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Oxfam Briefing Paper

Signing Away The Future

How trade and investment agreements between rich and poor countries undermine development

The quiet advance of trade and investment agreements between rich and poor countries threatens to deny developing countries a favourable foothold in the global economy. Driven by the USA and the European Union, these agreements impose far-reaching rules that place severe restrictions on the very policies developing countries need in order to fight poverty.

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Summary

The quiet advance of trade and investment agreements between rich and poor countries threatens to deny developing countries a favourable foothold in the global economy.

Powerful countries, led by the USA and the European Union (EU), are pursuing regional and bilateral free trade agreements with unprecedented vigour. This is happening without the fanfare of global summitry and international press coverage. Around 25 developing countries have now signed free trade agreements with developed countries, and more than 100 are engaged in negotiations. An average of two bilateral investment treaties are signed every week. Virtually no country, however poor, has been left out.

Rich countries are using these bilateral and regional 'free trade agreements' (FTAs) and investment treaties to win concessions that they are unable to obtain at the World Trade Organization (WTO), where developing countries can band together and hold out for more favourable rules. The USA has called its approach 'competitive liberalisation', and the EU declared its intention to use bilateral deals as 'stepping stones to future multilateral agreements'.

the EU argues that this new generation of bilateral and regional agreements is vital in order for developing countries in Africa, the Caribbean and the Pacific to maintain their access to European markets in a form that is compatible with WTO rules. It has also repeatedly told poor countries that it has no commercial 'offensive interests' in the negotiations and that there will be long periods for implementation. Yet its far-reaching proposals and aggressive approach appear to contradict these statements.

The inexorable advance of such trade and investment agreements, negotiated largely behind closed doors, threatens to undermine the promise of trade and globalisation as forces to reduce poverty. In an increasingly globalised world, these agreements seek to benefit rich-country exporters and firms at the expense of poor farmers and workers, with grave implications for the environment and development.

The worst of the agreements strip developing countries of the capacity to effectively govern their economies and to protect their poorest people. Going beyond the provisions negotiated at a multilateral level, they impose far-reaching, hard-to-reverse rules that systematically dismantle national policies designed to promote development.

The USA and EU are pushing through rules on intellectual property that reduce poor people's access to life-saving medicines, increase the prices of seeds and other farming inputs beyond the reach of small farmers, and make it harder for developing-country firms to access new technology. The proposed trade deal between the USA and Colombia, for example, would increase medicine costs by $919m by the year 2020, enough to provide health care for 5.2 million people under the public-health system. Under the US–Dominican Republic–Central America Free Trade Agreement (DR-CAFTA) the prices of agrochemicals are expected to rise several-fold.

The rules on liberalisation of services in FTAs threaten to drive local firms out of business, reduce competition, and extend the monopoly power of large companies. When Mexico liberalised financial services in 1993 in preparation for the North American Free Trade Agreement (NAFTA), for example, foreign ownership of the banking system increased to 85 per cent in seven years, but lending to Mexican businesses dropped from 10 per cent of gross domestic product (GDP) to 0.3 per cent, depriving poor people living in rural areas of vital sources of credit.

These new rules also pose a potential threat to poor people's access to essential services. In some US FTAs, developing countries are committing themselves to let foreign investors into public utilities if the sector is opened up to domestic private companies. A leaked version of the EU's draft negotiating mandates for FTAs with ASEAN, India, Central America, the Andean countries, and South Korea show that the EU is seeking similar provisions for water and other utilities.

New investment rules in many agreements prevent developing-country governments from requiring foreign companies to transfer technology, train local workers, or source inputs locally. Under such conditions, foreign investment fails to build national linkages, create decent employment, or increase wages, and instead exacerbates inequality.

The investment chapters of FTAs and bilateral investment agreements make governments vulnerable to being sued by foreign investors if a new regulation is perceived as damaging the investor's profits, even when such reforms are in the public interest. Current claims against Argentina for emergency measures adopted during the financial crisis in 2001/2002 are estimated at $18bn.

Free trade agreements can impose radical tariff liberalisation, threatening the livelihoods of small farmers and preventing governments from using tariff policy to promote manufacturing. For example, through its Economic Partnership Agreements (EPAs), Europe proposes to oblige the poorest countries in the world to reduce a very large part of their tariffs to zero. At the same time FTAs do not address the adverse impacts of rich-country subsidies on poor countries through dumping, or the plethora of non-tariff barriers that continue to impede access to rich-country markets.

The overall effect of these changes in the rules is to progressively undermine economic governance, transferring power from governments to largely unaccountable multinational firms, robbing developing countries of the tools they need to develop their economies and gain a favourable foothold in global markets.

Although developing-country governments have proved themselves increasingly assertive at the WTO and in some regional and bilateral agreements, the balance of power in current negotiations remains tipped heavily in favour of rich countries and large, politically influential corporations. Furthermore, within developing countries, small businesses, trade unions, non-government organisations, women's groups, and indigenous peoples have very few mechanisms for participation, and their rights and needs are largely ignored.

Trade and investment are essential for development, and the imbalances that characterise and distort global trade and investment rules must be addressed as a matter of urgency. But unequal and exploitative free trade agreements and bilateral investment treaties, which prohibit the very policies developing countries need in order to fight poverty, is no way to put trade and investment at the service of development, or to build a safer, fairer world.

In order to turn the tide and put trade and investment at the service of development, Oxfam believes that trade rules, whether multilateral, regional, or bilateral, should:

- Recognise the special and differential treatment that developing countries require in order to move up the development ladder.

- Enable developing countries to adopt flexible intellectual-property legislation to ensure the primacy of public health and agricultural livelihoods and protect traditional knowledge and biodiversity.

- Exclude essential public services such as education, health, water and sanitation from liberalisation commitments.

- Recognise the right of governments to regulate the entry of foreign investors to promote development and the creation of decent employment, and include commitments to enforce core labour standards for all workers.

- Ensure mechanisms for extensive participation of all stakeholders in the negotiating process, with full disclosure of information to the public, including the findings of independent impact assessments.

1 Free trade agreements and bilateral investment treaties: everybody's business

'The focus on bilateralism…damages the rights particularly of the poor and the weak because in a bilateral negotiation the objectivity of a global system goes out the window and you have in effect a bullying opportunity often for the major trading powers.'
Peter Sutherland, former WTO Director General and Non-Executive Chairman, BP & Goldman Sachs[1]

Free trade agreements 'are not right for developing countries… it is not a negotiation, it is rather an imposition'.
Joseph Stiglitz, Co-Recipient, 2001 Nobel Prize in Economics[2]

Powerful countries, led by the USA and European Union (EU), are pursuing regional and bilateral free trade agreements with developing countries with unprecedented vigour.[3] They use these agreements to win concessions they are unable to obtain at the World Trade Organization (WTO), where developing countries can band together and hold out for more favourable rules. And they use the agreements to undermine the negotiating positions of developing countries in the WTO.

During 2006, more than 100 developing countries were engaged in over 67 bilateral or regional trade negotiations, and signed over 60 bilateral investment treaties. More than 250 regional and bilateral trade agreements now govern more than 30 per cent of world trade, whilst an average of two bilateral investment treaties have been agreed every week over the last ten years.[4]

The rules negotiated in these agreements reflect the bargaining power between the parties. Agreements between developed and developing countries are invariably imbalanced. As this paper demonstrates, the new rules that are being pursued through bilateral and regional trade agreements by rich countries are inimical to development. They require enormous irreversible concessions from developing countries, and almost nothing from rich countries, save maintaining current market access. They demand much faster liberalisation and stricter intellectual-property rules than the WTO, and strip developing countries of the policy space they need to effectively govern their economies. They present a serious and wide-ranging threat to developing countries' abilities to protect their poorest people and lift them out of poverty.

North–South agreements: a new route to enforce economic domination

Historically, industrialised countries have pursued bilateral trade and investment agreements largely for political reasons, but as the global economy changes there is a growing impetus for new agreements on economic grounds.

In the last two decades, production systems have globalised and now span many countries – goods are no longer created in one country and then traded with another. On average, the world's largest companies have affiliates in 40 different countries, and an estimated 10 per cent of world gross domestic product (GDP) is now produced within the global production systems of individual transnational corporations.[5] The balance of power in the global economy is also shifting. At current growth rates, by 2050, the economies of China, India, Brazil, Russia, Indonesia, Mexico, and Turkey combined will be larger than that of today's G7.[6]

In this new economy, ownership and control over the vast global production chains and access to the world's fastest growing markets determines who is rich and who is poor. The USA, EU, and Japan are using trade and investment agreements to extend the influence of their leading companies, and reduce the ability of developing countries to gain a beneficial foothold in the global economy.

A stepping stone to changing global rules

The USA and the EU have made it clear that they are pursuing bilateral and regional trade deals with a view to eventually changing international rules in their favour.

Right after the failed WTO Ministerial in Cancun in 2003, Robert Zoellick, the US Trade Representative, announced that the USA would push ahead with free trade and investment agreements with 'can-do' countries: 'By pursuing multiple free trade initiatives, the US is creating a 'competition for liberalisation' that provides leverage for openness in all negotiations, establishes models of success that can be used on many fronts, and develops a fresh political dynamic that puts free trade on the offensive'.[7]

In October 2006, Peter Mandelson, the EU Trade Commissioner, made a similar pronouncement: 'Europe's bilateral agreements will of course be driven by competitiveness considerations that reflect our trade priorities […] they will be […] stepping stones to future multilateral agreements [… and] road-test liberalisation that can ultimately be extended to the global system'.[8]

The one exception is the Economic Partnership Agreements the EU is negotiating with 75 African, Pacific, and Caribbean (ACP) countries and South Africa. Peter Mandelson proclaims these are 'the European Commission's most basic expression of the desire to put trade and development together […] These agreements will help build regional markets, build up productive capacity and diversify ACP economies'.[9] The EU has repeatedly told the ACP countries that it has no commercial 'offensive interests' in the negotiations and that there will be long periods for implementation. Yet its far-reaching proposals and aggressive approach appear to contradict these statements.

Undermining the multilateral trading system

FTAs pose a deep threat to multilateralism and the core values of the WTO. They directly contradict the Most Favoured Nation (MFN) principle, the cornerstone of the multilateral trading system. They create a maze of overlapping arrangements, leading to substantial trade diversion as countries discriminate against efficient, low-cost suppliers outside of the trade agreement in favour of less efficient suppliers from within the trading bloc. Costs of trade further increase as each agreement has its own rules of origin, tariff schedules, and periods of implementation.

Developing countries often negotiate FTAs in the hope of increasing their market access or under the threat of preference withdrawal, which looms large for many. Central American and Andean countries depend on the US market for at least 50 per cent and 42 per cent of their exports respectively, while the countries negotiating Economic Partnership Agreements (EPAs) depend on Europe for more than 40 per cent of their exports.[10] However, the more FTAs are signed by the USA and the EU, especially with more competitive developing countries, the less valuable this preference will be and the higher the costs compared with negotiating in a multilateral forum. The World Bank concludes 'all developing countries would collectively lose if they were all to sign preferential agreements with Canada, the EU, Japan, and the United States'.[11]

FTA negotiations weaken the resolve of governments to get a multilateral deal. They provide a convenient illusion that a country's trade agenda is moving forward in spite of the paralysis of WTO negotiations, allowing trade ministers to boast about concrete achievements and postpone difficult decisions and trade-offs that would be necessary to broker a multilateral deal. New FTAs further complicate the problem of preference erosion, which has already become an intractable problem at the multilateral level, as countries have a vested interest in defending preferential margins against MFN liberalisation.

FTAs divide developing countries, undermining their collective bargaining power, as individual countries or groups of countries which have already significantly opened their markets to developed countries are likely to take different positions from those which still have high tariffs, as demonstrated in the splits among developing countries in NAMA negotiations.

At a more practical level, the capacity of developing countries and developed countries to negotiate a WTO agreement is seriously weakened by the plethora of parallel FTA negotiations. 'Despite all efforts at training negotiators in developing countries, there are just not enough capable people for most of them to concentrate adequately on more then one serious trade negotiation at a time. In recent years we fear that it is the WTO that has lost out in terms of negotiating focus.' [12]

Time to turn the tide

Around 25 developing countries have now signed free trade agreements with developed countries, and more than one hundred are engaged in negotiations.[13]

Despite increasing pressures to sign, some developing countries are refusing to succumb. The insistence of the MERCOSUR block of countries in South America on real concessions from the USA brought negotiations on a 'Free Trade Area of the Americas' to a standstill. South Africa and Thailand have walked away from negotiating free trade agreements with the USA, disputing the proposed rules on public health and investment regulation respectively.

Even in Economic Partnership Agreement negotiations, where power imbalances are immense, the Pacific negotiators have warned the EU that negotiations are in danger of being 'placed in jeopardy' unless they are convinced that 'on balance, an EPA would deliver significant benefits to them and enable achievement of the economic and trade cooperation objectives'.[14]

Now is the time to turn the tide. Developing countries stood up against unfair rules at the WTO. They now need to stand in solidarity as developed countries relentlessly try to break down their resolve through bilateral and regional trade negotiations.

Table 1: Developing countries involved in bilateral and regional trade negotiations with the USA, EU, Japan, Australia, Canada, and New Zealand

	Signed	Under Negotiation
USA	NAFTA (Mexico, Canada) DR-CAFTA (Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua) Jordan, Singapore, Chile, Morocco, Bahrain, Oman, Peru, Colombia	Panama, Malaysia, South Korea, Thailand
EU	Mexico, Chile, South Africa, Tunisia, Morocco, Egypt, Turkey, Lebanon	ECOWAS (Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Sierra Leone, Senegal, Togo) SADC (Angola, Botswana, Lesotho, Mozambique, Namibia, Swaziland, Tanzania) CARIFORUM (Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname, Trinidad & Tobago) CEMAC (Cameroon, Central African Republic, Chad, Democratic Republic of Congo, Congo, Equatorial Guinea, Gabon, São Tomé & Príncipe) Pacific (Cook Islands, Fed. States of Micronesia, Fiji, Kiribati, Rep. of the Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu) Central America (Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama) MERCOSUR (Argentina, Brazil, Paraguay, Uruguay) Andean Countries (Venezuela, Bolivia, Colombia, Ecuador, Peru) Algeria, Cyprus, Israel, Jordan, Malta, Syria, Tunisia, Palestine ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, Vietnam)

		Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates)
Japan	Singapore, Mexico, Malaysia, Thailand, Philippines	ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam) Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) Brunei, Chile, India, Indonesia, Thailand, Vietnam
Australia		ASEAN–New Zealand (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam, New Zealand) China, Malaysia Exploring FTAs with Chile, Mexico, South Korea and Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates)
Canada	Chile, Costa Rica, Mexico	Andean Community (Bolivia, Colombia, Ecuador, Peru and Venezuela) CARICOM (Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts & Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad & Tobago) Central America (Guatemala, El Salvador, Honduras and Nicaragua) Dominican Republic, Korea Singapore
New Zealand	Singapore, Thailand, 'Trans-Pacific' (ratified by New Zealand, Brunei, and Singapore, but not yet Chile)	ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam) China, Malaysia

2 Intellectual property: placing knowledge out of reach

Intellectual-property rules, when used effectively, can encourage innovation, development of new technologies, and economic growth. However, if they are too strict, they can limit developing countries' access to technological know-how and affordable medicines, while failing to protect traditional knowledge. The balance between rewarding innovators and promoting public access is being skewed by unfair trade rules in FTAs.

Advanced industrialised countries are using FTAs to push for stricter intellectual-property rules to maintain their growth and competitiveness and support the expansion of their companies. Developing countries fought hard at the WTO to preserve specific flexibilities to set intellectual-property rules appropriate to their developmental needs, but now even these are being undermined.

The USA is the most aggressive proponent of stricter intellectual-property rules, requiring developing countries to sign agreements that go far beyond the WTO Trade Related Intellectual Property Rights Agreement (TRIPS). The EU is following closely on its heels, including intellectual-property chapters in the negotiations of EPAs with 75 African, Caribbean, and Pacific (ACP) countries and South Africa, and elsewhere pushing plant-patent protection and strong copyright rules that undermine development.

Reducing access to medicines

The cost of medicines represents the greatest share of health-care expenditures for people in developing countries, and most of these countries provide little health insurance or public-sector coverage for medicines. The main proven mechanism to reduce the price of medicines is through competition with 'generic drugs'.

However, every FTA currently signed or under negotiation by the USA imposes intellectual-property rules that delay the introduction of generic medicines. These rules include protection for clinical trial data that grants exclusive use to the patent holder, preventing registration of generics during the patent term, and extending patent monopolies.

The public-health consequences are staggering. In Colombia an FTA with the USA could reduce access to medicines by 40 per cent, equal to the cost of health care for 5.2 million people under the public-health system. The US–Peru FTA is expected to leave 700,000 to 900,000 Peruvians without access to medicines unless public health-care spending and individual incomes increase, while the US–Thai agreement would restrict the ability of the Thai government to produce new generic anti-retrovirals, thus obliging the country to use patented versions, which cost ten times as much.[15]

New laws on seeds undermine livelihoods of poor farmers

The vast majority of farmers in developing countries share seeds with other farmers. Trading and exchanging seeds acts as a social safety net, enabling farmers to select the strongest varieties and continually improve on production and yields, spreading the benefits to the whole community.

However, US and EU FTAs require the adoption of plant-breeder rights legislation that removes the right to share seeds, thereby making the livelihoods of the world's poorest farmers even more vulnerable, whilst increasing the market power and profit margins of the world's largest agribusinesses.

As a condition of signing a trade agreement, both the USA and EU are asking developing countries to adopt 'UPOV 1991', the international framework law on plant-variety protection that prohibits farmers from selling or exchanging protected seeds. UPOV 1991 has been required in all US FTAs, and in most EU trade agreements. Countries across the developing world are already signing, including Bangladesh, Cambodia, Ecuador, Jordan, Mexico, Tunisia, South Africa, and Viet Nam, and future trade and investment agreements are only likely to increase the pressure.[16]

US FTAs go even further, pushing for patents on plants. This is the strongest form of intellectual-property protection available for plants – not only limiting the rights of farmers to exchange or sell seeds, but also to save and reuse seed they have grown themselves. The US–Morocco FTA requires the patenting of plants and all other FTAs include a 'best effort clause' to develop plant-patent legislation.[17]

Governments and agribusiness often justify stricter plant-variety protection on the grounds that this will improve the access of agro-export firms in developing countries to the latest plant varieties, ensuring their competitiveness in global supply chains. However, such access often does not work in the interest of poor producers. Stricter legislation increases the market power of seed suppliers, pushing up the prices and in some cases enabling international companies to capture a larger segment of the profits from farming than poor farmers themselves. This occurred in Mexico, when Monsanto and Delta and Pineland Co. (D&PL) introduced genetically modified Bt Cotton after UPOV 1991 legislation was adopted under NAFTA.[18]

Driving up agrochemical prices

As yields have increased dramatically in industrialised countries through the intensive use of agro-chemicals, millions of farmers across the developing world have been forced to use similar production methods in order to compete. This has led to a high dependence of small farmers on pesticides, with worrying implications both for the environment, because of to the threat posed to biodiversity, and for agricultural workers, who face an ever-increasing incidence of pesticide poisoning. To participate in global supply chains, many poor farmers depend heavily on agrochemicals to meet production standards, with adverse environmental and health implications. Rice farmers in Costa Rica currently spend an average of 16 per cent of their production costs on agrochemicals, while many other poor farmers, including those who grow bananas, coffee, and potatoes, spend even more.[19]

Excessive data-protection rules in US FTAs, which block cheaper generic versions, are likely to cause agrochemical prices to escalate, redistributing value away from poor farmers and towards agrochemical companies and driving farmers deeper into poverty. Excessive data-protection rules are modelled on US domestic laws, which have driven most US generic producers out of the market, and left US prices among the highest in the world. For example, Monsanto's RoundUp herbicide, based on the agrochemical glyphosate (the world's most widely used agrochemical), usually costs well over $50 per gallon in the USA, while the same RoundUp brand in markets where there is competition from generics, such as Costa Rica, can cost as little as $12 per gallon. Under the US–Dominican Republic–Central America Free Trade Agreement (DR-CAFTA) the prices of agrochemicals are expected to rise several fold.

While a decrease in the use of agrochemicals by small-scale farmers might have the unintended benefit of promoting more sustainable production methods, there is an obvious risk that price increases would simply squeeze small farmers out of existing markets and supply chains.

Knowledge and biodiversity not protected

The double standards in the intellectual-property rights chapters of most trade agreements are glaring. Whilst they extend the monopoly rights of large corporations, they offer no such protection for the vast amounts of knowledge held by farmers in developing countries. In the USA and EU, patents can be granted even when they are based on genetic resources taken from developing countries without the prior informed consent of the local communities. To date, patents have been granted on ayahuasca, barbasco, endod, kava, quinoa, and turmeric, all of which were developed through selective breeding by farmers from developing countries. Under these unjust rules, farmers and local communities must stand by as their own knowledge and genetic resources are accessed freely, and 'treated' in laboratories in developed countries, while ownership is conferred on foreign companies through patents.

It gets worse. Under US FTAs including DR-CAFTA, US–Peru and US–Colombia FTAs, developing-country governments will no longer be able to reject a patent application because a firm fails to indicate the origin of a plant or show proof of consent for its use from a local community.[20] As a result, communities could find themselves forced to pay for patented plant varieties based on genetic resources from their own soil.

In many cases, these radical changes require developing countries to overturn national biodiversity legislation. Costa Rica's Biodiversity Law, for example, requires companies to submit a certificate of origin when filing a patent application and recognises the right of indigenous peoples and local communities to oppose any access by companies to biological materials or knowledge from their territories for cultural, spiritual, social, economic, or other reasons. All of these provisions will be dismantled if DR-CAFTA is ratified by all parties and comes into force.[21]

The EU, Australia, Canada, and New Zealand do not go as far as the USA, as they do not prevent developing countries from creating their own protection systems for protecting biodiversity and traditional knowledge. However, just as with the rules on medicines, when a country's laws change to comply with a US trade and investment agreement, all foreign companies can take advantage.

Making technological catch-up harder than ever

Access to technology has always been a key ingredient of economic development. Historically, control over the growth process has taken the form of a technological 'arms race' between developing countries trying to acquire advanced foreign knowledge to build their manufacturing base, and the developed countries trying to prevent its outflow. As far back as 1719, when the UK was a front-runner in industrialisation, countries that lagged behind technologically sent industrial spies into the UK, smuggled out tools, and provided special incentive schemes to entice highly skilled migrants. Due to its flagrant appropriation of technologies during this period, the USA was known as a 'bold pirate of intellectual property'. In recent decades, during their periods of fastest growth, countries including Japan, Taiwan, and South Korea were each labelled 'the counterfeit capital' of the world. China now carries the title.[22]

By tightening copyright and other intellectual-property legislation via FTAs, the USA and EU prevent other developing countries from following in their footsteps, knocking out a vital rung on the development ladder. American and European FTAs oblige developing countries to enforce existing copyright legislation and also to introduce stricter copyright laws that seriously compromise the WTO principle of 'fair use' of technological information. They require countries to sign up to the World Intellectual Property Organisation's (WIPO) Copyright Treaty and, in the case of US FTAs, enact legislation modelled on the US Digital Millennium Copyright Act (DMCA). These treaties make it far harder for firms to access and use technologies on which copyrighted materials are based, even if they are used purely as the basis for researching and developing new products.

According to the Commission for Intellectual Property Rights, a panel of world-renowned intellectual-property experts, 'developing countries would probably be unwise to endorse the WIPO Copyright Treaty, unless they have very specific reasons for doing so, and should retain their freedom to legislate on technological measures. In particular, […] legislation such as the DMCA shifts the balance too far in favour of producers of copyright material at the expense of the historic rights of users. Its replication globally could be very harmful to the interests of developing countries in accessing information and knowledge they require for their development.'[23]

As of January 2007, 61 countries had ratified the WIPO Copyright treaty, including some of the world's poorest countries: Burkina Faso, Mali, and Gabon. Through FTAs with the USA, countries including Singapore, Bahrain, and Morocco have already adopted DMCA-type legislation.[24]

Box 1: Buying influence: new rules are worth paying for

For large corporations, the new rules are clearly worth paying for. On copyright alone, the US government estimates that tightened rules could increase the revenues of US-owned corporations by $250bn per year. Extending patents would similarly increase profits. For an individual pharmaceutical or agrochemical company with product sales of $2.5bn a year, each additional day that a patent is extended is equivalent to an extra $6.8m of sales.

For this reason, individual companies are prepared to spend substantial amounts of money influencing trade and investment negotiations. The Pharmaceutical Research and Manufacturers of America spends about $100m a year attempting to shape global rules on intellectual property to their advantage, putting aside $17.5m for lobbying on international trade agreements, and a further $1m to create an 'echo chamber' of economists supporting their position.[25]

3 Undermining poor people's access to services

The services sector encompasses all economic activities that do not produce a good; for example bankers, hairdressers, builders, supermarkets, hotels, airlines, electricity companies, doctors, and teachers. Services are an important source of employment and income in developing countries, often exceeding industry and agriculture. In 2001, the services sector accounted for an average of 52 per cent of GDP in developing countries.[26]

Effective governance of the services sector is crucial for sustainable and equitable development. Governments must regulate in a way that both serves the public interest and promotes economic development. Unless the services sector is properly regulated, opening it to foreign suppliers can seriously damage the chances for domestic firms to compete, thereby denying developing countries the opportunity to create wealth and threatening poor people's access to public services.

Services sectors are growing rapidly in developing countries and US and EU companies are lobbying hard for greater access to the new markets. According to Peter Mandelson, 'Europe's companies know that their competitiveness depends on access to these rapidly expanding markets'.[27]

Powerful US and EU financial-services companies fought hard to introduce services onto the WTO agenda and tried to gain liberalisation commitments. However, despite considerable pressure, developing countries made relatively few commitments, and succeeded in preserving the right to effectively regulate the sector.

Having failed to get what they wanted at the WTO, the US and EU are now aggressively pursuing services liberalisation through bilateral and regional agreements. These risk locking developing countries into a model of services development that places the interests of foreign investors above the public interest. They also make new regulations binding, which means they are fixed through the trade agreement, and open to trade sanctions if they are changed. This renders it extremely costly to change course, even if such a change is in the public interest.

Pricing poor people out of credit

The financial-services sector is often singled out for liberalisation in US, EU, and Japanese FTAs. Developing countries are being pushed to open core banking and insurance services to increased participation by foreign companies and to make binding commitments on regulations governing the sector.[28]

US FTAs are the most far-reaching: they give foreign investors new rights to establish a 'commercial presence', and oblige governments to remove any prior restrictions requiring investors to establish subsidiaries rather than open their own branches. As a direct result of FTAs, US financial-services companies now operate branches in: Chile, El Salvador, Honduras, Costa Rica, Dominican Republic, Guatemala, Morocco, and Nicaragua.[29]

Developing countries liberalise financial services in the hope of introducing greater competition and efficiency, which in turn should improve poor people's access to finance. However, the opposite often occurs. Recent studies by the International Monetary Fund and United Nations show that opening up the banking sector leads foreign banks to 'cherry-pick' only the most lucrative customers in the economy, leaving poorer and higher-risk customers for local banks. This in turn reduces the profitability of local banks, which previously provided finance to poor segments of the population, and drives them out of business. As a result, small and medium-sized businesses (a vital source of employment) and many of the poorest people are left without access to finance.[30]

In Mexico, the financial-services sector was liberalised in 1993 through domestic legislation that accompanied NAFTA. By 2000, foreign ownership of the banking system had increased to 85 per cent, but lending to Mexican businesses had dropped dramatically – from 10 per cent of GDP in 1994 to a mere 0.3 per cent in 2000.[31] The impact was devastating among poor people in rural areas. In southern Mexico, the number of small farms with access to credit halved, and where finance was available it came only at exorbitant rates. In the state of Sonora lack of access to finance drove 70 per cent of community farmers to sell out to large-scale commercial enterprises.[32]

Retail: driving out local business, endangering small-scale farmers' livelihoods

Distribution services, which include retail and wholesale trade, are important to developing-country economies and central to poor people's livelihoods. In India, retail is the largest private industry, contributing 10 per cent of GDP, and the second largest employer after agriculture, taking up 6–7 per cent of the workforce.[33]

FTAs, notably with the USA, open the retail sector to foreign investment in an unprecedented way. All countries that have signed US FTAs have committed to remove previous restrictions, including limitations on foreign equity participation, economic needs tests, and broad and numerous product exclusions.[34]

The potential for foreign investment in the retail sector to contribute to development depends on effective regulation. In its absence, foreign retail companies can rapidly drive local competitors out of the market and push poor producers out of domestic supply chains.

Aware of these dangers, many developing countries carefully regulate investment in the retail sector. In China for example, government regulations have encouraged foreign retail companies to source 95 per cent of their supplies locally.[35] Yet this is precisely the sort of regulation that the new trade and investment agreements seek to ban.

Box 2: Markets go super in Latin America

In Latin American countries, multinational companies own an average 70–80 per cent stake in the top five supermarket chains, which together account for 65 per cent of total supermarket sales across the region. They rely more heavily than local firms on imported, branded products and even where they source products locally, they require volumes and standards that smaller farmers often cannot meet, driving poor producers out of supply chains. The impact on rural livelihoods is significant – in the Brazilian dairy sector alone, the entry of large supermarkets and the consolidation of supply chains drove 60,000 small dairy farmers out of business.[36]

Utilities sector under threat

Opening up public utilities to foreign investors is notoriously difficult to do effectively, and requires a strong and sophisticated regulatory environment that takes time to establish. In Bolivia, a weak regulatory system allowed a consortium of foreign investors contracted to take over the public water system to raise rates to such an extent in the year 2000, that poor families were spending a quarter of their earnings on water.

To date, FTAs have not required developing countries to make significant liberalisation commitments in areas of essential services such as health care, education, and water. However, FTAs are restricting the right of governments to take a gradualist approach to opening up the utilities sector, which means that they can't open it up to domestic investors before foreign investors, and prevents them from developing an effective regulatory framework over time. In some US FTAs, developing countries are committing themselves to allowing foreign investors access to public utilities the moment the sector is opened up to domestic private companies. A leaked version of the EU's draft negotiating mandates for FTAs with ASEAN, India, Central America, the Andean countries, and South Korea shows that the EU is seeking similar provisions, particularly for water, transport, and power. Most FTAs also require countries to introduce binding regulations on investment in services as soon as the sector is opened up, which makes developing countries vulnerable to possible trade sanctions if they subsequently change the rules.

Restricting the room to manoeuvre of developing countries governments risks locking developing countries into systems of service provision that reduce poor people's access to basic utilities.

Migration: officially a one-way street

Remittances from workers are a major source of capital inflows for many developing countries. In 2003 they were worth $ 93bn, nearly double the amount of development aid. In many cases they are far larger than foreign direct investment.[37] In Tonga, remittances in 2004 were equivalent to over 40 per cent of GDP, and 150 per cent of total exports.[38] Migration has to be carefully regulated however, as it can lead to a severe brain drain, a particular danger in the health and education sectors, undermining economic and social development.

Despite the aggressive interest of developing countries in skilled migration, developed countries often walk away from the negotiating table with a far greater level of concessions. Under NAFTA, only 5,500 professional Mexicans a year are allowed to enter the USA and Canada, whilst American and Canadian professionals are able to enter Mexico relatively easily. In 2001, more than 50,000 Americans and Canadian professionals entered Mexico, almost 25 times more than Mexican professionals going in the opposite direction.[39]

The Japan–Philippines FTA is the only FTA where a developed country has made significant concessions on migration, allowing the entry of caregivers from the Philippines. But Japanese newspapers suggest that in practice, migration will be limited to 500 people per year.[40]

As a result, migration to developed countries continues to occur on a large scale through unofficial routes, which undermines the ability of developing countries to manage it. It places migrant workers in extremely precarious positions where their labour rights are not upheld and wages and conditions are often deplorable. This also undercuts wages and conditions for workers in host countries.

4 Investment: tying the hands of government

The investment chapters of FTAs together with separately negotiated bilateral investment treaties (BITs) ensure that the access and activities of foreign investors in developing countries are unfettered, and many provide a powerful system of international arbitration to ensure that the expanded rights of foreign investors are vigorously enforced.

During the 1990s, industrialised countries pushed hard to introduce binding investment rules through the Organisation for Economic Co-operation and Development, advocating the creation of a Multilateral Agreement on Investment. When this effort collapsed in 1998 due to internal disputes, attention shifted to the WTO where the EU in particular tried to insert talks on investment into the Doha Round of negotiations. Developing countries successfully opposed this initiative.

The ground that developing countries gained at the WTO is undermined through BITs and FTAs. These have proliferated in the last two decades and now involve almost every country in the world. Bilateral investment treaties undermine the ability of host governments to effectively regulate foreign direct investment (FDI) to support economic development. A growing number of these treaties allow investors to sue governments in international commercial courts for compensation because of regulatory changes, even when these are in the public interest.

Developing countries are entering new agreements in the expectation that FDI will increase as a result, but there is no evidence that this is the case. Brazil, for example, is one of the world's largest recipients of FDI but has not ratified a single bilateral investment agreement.[41] African countries have between them signed over 1000 bilateral investment treaties, but receive less than four per cent of global FDI.[42] Making it harder for investment to boost economic development

Flows of foreign investment entering developing countries are at an all-time high, worth $334bn in 2005 alone.[43] They are concentrated in a few industries, particularly oil and gas, telecommunications, financial services, and real estate and most FDI flows into a relatively small group of developing countries. But high volumes of FDI do not guarantee development.

Countries with economies that have grown rapidly, particularly the Asian tigers, provided foreign investors with incentives to support economic upgrading. These countries screened foreign investors, only allowing entry to those that met the developmental needs of their economies. They also required them to fulfil 'performance requirements', to enter joint partnerships with local firms, transfer technology, upgrade the skills of employees, and buy intermediate inputs from local suppliers, stimulating production in the wider economy. As a result, they were able to develop industries that are now world leaders, creating jobs and contributing to rapid poverty reduction.

However, the ever-stricter rules in BITs and FTAs are tying the hands of those who would follow their path, banning them from using the policies that worked so successfully for the Asian countries. Recent treaties, including those negotiated by the USA, Canada, and Japan, provide investors with 'pre-establishment rights' that prohibit governments from screening foreign investors.[44] In addition, a growing number of investment chapters and treaties prevent governments from regulating foreign investment once it enters the economy, by banning the use of all 'performance requirements' in all sectors including mining, manufacturing, and services.[45]

Box 3: Undermining the ability of governments to address inequality

Some developing-country governments have effectively used performance requirements to reduce gender and racial inequalities. Because women tend to be employed in electronics, textiles, and garments industries to which foreign investors are often attracted, regulation of FDI can have a substantial impact on the significant disparity between the wages earned by women and by men. In South Korea for example, effective regulation of foreign investment provided firms with incentives to progressively add value to exports, reducing wage inequalities between women and men.[46]

Performance requirements have also been used to tackle entrenched economic inequalities between racial groups. In South Africa, the Black Economic Empowerment program rewards firms for appointing black executives, establishing supplier relationships with local black-owned firms, and promoting employment equity within the firm.[47]

The WTO Agreement on Trade Related Investment Measures (TRIMS) already limits the use of performance requirements; many FTAs and bilateral investment treaties exacerbate the situation.

Compensating foreign investors – even when they violate the public interest

Most national investment laws achieve a balance between corporate and citizens' rights by agreeing that the government will compensate investors in situations of 'direct expropriation' – any act whereby government seizes their assets or otherwise completely destroys the value of their investment – but not for routine policy making, such as increasing taxes or changing environmental regulations. FTAs and BITs have upset this balance by radically extending the rights of foreign investors and severely undermining the rights of governments and their citizens.

More than 170 countries have now signed international investment agreements that provide foreign investors with the right to turn immediately to international investor–state arbitration to settle disputes, without first trying to resolve the matter in national courts.[48] Such arbitration fails to consider the public interest, basing decisions exclusively on commercial law.

Foreign investors, and even equity holders, can sue even when the government is acting in the public interest. And taxpayers must foot the bill for damages to investors' profits, including anticipated future profits. The cost can be extremely high. Current outstanding claims against Argentina are estimated to be $18bn.[49] Cases have been lodged against governments for increasing value-added taxes, re-zoning land from agricultural to commercial use, and regulating hazardous waste facilities, on the grounds that these actions had adverse consequences on profits of foreign investors[50].

Investors' automatic recourse to international arbitration, enshrined in BITs and FTAs, threatens to undermine the rule of law in developing countries by circumventing the national legal system, regardless of how effective that system is. It also presents an evident double standard, as national investors have no such recourse. Even when contracts expressly restrict recourse to the national legal system, foreign investors may still have the option of international arbitration. In one water privatisation dispute against Argentina, the contract waived the company's right to use the US–Argentina BIT in the event of a dispute. Yet the international arbitration tribunal held that this waiver should not prevent the US-based Azurix Corporation, the primary shareholder in the local subsidiary, from mounting its own international treaty claim for damages.[51]

Not only is the legal basis for investment arbitration decisions loaded against public interest, but so are the proceedings. Despite the fact that many arbitration panels are hosted at the World Bank and United Nations, two institutions with a public commitment to accountability, the investment arbitration system is shrouded in secrecy.[52] It is virtually impossible to find out what cases are being heard, let alone the outcome or rationale for decisions.[53] As a result, there is no body of case decisions to inform developing-country governments when drafting investment agreements.

The only group privy to this information is an increasingly powerful select group of commercial lawyers, whose fees often place them out of reach of developing-country governments. These lawyers routinely send letters to foreign investors pointing out opportunities to claim compensation from developing countries under international investment agreements.[54]

Box 4: Corporate claims fleece taxpayers

In Mexico, a successful case was brought for refusing to renew an annual permit for a foreign investor to operate a hazardous waste storage facility, following protests by local communities. The foreign investor claimed compensation and the tribunal ruled in its favour, noting that under NAFTA, there is 'no principle stating that regulatory administrative actions are *per se* excluded from the scope of the Agreement, even if they are beneficial to society as a whole – such as environmental protection'.

In Argentina, during the 2001–2002 financial crisis, amid dramatic increases in unemployment and a precipitous decline in the value of household savings, government emergency measures forced foreign investors to stop charging dollar-equivalent rates for basic utilities such as water and gas. Thirty-nine groups of foreign investors have lodged compensation claims, some successfully, for revenues lost. Current outstanding claims are estimated at $18bn.[55]

Corporations don't always get large settlements. In the Bolivia water case noted in on page 18, the investors launched a case arguing that the government had failed to protect their investment, thus violating the bilateral investment treaty. The international tribunal ruled in favour of the international investors, but only awarded them nominal compensation, arguing that although the claim should be upheld on the basis of commercial law, the government had so clearly acted in the public interest that a nominal settlement was appropriate.[56]

Increasing the risk of financial crisis

Trillions of dollars move around the world every day as short-term speculative investment, largely in stock markets across the developed and developing world. These large flows of capital can provide much-needed funds for local businesses, but as many developing countries discovered in the Asian financial crisis of the late 1990s, without effective regulation, such portfolio flows can destabilise the economy, plunging millions of people into poverty overnight.[57]

Some US FTAs restrict the ability of governments to regulate capital flows. For example, Chile and Singapore made significant concessions in their recent FTAs with the USA, limiting the use of capital controls to situations of national emergency.[58] Nobel prize-winning economist Joseph Stiglitz has been outspoken on this aspect of FTAs, arguing that such restrictions expose developing-country economies to undue risks.[59] Financial crises can severely impede economic development and invariably hits poor people hardest. In Argentina, poverty rose to over 53 per cent during the financial crisis of 2001–2002, and millions of people lost their life savings.

5 Employment: the elusive quest for decent work

Politicians often cite the claim that free trade and investment agreements will create jobs and raise wages. Most poor people, whether they live in urban or rural areas, depend at least in part on wage labour to earn a living. Of the nearly one billion poor people working in agriculture, 40 per cent work on plantations and as day labourers. These waged agricultural workers are among the poorest of all occupational groups, with more than 60 per cent living below the poverty line.[60]

The rules in many FTAs undermine the potential of trade and foreign investment to generate decent employment or increase wages over the long term. Despite a rapid expansion of trade and investment under NAFTA, Mexico has seen an overall decline in both agricultural and formal manufacturing employment and a rapid increase in inequality. Real wages in Mexico were lower in 2004 than in 1994, even for the *maquiladora* sector. This setback in wages is not wholly attributable to NAFTA, having its roots in the debt crisis and devaluation of the peso, but it is surprising that the rapid growth in manufactured exports has not led to a rise in wages, even in export sectors, especially given the rise in labour productivity.[61]

Liberalising trade and opening up to investment can only be a powerful force for employment generation if effectively regulated and carefully tailored to the long-term needs of the economy. FTAs threaten to strip developing countries of the very policy instruments they need to make investment and trade work for development.[62]

Box 5: NAFTA: no panacea for employment

In Mexico NAFTA provided increased access to the US market, triggering a dramatic increase in foreign direct investment into the agricultural and manufacturing sectors. However, in the agricultural sector, much of the investment went to farms that were relatively capital-intensive, and failed to create many jobs. In the first ten years of NAFTA, Mexico lost 1.3 million jobs in agriculture.[63] In manufacturing, significant numbers of jobs were created initially, particularly in *maquiladora* assembly plants, which generated an additional 800,000 jobs by 2001.[64] However, since the assembly plants could only compete as long as Mexico's labour remained relatively cheap, they became vulnerable to increasing competition from China. Two hundred thousand manufacturing jobs were lost between 2001 and 2004 alone – largely due to firms relocating to China.[65]

Gender inequality remains

Promoting a model of development that relies on cheap and 'flexible' labour for competitiveness instead of investing in education and human resources can reinforce existing gender inequality. Women form the majority of workers in many of the sectors that have been boosted by trade and investment agreements, such as the Mexican *maquiladora* factories and the Andean agro-export sector. (In the asparagus farms of Peru, 72 per cent of workers are women.[66])

New factories bring employment opportunities, in some cases providing jobs for women who have never been in paid employment before. But even though wages and conditions are often slightly better than similar domestically owned factories, the conditions can be deplorable and labour rights are often ignored.

Wages remain very low and conditions are exploitative and precarious. Violations of labour rights are common and unions are often barred. In the *maquiladora* factories women are routinely forced to take pregnancy tests when applying for jobs. As a single mother said when a company in Mexico attempted to reduce her wages: 'My supervisor told me to shut my mouth if I care about my two children. He said: "Think about how you are going to provide for them if we sack you".'[67]

Employees face low job security, long hours, poor working conditions, and a lack of health and welfare benefits. Long working hours particularly affect women and children: women are forced to choose employment to feed their children, but this requires them to spend long hours absent from the house. A nursery worker in Colombia described women workers in agro-industry bringing in their children at 4 in the morning and picking them up at 10 at night. Such forced choices go against all principles of people having a right to family life.[68]

Ultimately, the new jobs do not enable women to pull themselves and their families out of poverty.

Ineffective labour clauses make little difference in reality

Labour provisions appear in almost all US and EU bilateral and regional free trade agreements, but parties merely commit to uphold domestic labour laws, irrespective of their quality or current levels of enforcement. There is no requirement for International Labor Organization (ILO) standards to be incorporated into domestic law and no enforceable obligations are placed on foreign investors.

The US–Jordan FTA is one example. The agreement has been upheld by the US government as having enforceable labour and environment standards, but the text of the labour provision is weak, requiring only that parties 'strive to ensure' that domestic laws are consistent with 'internationally recognised labour rights'. Moreover, even the weak standards that exist are not effectively enforced, even though – unlike subsequent US FTAs – they can be enforced under the agreement's dispute-settlement mechanism.

Working conditions in factories across Jordan, including those supplying Wal-Mart, are atrocious – especially for immigrant workers. 'If we asked for money, they hit us. In the four months I was in Jordan, they didn't pay us a single penny. When we asked for our money and for better food, they were very angry at us. We were put in some sort of jail for four days without anything to eat. And they forced us to go back to Bangladesh', says Nasima Akhter, a 30-year-old Bangladeshi migrant worker. [69]

One trade agreement that seems to have improved labour standards is the US–Cambodian Textile Agreement. Under this agreement, improved access to the US market is conditional on the enforcement of internationally recognised labour rights, independently monitored by the ILO. This provision prevents the labour clause from being hijacked for protectionist purposes. Wages, working conditions, and respect for workers' rights have improved measurably, and foreign investors have benefited too from higher productivity and quality, and lower rates of accidents, staff turnover, and absenteeism.[70] However the agreement has not succeeded in securing respect for the right of workers to organise.

6 Faster and deeper: unprecedented tariff liberalisation in developing countries

The hypocrisy of wealthy countries is most evident in the tariff provisions of FTAs. Simply to maintain their current access to rich-country markets, developing countries are being asked to liberalise tariffs to an astonishing degree, far beyond anything proposed at the WTO. They are being pushed to eliminate the majority of – in some cases all – agricultural and manufacturing tariffs, freeze remaining tariff lines at applied rates, and reduce non-tariff barriers. In many cases they are being asked to undertake all this liberalisation merely to secure current levels of access to developed-country markets. Meanwhile, unlike at the WTO, industrialised countries show little willingness to negotiate reductions of agricultural subsidies, which in crops like cotton, dairy, and sugar lead to dumping on world markets, with damaging impacts on farmers in developing countries. They also insist on retaining a series of non-tariff barriers to restrict market access. The implications for poverty reduction are significant.

Farmers driven into deeper poverty

Seventy per cent of the world's poorest people live in rural areas, depending largely on food production for their livelihoods.[71] Inappropriate tariff liberalisation, especially while Northern countries continue to subsidise and dump their export crops overseas, threatens to push some of the world's poorest people over the edge.

Under EPAs, 75 of the world's poorest countries across Africa, the Caribbean, and the Pacific are being put under pressure to eliminate tariffs on substantially all trade with the EU, their largest trading partner.[72] Already, in their FTAs with the USA, Central American countries and the Dominican Republic have agreed to reduce and bind all agricultural tariffs at zero, with the exception of only one tariff line: white corn.[73] Peru and Colombia were allowed no exceptions for tariff elimination in their FTAs with the USA.

Some FTAs even restrict developing countries' right to use agricultural safeguard mechanisms to limit imports in the face of a sudden fall in prices, expressly prohibiting use of the mechanism currently in the WTO Agreement on Agriculture or in any future WTO agreement. Under DR-CAFTA and the US FTAs with Peru and Colombia, the agricultural safeguard mechanism can be triggered only by volume increases, not a fall in prices. This severely limits the mechanism's effectiveness, particularly given the low prices of highly subsidised US agricultural exports. It cannot be applied once the tariff is completely phased out, and can only be used for a very limited number of products.

The impact on rural livelihoods and food security from such deep tariff liberalisation can be swift and devastating. In Mexico, an estimated 18 million people depend on maize production. After NAFTA, imports of maize from the USA doubled within two years. Thanks in part to higher efficiency but also to high US subsidies, maize was exported to Mexico at prices 30 per cent or more below the cost of production. Poor people living in rural areas bore the brunt of the adjustment. As maize prices fell, producers with large irrigated farms were able to switch to other crops, but the poorest farmers had no alternative but to increase maize output in order to secure sufficient income to meet their basic needs, further feeding the downward pressure on prices.[74]

Other FTAs between industrialised and developing countries are only now being negotiated or are coming into force, but a similar impact is feared:

- In West Africa, recent impact assessments published by the European Commission in advance of EPAs, estimate that liberalisation could lead to import surges for a number of products; 16 per cent for onions, 15 per cent for potatoes, 17 per cent for beef, and 18 per cent for poultry. Since these products are a source of livelihood for many small producers, the adverse impact on poverty would be substantial.[75]
- In Central America rice is an important food staple, along with corn and beans, and is the mainstay of the diet of many Central Americans, particularly poor people. Under DR-CAFTA, governments in Central America have agreed to a system of quotas that will allow increasing volumes of rice to be imported from the USA at a price 20 per cent below the price of production, due to heavy US subsidies. An estimated 80,000 rice farmers may lose their livelihoods.[76]
- Impact assessments of the US–Colombia FTA show that the agricultural sector could experience a 57 per cent reduction in income and a 35 per cent reduction in employment in nine agricultural sectors.[77]

Box 6: Cotton no longer 'white gold'

The proposed FTA between the USA and Peru threatens to destroy the livelihoods of thousands of Peruvian cotton farmers in a flood of heavily subsidised US cotton. Twenty-five thousand US cotton producers receive approximately $3.5bn per year in subsidies; their 30,000 Peruvian counterparts receive no subsidies, and have few alternative ways to make a living. The USA is already the main cotton supplier to the Andean community. Under the FTA, Peru will have to eliminate the tariff on US cotton, exposing farmers to even greater competition, and threatening their livelihoods.

Lily Arteaga Cabrera grows cotton in Pisco, in the south-east of Peru. She gets up at 5 in the morning to prepare food for the family and then goes to the cotton field at 8, where she stays until 6 in the evening. Cotton earns her family just enough to eat. It is hard work and they are locked into a cycle of debt, borrowing to plant and working eight months up to harvest when they can pay it off: 'How are we going to live now? We are going to die of hunger.'

Her colleague, Luis Chavez Valentin, from the same cotton-growing area, agrees: 'When the subsidised US cotton enters we are simply not going to have enough money to live. Cotton is no longer "white gold": now it is a symbol of poverty'.

Consumers: the real winners?

Proponents of trade liberalisation argue that, even if cheap imports hurt some poor producers, poor consumers will benefit. In reality, this depends on the ability of the government to regulate the market effectively and ensure competition.

When a few large importers control the market, as a result of weak domestic competition, consumers may not see the benefits of lower-cost imports. In Honduras, for example, the top five importers currently control 60 per cent of the rice trade. When rice tariffs were lowered, the import price fell by 40 per cent between 1994 and 2000. The real consumer price, however, actually rose by 12 per cent between 1994 and 2004. In Ecuador, a cartel of sugar refiners failed to pass on lower sugar prices to consumers following import liberalisation in the early 1990s.[78]

Heavy dependence on food imports entails major risks. Highly volatile commodity prices on world markets, exacerbated by sudden changes in subsidy policies, can dramatically affect consumer prices. World maize prices are rising rapidly in response to demand for biofuels, partly driven by increased subsidies for biofuel production. Consumers in Mexico, which after NAFTA is highly dependent on imported maize, have taken to the streets as the price of tortillas, their staple food, increased by 40% in three months. In the face of such price rises, governments can do little, as domestic agricultural production cannot easily replace imports, at least in the short term.[79]

Industrialised countries maintain barriers to agricultural exports

Deep liberalisation by developing countries in FTAs is not reciprocated. Both the USA and EU have given minimal tariff concessions in FTA negotiations, only liberalising in the few agricultural sectors that do not compete directly with their own producers.

For example:

- Lebanon is one of the world's most competitive producers of olive oil, yet 95 per cent of the olive oil sold in world supermarkets comes from Spain, Italy, and Greece. High levels of EU protection are responsible. The EU subsidises its olive-oil producers by $2.3bn each year and maintains a series of import quotas to protect them from more competitive producers. For this reason, Lebanon was only able to gain extremely limited concessions for untreated olive oil through the EU–Lebanon Association Agreement.[80]
- Under the EU–Jordan Association Agreement, the EU has secured limits on imports from Jordan of beans, tomatoes, strawberries, sweet peppers, roses, and carnations – all products that Jordan produces more competitively than the EU. Some sensitive imports are subject to timetables arranged such that Jordan can only export during the off-season for EU producers. This severely curtails Jordan's export potential as the quotas come into force at the precise time when Jordan has seasonal over-production of crops, such as cucumbers and grapes. [81]
- Under DR-CAFTA, competitive Central American sugar-producing countries hoped to gain greater access to the US markets. Although sugar makes a negligible contribution to the US economy, it is protected by high tariffs, tariff-rate quotas, and a guaranteed price. The quota expansions given to Central America under DR-CAFTA are equivalent to only one per cent of US production, and less than three per cent of Central American production.[82] Only a few exporters from Central America will benefit.

Box 7: Who captures the gains?

In some sectors, companies based in industrialised countries own so much of the value chain that the rich countries still gain more when they open up their agricultural market to exports from developing countries. Jeffrey Levin from the US Association of Food Industries used this argument to persuade the US government to open to asparagus imports under the US–Peru FTA:

'The vast majority of the value chain generated by sales of Peruvian asparagus in this market remains in this country [the USA]. For example, in 2003, the value chain for imports of fresh asparagus from Peru was worth approximately $300 million. Of that total, approximately 70 per cent remained in US hands, including air, sea and land carriers, importers, ports, storage facilities, distributors, wholesalers and retailers. In other words, for every dollar spent by a US. consumer on fresh asparagus imported from Peru, 70 cents remains in the USA Moreover, even of the 30 percent that reverts back to the country of origin, a substantial portion is spent on US inputs such as seeds and fertilizers'.[83]

Deep liberalisation threatens a manufacturing future

Historical evidence shows that in order for countries to develop, they must change the composition of their exports, thereby reducing their vulnerability to shocks and generating employment. Rich countries not only export more than poorer ones – they export products with more added value. All advanced countries as well as the Asian tigers used manufacturing tariffs to protect their nascent industries. They only fully exposed firms to international competition when they were strong enough to compete on world markets.[84]

Many FTAs, including the EU's proposed EPAs, require developing countries to reduce the majority of their industrial tariffs to zero and to freeze all other tariffs. The implications are serious. Developing countries are being denied the right to use tariff policy to develop an industrial future, and existing manufacturing jobs are also jeopardised. While not all poor countries are likely to follow in the footsteps of Japan or the USA, an active role for the state is invariably required for long-term development. The level and nature of state intervention varies from country to country and can only be decided by effective, accountable governments, not imposed via unfair trade and investment rules.

Restricted access for manufactured exports

At the same time as demanding rapid liberalisation in developing countries, rich countries maintain a series of non-tariff barriers that restrict access to their markets. The main barrier takes the form of 'rules of origin'. These rules demand that a particular product either originates from, or has undergone sufficient processing in, the partner country in order to qualify for preferential access. This is designed to ensure that products are not produced elsewhere and then just shipped through the partner country to take advantage of preferences.

However, the EU and USA have made rules of origin unduly complex in FTAs. In the US–Singapore FTA, for example, there are more than 240 pages of product-specific rules of origin.[85]

Rules of origin are often designed to support US and EU industries. In NAFTA, textiles exports to the USA are subject to 'yarn-forward' and 'fibre-forward' rules of origin. For clothing producers, this means that they must buy their textiles from within the free trade area to qualify for preferential access to the US market, providing a captured market for US textile manufacturers and fabric exporters.[86]

Similarly, in the Pacific, the EU's rules of origin relating to tuna mean that even fish caught in a Pacific country's territorial waters are not deemed to have 'originated' in the Pacific unless caught by an EU or Pacific vessel. Because of the prohibitive expense of purchasing large tuna-fishing vessels, the rules encourage Pacific nations to give fishing access to EU boats, effectively serving as a subsidy to the EU fishing fleet and hindering the development of the Pacific's canning industry, which has to purchase fish from the relatively expensive EU fleet.[87]

7 Turning the tide: putting trade and investment at the service of development

The balance of power in North–South negotiations is tipped heavily in favour of rich countries and large, politically influential corporations. Small businesses, trade unions, non-government organisations, women's groups, and indigenous peoples have very few mechanisms for participation, and their rights and needs are largely ignored.

Rich countries are using bilateral and regional trade and investment agreements to extract concessions that they are unable to obtain at the multilateral level, where developing countries can band together and hold out for more favourable rules. Rich countries consider these new agreements to be 'stepping stones to future multilateral agreements', as the EU declared; in practice they are a means to undermine the resolve of developing countries.

Much of the recent debate and controversy over trade negotiations has revolved around tariff liberalisation, the trade-distorting practices of rich countries, and the policy space that developing countries need to promote food security and industrial development. Tariff policy is a key development tool and developing countries understandably oppose the deep liberalisation that rich countries press for at the WTO and through FTAs.

However, the new generation of agreements extends far beyond this traditional area of trade policy, imposing a damaging set of binding rules in intellectual property, investment, and services with more far-reaching consequences for development and livelihoods.

New agreements on intellectual property reduce poor people's access to life-saving medicines, push the prices of seeds and other farming inputs beyond the reach of small farmers, and make it harder for developing-country firms to access new technology. New rules on liberalisation of services threaten to drive local firms out of business, reduce competition, and extend the monopoly power of large companies.

New investment rules in BITS and FTAs prevent developing-country governments from requiring foreign companies to transfer technology, train local workers, or source inputs locally. Under such conditions, investment fails to build national linkages, create decent employment, or increase wages, and instead exacerbates inequality.

The investment chapters of free trade agreements and bilateral investment treaties allow foreign investors to sue for lost profits, including anticipated future profits, if governments change regulations, even when such reforms are in the public interest.

The overall effect of these changes in the rules is to undermine economic governance, transferring power from governments to largely unaccountable multinational firms, and robbing developing countries of the ability to gain a favourable foothold in the global economy.

It is in nobody's long-term interest to have a global economy that perpetuates social, economic, and environmental injustice. In order to turn the tide and put trade and investment at the service of development, Oxfam believes that trade rules, whether multilateral, regional, or bilateral, should:

- Recognise the special and differential treatment that developing countries require in order to move up the development ladder.
- Enable developing countries to adopt flexible intellectual-property legislation that makes full use of safeguards to ensure the primacy of public health and agricultural livelihoods over patent rights, restricts the patenting of life forms, and protects traditional knowledge and biodiversity.
- Exclude essential public services such as education, health, water and sanitation from liberalisation commitments, and allow governments to effectively regulate the entry of foreign investors in service sectors to promote the public interest.
- Recognise the right of governments to impose capital controls on foreign investment and performance requirements that encourage joint ventures, technology transfer, and local sourcing, as well as incentives to improve labour practices.
- Include enforceable commitments by governments to protect and promote core labour standards, as set down in the ILO's Declaration on Fundamental Principles and Rights at Work, and commitments to progressively extend this to cover workers, particularly women, in precarious employment.
- Exclude agricultural tariff lines from negotiations when liberalisation threatens to undermine food security and rural livelihoods, and recognise the right of developing countries to use permanent safeguards that are triggered on the basis of both price and volume.

- Enable developing countries to use tariffs, subsidies, and other measures in support of industrial policy and to modify them as their economies develop.
- Ensure mechanisms for extensive participation of all stakeholders in the negotiating process, with full disclosure of information to the public, including the findings of independent impact assessments.

Such a shift can only come about through a change in political will and in the power imbalances, both between and within countries, that currently define trade negotiations.

Developing countries have held out at the WTO for fairer rules. Many are standing strong against the imposition of new rules through bilateral and regional agreements. The development of regional blocs among Southern countries could further serve to offset the political asymmetry inherent in these trade and investment agreements, enhancing the bargaining power of developing countries, and may become a building block of a fairer multilateral system. The South American bloc MERCOSUR has been able to resist both the EU and US agendas and WTO-plus rules in the proposed Free Trade Area of the Americas (FTAA), for example.

The democratisation of trade policy, especially in developing countries, could transform the negotiating dynamic and the nature of the rules that result. Despite being utterly excluded from the process, civil society in many countries has effectively challenged trade and investment agreements and given voice to the needs of the disenfranchised.

Trade and investment are essential for development, and the imbalances that characterise and distort global trade and investment flows must be addressed as a matter of urgency. Unequal and exploitative trade and investment agreements, which prohibit the very policies developing countries need to fight poverty, is no way to put trade and investment at the service of development, or to build a safer, fairer world.

Notes

[1] Speech at Evian Group Plenary discussion, 'The grave crisis of globalisation: how can we regenterate the momentum?', Montreux, Switzerland, 13–15 October 2006.

[2] Jospeh Stiglitz cited in *La Jornada*, 19 May 2006, http://www.jornada.unam.mx/2006/05/19/045n1mun.php, last accessed 3 February 2007.

[3] This paper analyses trade and investment agreements negotiated between developed and (groups of) developing countries. In WTO terminology such trade agreements are classified as 'regional trade agreements'. They are also commonly called 'bilateral' agreements. To be compatible with WTO rules, all 'regional' and 'bilateral' agreements between developed and developing countries are necessarily 'free trade agreements' as they entail the liberalisation of 'substantially all trade' between the parties. See GATT Article XXIV.

[4] UNCTAD (2006) 'World Investment Report 2006. FDI from Developing and Transition Economies – Implications for Development.'

[5] *Ibid*.

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This paper was written by Emily Jones. Oxfam acknowledges the assistance of Amy Barry, Simon Ticehurst, Mark Fried, Marita Hutjes, Duncan Green, Celine Charvariat, Tasneem Clarke and many other colleagues from Oxfam International in its production. It is part of a series of papers written to inform public debate on development and humanitarian policy issues.

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