure its decisions are not mere formalities. What effects would such a system have if applied to the resolutions of the UN Security Council or the Millennium Development Objectives agreed by the wealthy countries?

2.3. What are the obstacles?

So the advantages are clear. Nevertheless the real functioning of the institution is very far from constituting an impartial operation. What happens in reality is very different.

– It is certain that many countries are represented but some can defend their interests better than others. In the first place, there is a scandalous disparity between the resources and technical capacity of the different negotiators. The European Union, for example, enjoys the advice of dozens of technicians on the Commission as well as permanent representatives in Geneva from each of its members. The United States alone took to the Cancún Conference a delegation of 650 people, the majority experts from its ministries and assessors to different pressure groups. The key negotiators from the developing world, for example Brasil and India, also have large teams, but this is not the case for the majority of the countries: thirty of them don't even have a delegation in

Geneva to follow the day-to-day work, and many of those who do are obliged to operate with a reduced staff of diplomats who cover at the same time all the international organisations with headquarters in Geneva.

Still more important: WTO negotiations don't take place in a sort of commercial limbo, removed from any other aspect of the international relations between their countries. For many small dependent economies it is frankly difficult to confront in a negotiation an economic and political monster like the USA or the EU. It is possible, though unlikely, they may win a battle, but they know they will see again the same faces in the next rescheduling of the debt or the signing of an agreement for military cooperation

– The rules of the game are clear but they are drawn up to benefit in a disproportionate manner the interests of some players in particular. When a poor country joins the 'Club' (and the majority have done so in recent years) it has to comply without conditions to all the rules approved by the institution up till then and renounce the transition periods enjoyed by the wealthier countries. Most of the norms were set up to protect the interests of the rich countries and their businesses while trade negotiations were taking place.

There are two especially significant examples: first, the Agreement on Agriculture, result of a consensus achieved by the United States and the European Union before the WTO was created. It was approved to eliminate the enormous distortions agrarian subsidies from the rich caused in international markets, thus denying to poor countries a market in which they were highly competitive. Nevertheless its content permitted those who drew up the agreement to maintain a predominant position in the international agrarian markets, but through mechanisms considered 'legal' by the WTO.

Another example are the TRIPS (Trade Related Intellectual Property Rights), drawn up under the direct instructions of the two most powerful pressure groups: the pharmaceutical and bio-technology industries. As a result legislation on patents protects in a disproportionate manner the rights of the owner of the invention, even at the cost of people who need it to survive.

– And if we don't like all of the above, why not use the SSD procedures to remove the differences? The arbitrators are far from being impartial. In the first place, technical and financial difficulties prevent most countries from presenting a complaint before the SSD. Many don't have the economic and legal teams necessary to back a dispute which will last a minimum of a year and a half. Then they will have to rely on the services of specialized lawyers whose fees are out of reach for most. If they succeed in resolving the case in spite of everything, they will have to confront the same political and economic pressures we have already mentioned above.

It is true these limitations don't affect equally all developing countries. Some, including small economies like Ecuador, have brought and continue to bring lawsuits with notable success. Brasil has distinguished itself by confronting European and North American subsidies to agriculture, and others, like India, have been active in litigation against tariffs on the exportation of textiles. But it is important to remember that not one of the 49 Least Developed Countries (LDC) of the world, the poorest on our planet, have presented up till now a single lawsuit before the WTO. Clearly this is not because they do not feel hurt by certain trade practices of the rich countries

2.4. Lights and shadows

Thus the WTO is an organisation plagued by lights and shadows. The truth is its limitations have started to become an insuperable barrier to the hopes of poor countries. The first act in the re-enactment of this failure took place in the 1999 Seattle Conference where Africans, Asians and Latinamericans led a real rebellion against the impositions of the rich countries. The sight of this encouraged some countries to propose a change of direction in the negotiating process, an initiative that would come to fruit two years later.

2.5. A “development” round?

In November 2001, trade ministers from the whole world, meeting in Qatar for the IV WTO Ministerial Conference, decided to launch a new round of trade negotiations. In a grandiloquent though carefully calculated manner, many countries began to call this new process the “Development Round”. The role international trade could play in the development of poor countries was underlined and the reduction of poverty was identified as one of the priority goals of trade negotiations.

Two years later it became clear these declarations were no more than a public relations exercise. The “Development Round” was turned into more and worse agrarian subsidies for farmers from the North, into an offensive by the North American Government and its associated industries to prevent access by the poor countries to essential medicines, and finally to perpetuate a hypocritical and double standard system which forced developing countries to open up their economies unilaterally while the rich preserved a system of barriers to imports from the South.

In what follows we describe this failure, the result mainly of the intransigence of the developed countries. We analyse the principal essential points of this negotiating process as they have developed in recent years (mainly agriculture, intellectual property and access to markets) and we propose alternative measures to achieve a genuine Development Round.

3. TO REAP MISERY: AGRICULTURE IN TRADE NEGOTIATIONS

Developing countries have good reasons to be preoccupied by this theme. Two out of every three people today live on less than a dollar a day and depend directly or indirectly on the agricultural sector. There are almost one thousand million human beings whose food security and means of life are directly affected by rules imposed by the WTO.

Though it is the wealthy countries which control the great export markets and allocate huge budgets for the protection of their agriculture, this sector has a much greater relative importance for the poor countries whose national wealth largely depends on agrarian exports. In Africa alone 70% of employment is linked to the rural sector. In the whole of the developing world the agrarian economy produces almost half of national wealth. Even in poor countries which are net importers of food, trade rules are essential to define the conditions under which products from the North can enter and how the sustainability of its own rural sector and the living conditions of its inhabitants are affected.

It is not merely a quantitative question. Investment in the struggle against rural poverty is enormously profitable. Policies to increase income in rural areas have a multiplier effect, producing new employment, putting new energy into the local economy through the creation of goods and services, and creating links between rural and urban sectors. But in spite of this, poor rural zones suffer a double marginalization from donor organizations (whose aid to this sector has plummeted in recent years) and from their own governments.

3.1. The example of Mexico

In 1994 the North American Free Trade Treaty, which links Mexico, Canada and the United States, entered into effect. It was an agreement to strengthen trade relations between the signatories, creating regional employment and prosperity. But this has not been the case in the Mexican countryside. Five years after the agreement entered into force, American exports of maize into Mexico have quadrupled, thus taking away means of subsistence from fifteen million poor Mexicans whose ancestors have been producing maize for 4,000 years. The producers of maize in the United States receive 10,000 million dollars each year in subsidies which enables them to export at below market prices, and this is their comparative advantage. "Mexican maize is subsidized with the lives of the peasants who produce it. The only way they can compete with the American prices is by depriving themselves of basic necessities", says Victor Suárez, Executive Director of the National Association of Trade in Rural Products (ANEP).

Mexico has become an example of North-South relations in the sphere of agriculture which is a real touchstone in this system of negotiations. The incapability of the wealthy countries to make credible and attractive offers in this area to the developing world is the reason for the difficulties the negotiations in world trade are currently experiencing.

3.2. To produce for export or to produce to eat?

The link between trade and agriculture is a matter not free of controversy and which poses basic questions: Who benefit from agrarian exports in poor countries ? To produce for export presumes stopping to produce in order to eat? Unfortunately there are many countries who have placed their natural and social resources at the service of agroindustries which only benefit foreign companies and big landowners. A notable case is the production of genetically modified soya in Brasil: it has displaced thousands of small producers who used to grow basic foodstuffs in favour of the big agroexporters.

And yet the capability of small producers to supply national and international markets can have a considerable impact on economic growth and the reduction of poverty. The increase in exports and productivity should be preceded and accompanied by a comprehensive policy for rural development which mainly depends on the governments of the poor countries. Specifically this should include tax policies leading to income distribution, measures promoting equality between men and women, and access to essential resources like land, water or credit. With social policies of this nature, the effects of greater trade are highly positive. Oxfam has documented numerous cases that show this, such as production cooperatives of vegetables in Guatemala, producers of cotton in West Africa or exporters of rice in Vietnam.

Some governments and pressure groups in rich countries use this controversy as a protectionist weapon, which is unacceptable. If the European countries are really concerned by the conditions of peasants in poor countries, their obligation is to do something to improve them, and not sweep their miseries under the mat of others. The European Union can increase its aid for rural development, but it doesn't do so. It can stimulate suitable policies in poor countries by increasing debt remission, but it doesn't do so. It could even impose obligatory codes of conduct on European firms that benefit from cheap labour in countries like Brasil, but it is very far from doing so. As a consequence, when one compares the facts with the speeches of the leaders in rich countries, they lack credibility.

It is beyond question that the WTO rules affect the small producer, wherever he may sell his products. Owing to the policies of structural adjustment imposed by the World Bank and the IMF, many developing countries have left their agrarian sectors largely defenceless during two decades. Their producers have been left to the mercy of unfair competition from rich countries and transnational corporations. The consequences have been disastrous: in this period fourteen countries in Subsaharan Africa have become net importers of food while millions of peasants and their families have been obliged to compete with the massive subsidies and import barriers of the rich countries. The legal support for these practices is the WTO Agreement on Agriculture, drawn up at the beginning of the 90's by the USA and the EU in the light of their own policies in support of agriculture.

3.3. Agrarian policies of the North: organized madness

Agriculture is the most highly protected productive sector in the developed countries. Compared with other industrial or service sectors, the protection of the agrarian sector appears nonsensical in relation to the employment it creates or the wealth it generates.

In the European Union, agriculture accounts for only 8% of employment and contributes 3% to the wealth of the member countries. Yet the Common Agricultural Policy (CAP) exhausts half of the entire European budget, some 50,000 million euros a year. Together the rich countries support their farmers with astronomical sums, several times greater than their aid programmes or external debt remission.

How can such an economic absurdity be justified? The reasons are several. Probably the most important is the inertia of a model that was justified at the outset: after the Second World War, in the European case, and during the crisis of the 30's in the American case.

The two great economic powers set themselves the goal of self-sufficiency in food as a geo-strategic objective. They implemented plans to stimulate internal production and multiplied the barriers against outside competition. The system became so efficient that, towards the end of the 80's, the problem was what to do with the food surpluses the internal market could not absorb. These surplus products were put on the international markets and caused enormous distortions for their competitors.

It should be noted on this point that, when speaking of the agrarian policies of the North, excessive generalizations cannot be made. Their negative effects are similar, but with different intensity and mechanisms, depending on which country we are considering. In this "subsidy club", the big exporters are basically the EU and the USA. Others, such as Japan, Norway and Switzerland, buy more food than they sell overseas, so the damage of their policies is much less.

3.4. Is the European common agricultural policy legitimate?

The European Union is a classic example of the contradictions inherent in the system. Through a series of reforms during the decade of the 90's, the reasoning that gave birth to the CAP changed substantially: it is no longer a matter of protecting production but rather the multiple functions of agriculture. According to the new premise of the European experts, agriculture is much more than its mere economic value. As an activity occupying territory, it provides society with a range of public services not remunerated by the market and which the State should therefore guarantee with its support. Among these goods are population balance, social equity, environmental sustainability, preservation of the countryside and the provision of quality foodstuffs.

Opinion polls in Europe show that the majority of European citizens are in favour of dedicating part of their taxes to these ends. But can European agriculture really fulfill this goal? The answer is no; or at least much less than it might. In fact the internal and external implications of this model turn it into a test case of madness (well) organised and grossly overfinanced. Let us see why:

– Although there is talk of social equity, reality shows that when aid is linked to the volume of production or the extension of land, the big owners and producers have over the years reaped a lions share of the benefits, a problem that persists in spite of recent reforms².

– The GINI Index (where 0 is perfect equality and 100 perfect inequality) compares the distribution of subventions in the USA and EU with the distribution of income in Brasil. The data shows that the European agrarian policy is, from a social point of view, more unequal than the most unequal country on the planet.

– Boosting intensive production together with the subventions leads to considerable environmental costs difficult to estimate, among which are loss of habitat and biodiversity, and contamination due to waste disposal or the excessive use of pesticides and other agents. Reforms introduced during the 90's and in 2003 have had some effect in facing this problem, but the solution is still far off. If there is not a fundamental change in the model, it will be difficult to reverse the negative effects on the environment.

– Subventions to agriculture also affect the citizen as consumer and contributor. For low income families, expenditure on food is an important part of their budget, so that an artificial increase in prices or merely the tax burden devoted to agriculture, represent an added burden. The considerable volume of financial resources needed to protect agriculture result in a burden on European contributors and a significant opportunity cost to other sectors. Some analysts calculate that a million jobs could be created in the industrial sector if the packet of CAP subventions were devoted to this purpose. Other items, such as social cohesion through structured funding, could also reap much benefit. But citizens' worries go beyond mere prices. They are also affected by the quality of foodstuffs, the preservation of the countryside and environment in which they live, and –increasingly– by the situation in developing countries.

All these are parts of a model that needs to be thought out. It is not a question of doing away with any type of protection, but of rationalizing it and really directing it towards the positive ends desired. It is even possible that an "ideal" CAP may cost more than the present one, but this is not the main problem. In the EU what is lacking is a more communitarian budget and increased financing of common interests, not less. But this is a debate to be won in the streets, for it is certain the system is facing a serious legitimacy crisis in European society which is asking up to what point can a model be maintained in such conditions. The reason why we have arrived at this point has to be sought in the enormous political power of the agrarian lobbies, and especially of the big producers and allied firms who seek to maintain their privileges at any cost.

3.5. The impact in developing countries

However scandalous some of the internal effects of the CAP may seem to us (or of the agrarian policies of the USA which are very similar), they dwindle in importance in comparison with the external effects. These produce a huge impact in the economies and lives of hundreds of millions of small producers and consumers in the developing countries.

The vicious circle of the external effects of northern agriculture on poor countries can be resumed in the following points:

– *They cannot sell their products in our markets:* the control of imports through tariffs (duty paid by imported products at point of entry) and other barriers, destined to protect

American or European production, limit the export possibilities of developing countries and their opportunities to emerge from poverty.

– *Their selling prices are low and unstable*: The subsidised exports of the wealthy countries increase world supply and bring down prices. This harms other exports, among which are the non-subsidised exports of the poor countries. Further, the support of the wealthy countries protects their producers from variations in international prices, thus passing on to others the costs such uncertainty implies..

– *Markets of other countries lose out to the sales from rich countries*: Direct or indirect import subsidies for products from rich countries enables them to corner larger quotas in the international market in an artificial way and at the cost of other countries.

– *They have to suffer unfair competition in their own markets*: When subsidised exports from wealthy countries enter markets in developing countries they undercut small local producers. In the long run this has important implications for the food security of these peoples since they increase their dependency on foodstuffs they sometimes can't pay.

The EU sugar sector helps understand the sort of problems we are dealing with. Europe is not a competitive producer of sugar. Its average production costs (between \$650-700 per metric tonne) are more than double the production costs in countries like Brasil or Zambia. In spite of that, up till recently it has been the principal world exporter of white sugar, with almost 40% of the world's market. Recently it has been overtaken by Brasil, but it still has a world cuota of around 25% (annual exports of a little over 6 million metric tonnes)

How can such an inefficient competitor sell so much on the world market? The answer lies in a complex support system which includes massive protection from imports (tariffs of 140%) and a high surcharge to European consumers (who pay for their sugar three times what it would cost on the world market).

This system makes it profitable to produce and export 50% more than the Europeans consume. In fact, in the year 2000/01 European producers exceeded their cuota (12.3 million metric tonnes) by almost 30% (4.7 million, of which 3.8 were exported).

The model produces losers and winners. The first are basically the poor countries. Although some of them can export preferentially a small part of their sugar which is processed in the EU, the combination of effects described above means that the majority receive less for their product between 15 and 20% according to some calculations, find their market quota reduced for example, the 770.00 metric tonnes the EU exports to Nigeria and Algeria, natural markets for other exporters such as Mozambique, and export less to the EU.

Who gains? While it is true this system maintains thousands of European sugar-beet farmers who would otherwise abandon production, it is certain a model which pays for metric tonne produced benefits more those who produce more. In relative terms, the real gainers from European sugar policy are the big producers and big processing and exporting companies which accumulate hundreds of millions of euros a year in the form of subsidies and benefits.

3.6. How to reform European agriculture to everyone's benefit?

The WTO Agriculture Agreement was conceived to put an end to these distortions. Nevertheless, its rules have proved to be a trap for the hopes of developing countries. As it was drawn up by the EU and the USA, the agreement allows very high levels of subsidies to be maintained during an indefinite period. The only thing that has been done is to change the format of part of these subsidies, cutting them off from production (and therefore from the incentive to produce), but there has been no reduction in their general level: in the case of the EU they have grown since 1986 from 100,000 to 120,000 millions of dollars a year, while the USA has increased 20% (from 40,000 to 50,000 millions a year) during the same period. The new subsidies affect equally the position of European and Northamerican producers in international markets, thus allowing them to maintain a predominant position in sectors such as basic grains, so important for developing countries.

This model of protection urgently needs reform. It is urgent for the millions of small producers in developing countries who suffer from a lack of opportunity and unfair competition from European exports. But it is also urgent for the EU rural sector which desperately needs the funds devoted at present to a privileged minority.

The reform is already taking place, whether desired or not. The internal legitimacy crisis is now aggravated by two external factors which are proving decisive: the commercial negotiations within the WTO and the expansion process to the East which calls for rethinking the criteria which have been used up till now. In the last year various reform packets have been announced which affect both general policies and those of each sector. In some cases, such as cotton and tobacco, the changes imply the disappearance of a good part of the sector and their effects on the developing countries will be minimal.

Is this what European society wants? Probably, not. Most citizens have a legitimate desire to maintain an agrarian policy which guarantees a live rural sector with its advantages. On the other hand, the EU is not alone responsible for the ills suffered by producers from the South: other big exporters, such as the USA, provoke as many or even more distortions. The market is concentrated in a handful of companies; and, in the last resort, the eradication of rural poverty depends on certain national public policies from which the peasants are often excluded.

The solution therefore is to hold these interests in balance: to diminish the impact on poor countries by concentrating subsidies on the provision of public services required by European society. For this, organisations for the environment and the defense of family agriculture have made numerous suggestions from a fairer distribution of subsidies to the introduction of environmental conditions for production³.

As for the developing countries, measures to reform agrarian policies of the North can be reduced to four:

- A substantial reduction in total volumes of production, especially of those products in which exports figure high.
- To eliminate all forms of export subsidies, adjusting sale prices in international markets to the real costs of internal production.

– To guarantee poor countries the right to effective protection against unfair competition from subsidised exports. For this, various measures can be introduced into the WTO Agriculture Agreement, such as exempting basic foodstuffs from liberalization processes.

– To increase access of products from developing countries to EU markets. As a first step, free access for the products of the group of Low Income Countries should be guaranteed.

European agrarian protection will only be legitimate when it forgets its obsession to export and recognises for poor countries the same right to rural development and food security that it claims for itself. Small Spanish producers (who are the majority) should be just as interested in this change as the peasants from poor countries. If it is not them who break with the sector's corporate spirit and explain to our society where the interests of each lie, nobody will do it. To continue in this path, in a short time none of them will be left in the rural areas to lament it, and then we will all regret it.

4. PATENTS OR LIFE: THE CONFLICT BETWEEN THE RULES OF INTELLECTUAL PROPERTY AND PUBLIC HEALTH

John, a Ugandan fisherman who lives near Kampala, feels much better since he has had access to the antiretroviral therapy against AIDS which he suffers. He can work and feed his family. They have now told John's wife just recently that she too is suffering from AIDS. "I don't have money to pay for the medicines for both of us", says John. If he pays the medicines for his wife, his children will not be able to go to school and "will have no future". If he leaves off his own treatment so his wife can have antiretroviral therapy, he knows he will die. "What will happen to my family?", he asks. For a treatment to be available, it should cost about 10% of his income. This would allow both he and his wife to receive it. John believes the government should help those who cannot afford to pay for their medicines.

The case of John's family is the case of millions of families in poor countries, especially in Africa. The giants of the pharmaceutical industry, backed by WTO rules on intellectual property (TRIPS) impose commercial deals which prevent the access of these sort of people to effective treatment for their illnesses. In the spring of 2001, pharmaceutical companies took the South African Government to court for trying to cheapen the cost of the medicines by introducing similar products on the market. People's indignation world-wide gave rise to thousands of letters and emails and obliged the firms to withdraw their charges. As a result of this, international pressure to change WTO rules on pharmaceutical patents has become unstoppable.

Perhaps the most positive result of the WTO summit in Doha -which took place in November 2001, a few months after the South African case- was its 'Declaration on TRIPS and public health', in which 142 governments stated that the rights of sick people take priority over the rights of firms with regard to patents. Governments from poor countries celebrated this declaration as an historic victory. It seems the USA and other industrialized countries, which had vigourously defended the interests of their big pharmaceutical companies, were forced by public opinion to reconsider their priorities. Regrettably, afterwards the rich countries didn't respect the Doha commitments. The frustration of poor countries and WTO criticisms for not serving the general interest have multiplied. And each day broken promises reduce chances for treatment of the sick in poor countries. Once again the relation between poverty and precarious health is underlined.

4.1. Broken promises

The ministers agreed in Doha that the less developed countries (LDC) need not be bound by medical patents till at least the year 2016 and maintain low prices thanks to competition from similar medicines (without trademark). But the countries most affected by this problem were subject to strong pressures from the USA not to use the concessions they had been granted in the Doha agreement.

Cambodia, for example, is the first of the Less Developed Countries (LDC) which entered the WTO from its foundation in 1995, and has found itself obliged, as part of the agreement for entering, to introduce patents in 2007.

The Doha summit had another positive result in this matter: it reaffirmed that any country could annul a patent in the public interest (using a mechanism known as “obligatory licence” to buy or produce generic drugs) and request a maker of generic drugs to produce them at a lower cost. This is important because, though a country may not wish to use the obligatory licence, the fact that it exists gives it strength when negotiating prices with pharmaceutical giants like Pfizer and Glaxo Smith-Kline. Brasil has shown this by obtaining at a greatly reduced cost patented antiretroviral medicines to treat AIDS.

The political importance of the Doha Declaration in defending this option has not diminished. The problem is that the USA has tried to undermine in a systematic manner the spirit of the Declaration. Though it accepted in principle the right to annul patents, it opposed any country exercising the option to issue obligatory licences. The USA also tried to frustrate any WTO agreement by reducing the scope of obligatory licences through bilateral and regional trade agreements. For example, its proposals for the agreement of the Free Trade Area of the Americas (FTAA) or the bilateral agreements with Chile and Singapore defend the patents of firms beyond the WTO.

Illogically the USA threatened to issue obligatory licences when it saw the lives of Americans affected three years ago through the sending of letters with anthrax which killed four people.

The third problem in implementing the Doha Declaration refers to the question of how to obtain subsidies for generic medicines. One of the problems with TRIPS is that developing countries are allowed to buy a cheaper generic version of a new medicine but, though this seems unbelievable, the producers of generic medicines are not allowed to sell them to the same countries. This means that those countries which cannot efficiently produce generic medicines –and this includes the great majority of developing countries, especially in Africa– have no easy access to generic medicines. To solve this problem, all that is required are a few simple measures allowing producers of generic medicines to export –and others to import– without having to pass through the complex legal processes required by the WTO.

The ministers agreed on a timetable for the end of 2002 to agree on an amendment to find a way out of to this blind alley. But the decision was delayed till August 2003, a few days before the meeting at Cancún, and only offered a half solution to the problem.

The reason for this failure to fulfill lay in coertions brought to bear by farmaceutical pressure groups and industrialised countries, mainly the USA, to restrict the scope of the proposed change and surround it with so many formal requirements that it became quite impracticable. The present agreement, which corrects a clause of only twenty words, contains eight pages. After facing over a year of intransigence from the wealthy world, the developping countries finally agreed to accept this draft as a lesser evil. The United States, pressured by Pfizer and other companies, wanted more. They wanted to limit the use of the more flexible norms for patents to a restricted number of diseases (great epidemics) and countries (the poorest). Luckily the developping countries maintained a firm position in spite of pressures.

The United States has retreated from its more unacceptable demands, but it has succeeded in setting up a cosmetic pact which both they and the European Union present in a joint campaign to convince the world there have been important changes in

the norms and that the question of patents and public health is now definitely off the agenda. Nevertheless, the reality is that the TRIPS agreement, which has increased the privileges of the big pharmaceutical firms throughout the poor world, continues to cause an increase in prices for medicines. And this is a truth no campaign can hide.

4.2. What can be done ?

The member states of the WTO should revise the text of the present amendment to facilitate in reality the import of generic medicines in poor countries. In the longer term, it should grant developing countries greater freedom to decide if and when to introduce high levels of protection through patents for medicines according to their public health needs. At present, all countries are obliged to admit patents of medicines for a minimum of 20 years. The process of wider reforms should begin with an in-depth analysis of the effect of TRIPS on public health, with the help of the World Health Organization.

If these measures are not taken up, millions of poor people will be condemned to unnecessary illnesses and suffering by the way the more powerful countries direct their trade policies.

The following measures are vital if the rich countries wish to fulfill their commitments on public health and patents:

- The WTO should lift all restrictions on the export of the most economic generic versions of new medicines to developing countries, in accordance with the Doha commitments.
- The WTO norms on patents must be amended to give developing countries greater freedom to decide when to introduce high levels of protective patents for medicines, according to their needs of public health and development.
- Developing countries should ensure that their national laws on patents take maximum advantage of the possibilities in the Doha Declaration.
- The United States and the big pharmaceutical companies should stop putting pressure on developing countries to introduce (or maintain) norms on patents which go beyond the present TRIPS obligations.

5. ACCESS TO MARKETS: WHEN ROBIN HOOD CHANGED SIDES

Most tax systems are based on the principle of progressivity: the more one earns, the more one pays. International trade works the other way round. The poorest countries of the world pay the highest taxes. Articles produced by the poor of these countries are subject to the highest taxes. Put in simple language, international trade is controlled by a tax system based on a perverse scale: the less one earns, the more one pays.

Governments in the wealthy countries like to present fairly low tariffs (taxes on the entry of goods from other countries) as an example of their commitment to open markets. But the complexity of tariffs hides a common and very simple characteristic of commercial policy by the governments of the North. The lower the incomes of the producers seeking to enter the market, the higher the tariffs imposed on entry. If the governments of the wealthy countries applied the principles of their commercial policy to their internal tax system, unmarried mothers on a minimum wage would pay higher taxes than a telephone company director.

The average tariffs imposed by industrialized countries on developing countries are between four and five times higher than those on trade between the industrialized countries. The reason is very simple: products in which the developing countries have a comparative advantage are subject to the highest import taxes. For the most part, the products involved are the labour-intensive ones whose export would allow a large reduction in poverty.

The discrimination against developing countries is systematic. Poor countries are responsible for less than a third of the imports to rich countries yet suffer two-thirds of the imports subject to the highest tariffs, more than 15 per cent. In the USA and Canada the highest tariffs are concentrated on textiles and clothing, products of special interest for poor countries. In the EU the highest tariffs are concentrated in agriculture: 290 types of agricultural products are subject to tariffs over 15 per cent. Many of the products affected, which include meat, sugar, fruit, vegetables and milk products, are of special interest for poor countries.

5.1. The less you earn, the more you pay

The norms for charging customs duties in industrialized countries confirm that their policies for tariffs are based on an inverted scale. Oxfam has analysed the data from the US Trade Department for 2001. Comparing the value of imports into the USA from certain countries with the charge of customs duties for each country, it shows a substantial inequality between charges made to rich countries and poor countries.

The general tax applied to imports in the USA is 1.6 per cent. This rate increases considerably for many developing countries: average tariffs range from 4 per cent for India and Peru to 7 per cent for Nicaragua, and rise to 14-15 per cent for Bangladesh, Cambodia and Nepal.

Some of the key findings of the enquiry are well illustrated in comparing specific countries:

– *Bangladesh and France*: Bangladesh has an average per capita income of \$1,602 and France of more than \$24,000. Some 41 million inhabitants of Bangladesh live in extreme poverty, below the survival line. Yet an import tax of 14 per cent is applied to Bangladesh, as against one per cent to France.

– *Vietnam and the Low Countries*: Vietnam is number 109 in the UNDP Index of Human Development, 101 places below the Low Countries. Its average per capita income is less than \$2,000 a year, and that of the Low Countries \$25,657. The average tariff applied to articles from Vietnam entering the USA is 8 per cent. For the Low Countries the rate is one per cent. This means Vietnam pays higher customs duties for the products it sells to the USA than the Low Countries whose exports are four times greater.

Difficulty in getting data makes direct comparisons with the EU problematic. Nevertheless, available proofs suggest that the EU Common External Tariff (CET) is slanted against poor countries. Here also we find the same principle of an inverted scale. In Great Britain taxes on articles imported from India are some four times greater than those levied on the USA, and some eight times greater for countries like Sri Lanka and Uruguay. India represents less than one per cent of the value of British imports, but more than three per cent of the value of customs duties entering the UK.

Though governments of the North talk much about drawing up a trade policy in favour of the poor, the reality tells a very different story. The million women in Bangladesh who live in the suburbs of Dacca and produce shirts for export to the USA confront trade taxes twenty times greater than those applied to articles exported by British or French engineers. In India 35 million workers in the textile industry produce articles subject to tariffs of 20 per cent in the USA. Meanwhile ten million workers in the shoe industry in the same country, many of them from the lowest castes and with appalling levels of poverty, pay taxes of 10 per cent in the EU, which are double for some lines of products.

5.2. The case of textiles

The debate which takes place in the WTO about the access of developing countries to Northern markets, highlights the controversy generated by the failure to fulfill the so-called Agreement on Textiles and Clothing (ATV). Exports in this sector are an important source of benefits for many developing countries. It is also a source of employment, especially for women. The dependence on textiles and articles of clothing is especially high in South Asia. In India the sector represents four per cent of GNP and a quarter of commercial exports, and in Bangladesh it rises to 80 per cent of benefits from exports.

The combined effect of tariffs from the wealthy countries and quotas on textile and clothing products cost the poor countries losses of some 40,000 million dollars a year in their export earnings. India alone loses nearly 10,000 million. The financial losses are on the same level as losses in jobs. The protectionism of the wealthy countries in articles of clothing is calculated to cost developing countries some 27 million jobs, many of which would be taken up by women living below the threshold of poverty.

Under the Textile and Clothing Agreement (TCA), the industrialized countries agreed to eliminate progressively quotas on imports over a period of ten years which would end in 2005. They have diligently stuck to the letter of the agreement, though often breaking its spirit. When the last phase of the Agreement began in 2002, over half the quotas should have already been eliminated. But the reality is that the USA had only eliminated 10 per cent of the quotas in force when the Agreement was signed, Canada 20 per cent and the EU 27 per cent.

5.3. 'Graded' hypocrisy

One of the most pernicious protectionist practices of the wealthy countries is that of 'graded tariffs'. These are trade taxes which increase in proportion to the degree the product is processed. Low tariffs on unprocessed articles encourage exportation of raw materials with little added value and a small profit margin. High tariffs applied to processed articles discourage investment in exporting industries with higher added value. Thus it is very difficult for poor countries to move up the ladder of technology, diversify their exports and make their economies more dynamic. In practice, the benefits generated by trade are transferred from the poor countries to the wealthy.

Graded tariffs have a very negative effect on markets for raw materials, as is shown in the case of cocoa. Cocoa exporters to the EU and the USA don't pay tariffs on unprocessed seeds. But they pay 15 per cent if the seeds are processed to produce paste or chocolate. For this reason Germany processes more cocoa than the Ivory Coast, the world's biggest producer. For the same reason, Great Britain grinds more cocoa than Ghana. Developing countries represent more than 90 per cent of the production of cocoa seeds, but produce less than half of cocoa butter and less than five per cent of chocolate which is produced all over the world.

5.4. How to make the poor in rich countries pay

Governments and pressure groups in rich countries sometimes pretend to justify these policies by referring to the interests of vulnerable groups within their own countries. But in reality high protective levels on labour intensive articles also harm a significant group of poor people in the developed world.

Tariffs on the imports of rich countries tend to be higher on products important to the poor and increase their price. In the USA, import tariffs are the only taxes whose real rates rise as incomes fall. Import taxes on clothes and shoes add 1.2 per cent to the tax burden carried by 9.7 million single mothers in the United States (some 308 dollars a year). It is more than double the rate applied to families with high incomes. The highest tariffs fall on articles which the poor consume more (like cotton or synthetic shirts and cheap shoes).

Groups interested in continuing to protect rich country markets claim that protectionism is good for employment. In the USA, the textile magnates from South Carolina have

known how to use this argument well to defend import barriers against India and Bangladesh. Similar arguments have been heard in the EU and Canada.

In reality the argument in favour of using import restrictions so as not to destroy low salary and unskilled employments doesn't hold together for three reasons:

- In the first place, it doesn't work; in spite of protection, employment in the textile and shoes industries in the USA has fallen at least by half in the last decade.
- Secondly, the freeing of imports can create new work opportunities. The US Chamber of Commerce calculates that freeing the market in textiles and clothing would increase general economic wealth by some 13,000 million dollars.
- Thirdly, it is much more efficient to tackle problems of low wages and few skills faced by workers in risky industries through an industrial policy of training programmes and social assistance, rather than through import barriers.

To say it another way: to harm the most vulnerable working women in the South Asian clothing industry is not an efficient way of ending the poverty of the most vulnerable working women in South Carolina. Each job saved through import barriers in the industrialized countries costs some 35 jobs in the poor countries.

5.5. Some suggestions

A more just control of policies to access markets in the WTO should take into account at least the following measures:

- Unequal players cannot be treated equally: One should not expect poor countries to take on the same commitments to free imports as the developed countries. At the moment this is happening the other way round!
- Average tariffs of industrialized countries on imports from poor countries should not be higher than those applied to developed countries. Low income countries should have access without tariffs and without quotas to the markets of industrialized countries.
- Labour intensive products which generate employment in poor countries, such as textiles and clothing, should be subject to especially low tariffs.
- Developed countries should fulfill their commitments to abolish import quotas gradually and grant the introduction of a maximum tariff of 5 per cent on imports of textiles and clothing by the year 2005.

6. CONCLUSION: CHALLENGES AFTER THE CANCÚN CONFERENCE

In a separate publication from *Cristianisme i Justícia* a little after the Ministerial Conference at Cancún (September 2003), we analysed briefly the causes for its failure and its immediate implications for the negotiating process. We said then the reason for the collapse at Cancún was precisely the rift we have described above.

That is: the clash between the hopes of poor countries who expected to achieve something similar to a *Development Round*, and the very limited offers of the wealthy countries, especially the USA and the EU. The three questions we have developed were linked to a discussion of ‘new themes’ (such as investment), which clearly showed the intransigence of the EU against the opposition of over one hundred negotiating countries. Those responsible for saving the Development Round arrived at the conference with last-minute positions, without any substantial concessions to the rest of the negotiators and in the middle of the chaotic and obscure processes we have become accustomed to in recent WTO meetings.

None of this was different from what happened at previous meetings, held in the cities of Doha and Seattle. In fact, the wealthy countries were confident in being able to implement a policy of *fait accompli* which has proved so profitable to them since the WTO was set up nine years ago. But they met with a different reality. A coalition of developing countries preferred to hold firm rather than accept a bad agreement. The setting up of the so-called G-20 (led by Brasil, India, South Africa and China) and of other groups of the poorest countries could lead to a real breaking point in this process, and has shown it both in bilateral negotiations and other regional agreements (such as the Free Trade Area of the Americas). Four months after Cancún, the pessimism with which we viewed the future seems to have changed slightly.

The poor countries’ struggle has even found some effective rallying-cries, such as the “Cotton Initiative” which confronts four of the poorest countries in the world (Mali, Chad, Benin and Burkina Faso) with the giant North American agroexporters. The US Government devotes to the production and export of its cotton almost 4,000 million dollars a year which forces into destitution ten million producer families in West Africa. The four countries pushing this initiative are calling for a just regulation of the agrarian markets which will enable them to compete on a basis of equality. In spite of attempts by the USA and the EU to distract attention from this matter, world opinion has seen in it a symbol of the real dilemmas that are at stake. Some analysts have called it “The Cotton Test”.

The failure at Cancún was not good news, but the crisis could offer an opportunity for change that would benefit all. At a time when multilateralism is at risk, it would be dangerous to add to the failure of the UN that of the WTO. It is essential to safeguard institutions and rules that help shape globalization to the benefit of all. For this reason it is urgent to reconstruct the negotiation process on a new balance of strengths, demanding from the rich countries an effort they have so far not made. It is the responsibility of all: associations and citizens concerned for our future and the future of the world.

There is one obvious decision that needs to be taken. We can allow unjust trade rules to continue causing poverty and despair, and face the consequences. Or we can change the rules. Oxfam is determined not only to press with arguments the need for change, but also to work for this change to become a reality. For this reason we have launched the Oxfam campaign on trade with the name Trade With Justice. We know that true change will only come when a big number of people, both in rich and poor countries, demand it. We want to work together with many organizations and individuals all over the world already running campaigns to ensure that trade makes a real difference in the fight against global poverty. Together we want to build the type of movement that succeeded in ending apartheid, in banning the use of anti-personnel mines, and which is making real progress in reducing Third World debt. It is an ambitious task and not an easy one, but we are convinced the success of this campaign and collaboration with other organisations and movements could change the life of poor communities in a way never before seen.

¹ The content of this document is based on the different studies and publications carried out by Oxfam International in its campaign Trade with Justice. The reader can find more information in the web-page www.comercioconjusticia.org, and also in the book *La ley del más fuerte* (A. Prieto and B. de la Banda, Intermón, Oxfam, Madrid, 2003). The author would like to thank Belén de la Banda for her valuable contributions in putting together this book.

² Future assistance, in the form of one payment, is linked to past levels of help, which only consolidates inequalities in the distribution of funds

³ See for example the proposals in this direction made by organisations such as UPA, COAG or WWF-Adena (www.wwf.es).