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A Development Perspective on EU Trade Policies and Their Implications for Central and Eastern European Countries

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I. Introduction

There is no doubt that the European Union (EU) has made a positive contribution to trade liberalisation and development in recent years. In fact, the WTO Secretariat Trade Policy Review (WTO TPR) pointed out that the EU played a leadership role prior to and during the Doha negotiations, and contributed significantly to the successful launching of the Doha Development Agenda. The EU – and the European NGO community in particular – have been responsible for the significant breakthrough made with the acceptance of the Declaration on the TRIPS Agreement and Public Health at Doha. The Everything-But-Arms Initiative has no doubt led the way in addressing the market access needs of Least Developed Countries (LDCs). Further, it should be acknowledged that the EU Commission played a leadership role in beginning the serious debate among Member States on the need for the radical reform and adjustment of its agricultural and trade policies by the introduction of the Mid-Term Review of the Common Agricultural Policies (CAP).

This paper begins by outlining the policy framework that informs EU trade policies and then sets out a development perspective to evaluate these trade policies. The paper further discusses the issue of adjustment in the EU and evaluates the EU's track record in key industries of interest to developing countries. In the next section, the paper evaluates the EU's commitment to environmentally sustainable policies, and reviews the various EU technical regulations or social policies against these two perspectives. The third section reflects on some of the dynamic forces for change in the EU and the positive role they can play in advancing trade liberalisation and development. Finally, the paper attempts to draw out some implications of these analyses for Central East-European (CEE) countries.

II. Policy Perspectives

EU Policy Perspective

How does the EU see the world and the challenges we confront? On 25 June 2002, Pierre Defraigne, Chef de Cabinet of Commissioner Lamy, presented his analysis of the global challenge as follows: He argued that the EU saw the need to balance the drive to increase the efficiency of the markets with policies that promoted sustainable development. He also noted that while globalisation has resulted in rapid flows of trade and finance, norms on the environment and consumer protection, animal and human health, and food safety were given less attention in the multilateral system. In his view, the real challenge was to encourage and develop effective policies – both in the North and South – to increase adjustment capacity to cope with globalisation. In this way, developing countries "can get a fair share of world growth – and turn this into social progress and environmental sustainability". This

analytical perspective was reinforced by EU Commission deputy director-general Roderick Abbot in his statement to the WTO (EU Trade Policy Review 2002).

A Development Perspective

There is no doubt that the last two decades have ushered in rapid expansion of global markets with ever-increasing opportunities for social progress. However while globalisation and the rapid flows of trade, finance and information technologies have benefited some developing countries, most have been marginalised and largely excluded from these benefits. For these countries, poverty remains the single most important challenge. The negative effects of globalisation – environmental degradation, terrorism, disease and the spread of HIV/Aids – have alerted all to the interdependence of our world. World leaders recognised these challenges when they agreed at the Millennium Summit to improve the lives of the poor by the year 2015 by achieving the Millennium Development Goals. This commitment was re-affirmed at the International Conference on Financing for Development in Monterrey, as well as the World Food Summit, and reasserted at the World Summit for Sustainable Development in Johannesburg in August 2002. The World Health Organisation (WHO) Commission on Macroeconomics and Health has reminded us of the inextricable relationship between health and economic development. The burden of disease (especially the HIV/Aids pandemic) in some low-income countries is a stark barrier to economic growth.

How can trade liberalisation contribute to this fundamental challenge? The Doha Development Agenda recognised that there is a critical link between trade liberalisation and the more efficient functioning of global markets and development.

There is no doubt that developing countries need to adjust and develop appropriate policies to enhance their competitiveness and engage with globalisation. But these issues will be addressed on another occasion. This paper addresses the responsibilities of the EU in this regard. The EU is the largest exporter and the second-largest importer in the world, which means it has a leading role to play in advancing and shaping the processes of globalisation, multilateral rules and economic development. To contribute to this in a meaningful manner, the EU needs to make major adjustments to its own internal markets and society.

Developing countries are particularly vulnerable to changes in EU trade policies, since the EU is for many their largest trading partner. Most of these countries' (especially in Africa) main exports are in sectors where the EU retains high tariffs, tariff escalation, and tariff peaks. At the same time such sectors occupy a high share of total output and trade for developing countries, but play a marginal role in output and employment in the EU.

III. Adjustment of EU Agriculture and Industries

In this section, the EU's progress in addressing adjustments to its agriculture and industries are discussed. What should the EU adjust and what is the impact of failure to adjust on the lives of the poor in developing countries?

It is now widely recognised that increasing the pace of adjustment of agriculture and some industries in the North will increase growth and allow developing countries to export and develop. In a recent speech, World Bank president James Wolfensohn noted that the lack of such adjustments is "crippling Africa's chance to export its way out of poverty" (*Herald Tribune, 6 July 2002*).

Agriculture

Two-thirds of all poor people in developing countries live, work and are dependent on the agricultural sector for their livelihoods, while this is true for less than 5% of the EU's population. Yet the EU's trade policies combine billions of dollars of domestic support, export subsidies and extremely high tariffs to protect their farmers, making a devastating impact on the livelihoods of small and poor farmers in the developing world. It is now well established that this contributes to the vicious cycle of decimation of developing countries' productive and export competitiveness, raising debt levels and increasing poverty (Page 2001, Oxfam 2002a).

While for the EU "the sustained vitality of its rural communities" (EU Trade Policy Review) is an important societal goal, EU members need to take into account the impact of the CAP on the livelihoods of rural communities in developing countries.

At 4.3%, agriculture occupies a relatively small share of EU output and employment. The EU continues to support its farmers with about US$90-billion (figures for 2000, Trade Policy Review 2002) through a variety of measures, including domestic support and export subsidies. This support amounts to more than two-thirds of gross value added in agricultural production (Messerlin 2002), and such subsidies are often supported by tariff escalation, tariff peaks and quotas.

In some products, trade liberalisation and specifically the removal of subsidies in the EU could have important positive development effects for developing countries. Some examples below illustrate this point.

A 2001 study by the Swedish Board of Agriculture reviewed a number of recent studies that showed high levels of tariff escalation in the EU, particularly the case where the products have not been produced by the EU. For example, for cocoa and coffee the EU has high tariffs, even allowing for preferences of 9% to 12% under the Generalised System of Preferences (GSP). The tariffs are zero for unprocessed products (Page 2001). In this way domestic industries in the EU are protected against foreign competition. The Swedish study argued that if "this tariff escalation were to be dismantled, this would give developing countries better conditions for processing the raw material themselves, and export the processed product instead".

Fruits still meet high tariffs in the EU. Tropical fruit like citrus, for example, face exceptionally high tariffs of up to 19%, mainly to protect producers in Southern Europe. Cut flowers also face high EU tariffs of about 15% to 17% (for some there is a GSP rate, but still an approximate 15% tariff), inhibiting developing country production and exports.

The EU CAP, and particularly its domestic and export subsidies, affect developing countries in a perverse and devastating manner. For example, liberalisation of the dairy industry in Jamaica resulted in subsidised milk powder from the EU replacing locally produced fresh milk. EU exports of milk powder grew from 2,000 tonnes per annum between 1990 and 1993 to 4,000 tonnes per annum from 1995 to 1998. EU exporters received more than €4-million per year in export subsidies, with devastating impact on the small Jamaican dairy market which saw many small businesses – mainly owned by women – put out of business (Oxfam 2002b). The 2001 EU Court of Auditors report found that the milk quota regime in the EU was too high, resulting in structural surpluses. The quantity of skimmed milk powder in storage rose by 60% between 1997 and 2000 – some of this was reduced in 2000 with the use of export subsidies (EU Trade Policy Review).

South African (SA) sugar prices are much lower (less than half) than that of the EU. However European confectionary producers have been able to obtain sugar for input into their exports at about one-third the price of their SA counterparts. An increase in imports of EU sugar and chocolate confectionary contributed to a 21% decline of consumption of domestically produced sweets and chocolate between 1997 and 2000, resulting in reduced production and employment in the domestic industry. Beacon Sweets, the largest employer in the SA industry, retrenched 1,000 employees between 1997 and 2000. In addition, the industry reduced its use of local sugar from 40,000 tonnes in 1995 to 35,000 tonnes in 1999, resulting in significant losses in employment – mainly in rural areas (Oxfam 2002b).

But EU sugar subsidies have an even more profound impact on SA's economic development. A recent *Wall Street Journal* report (16 September 2002) published a case study which demonstrated that the income of small-scale SA sugar cane growers is reduced by one-third as a result of EU subsidies that have substantially reduced global sugar prices. SA loses about €100m in potential export earnings. More than half of the country's 2.6-million tonnes of sugar production is exported. Economists have calculated that if the EU cut its production (the cost of producing in the EU is two to three times that of producing in developing countries) of the total and stopped dumping on the world market, the price

would improve by about 20% and SA would gain about €40m more for its exports, making expansion of cane growing more viable and generating a further €60m.

Tomato cultivation was introduced in Senegal in the 1970s and by 1990 was producing about 73,000 tonnes of tomato concentrate, with the country becoming a significant exporter to its neighbours. However over the past few years production fell to less than 20,000 tonnes due to unfair competition by the EU, the second-largest producer of tomato concentrate in the world. Its tomato farmers are paid a minimum price, which is higher than the world price. In addition, its processors are paid a subsidy to cover the difference between domestic and world prices. In 1997, this subsidy amounted to about $300m. EU exports of tomato concentrate to Senegal increased from 62 tonnes in 1994 to 5,348 tonnes in 1996. Since then, low prices and Senegalese processors' lack of credit and investment has resulted in the decline and stagnation of its tomato processing industry (Least Developed Countries Report 2002).

There seems to be strong evidence for Wolfensohn's observation that the "EU trade policies are crippling Africa's chance to export its way out of poverty".

Clothing and Textiles

European countries have historically based their industrialisation on labour-intensive production in sectors such as clothing and textiles. These sectors now play relatively insignificant roles in employment and production levels, as these economies have graduated to higher value-added sectors such as manufacturing and services. However the opportunity for developing countries to increase their employment and exports in such sectors with natural comparative advantage to them has been severely stifled by a combination of high tariffs, tariff peaks (triple the simple average), tariff escalation (raising the tariff in higher value-added or processed products of developing countries) and import quotas. Added to this is an arsenal of contingent protection measures (mainly anti-dumping) that continues to stifle many developing countries' growth and industrial development.

The 2002 WTO TPR report notes that while the EU has implemented its commitment to integrate this sector into the General Agreement on Tariffs and Trade (GATT) 1994 (normalisation), it has significantly back-loaded the liberalisation of quantitative restrictions required under the Agreement on Textile and Clothing (previously known as the Multi-Fibre Agreement) to the end of the transition period in 2004. The clothing and textile industries have been subject to the highest levels of protection by product and country through the use of tariffs and quotas. In addition, the EU has an escalating tariff structure from 0% for cotton seeds and waste to 5% for yarn, 9% to 10% for cloth, and 12% to 13% for most clothing, with the GSP rates for yarn and cloth only slightly below this.

In addition, the EU remains the second-largest user of anti-dumping measures (according to the TPR Report). These measures tend to be taken in areas of comparative advantage to developing countries, further hindering developing countries' ability to compete in global markets (Messerlin 2001).

Many anti-dumping cases (15 between 1993 and 1999; Messerlin 2001) have been lodged in textiles and clothing. This trend makes some commentators conclude that EU overall levels of protection remain high, with non-tariff barriers and anti-dumping measures raising the overall levels of protection in industrial goods by one- to two-thirds, from 6.7% to 11% in 1995 and from 4.3% to 7.7% in 1999. They also observe that non-tariff barriers and anti-dumping measures tend to be concentrated in the same sectors. Messerlin notes that of a total of some 11,000 tariff lines, anti-dumping has been used in only 350 to 450 (farm, food, textiles and apparel) – sectors that are generally labour intensive and where developing countries have a comparative advantage.

The costs to developing countries of the EU's failure to adjust

The failure of EU industries to adjust and integrate into the global economy continues to have a devastating impact on developing countries' economic development. During the EU TPR, the author urged the EU to study the cumulative effect of tariff peaks, tariff escalation and trade remedies on the imports of developing countries. It was also suggested that the EU consider compensating developing countries for the serious impediments to growth and development such trade policies have caused.

UNDP administrator Mark Malloch Brown estimates that farm subsidies cost poor countries about $50bn per year in lost agricultural exports (*Herald Tribune, 6 July* 2002). Another study estimates the total cost of protection by OECD countries to developing countries at about $100bn per year (Oxfam 2002b) – twice as much as developing countries receive in Official Development Assistance (ODA) of about $50bn a year. Of course these figures are more striking when one considers that in total, OECD countries spend more than $350bn per year on subsidies. The CAP undoes much of the generosity of EU ODA. For example, the roughly 120m in ODA that the EU extends to SA every year is nearly erased in more than 100m in potential export revenues the country loses to sugar dumping (*Wall Street Journal, 16 September 2002*).

The EU is currently the largest contributor of global development aid, committing about $26bn of the total of $50bn. However the EU ODA budget still falls far short of the of UN target of 0.7% of gross national product. The current EU commitment is 0.33%, with EU member states having agreed to increase this to 0.39% by 2006.

For developing countries, exports are a critical factor to reduce poverty. Simulations conducted in some studies suggest that a 1% growth in developing countries' world export share could reduce world poverty by 12%. In the case of sub-Saharan Africa, this impact would be much greater (Oxfam 2002b). So increased adjustment and liberalisation in the EU and other major developed economies would contribute significantly to the achievement of the Millennium Goals of reducing poverty levels by 50% by 2015 (*UN Millennium Declaration 2000*).

IV. The EU Commitment to Environmentally Sustainable Policies

Are EU trade policies environmentally sustainable? The EU's work on sustainability impact assessments of its trade policies are interesting and innovative, although little is known about the methodology employed. However the EU's commitment to environmental sustainability on the world stage will be treated with scepticism if it does not act in areas where it has both direct responsibility and competence.

A recent study exploring how trade liberalisation could contribute to environmental protection (Page 2001), assumes that liberalising trade improves the efficiency of production by allowing production to shift to the cheapest location. The study finds that liberalising sectors and products with inefficient processes that are damaging to the environment could result in a win-win situation.

To what extent have the EU agricultural trade policies and subsidies contributed to the degradation of the environment? Three examples are explored below where the possibility of a win-win situation for environmental protection and increased development are very high.

Meat

The EU protects its meat producers (beef, pork, poultry, lamb) through high tariffs and CAP restrictions and subsidies. Such high levels of support have resulted in very intensive use of land, and studies have found that excessive agricultural production has damaged the quality of the soil, water and air, in addition to effects on biodiversity (Page 2001). Relocating some of this production to more suitable developing countries could result in more environmentally sustainable practices and reduce the price of food.

Sugar

Sugar production is controlled by the CAP, with quotas and tariffs as high as 85%. On 1 July 2001, this arrangement was extended to 2006. The EU is the second-largest sugar producer in the world market after Brazil, and its sugar regime is responsible for the chronic oversupply of sugar and depressed prices in the world market. The 2000 EU Court of Auditors report noted that EU sugar is not competitive, with subsidies in the region of 75% of the intervention price needed for sales to take place (EU Trade Policy Review). The report also noted the high cost of the regime to consumers and the programme's limited benefits, which mainly accrue to a small number of EU beet farmers and sugar processors. Also, intensive cultivation in the EU has contributed to land degradation (Page

2001). Reducing protection in this area would stimulate the relocation of production to developing countries with greater comparative advantage, lessening environmental degradation as a result.

Fishing

The 2002 EU TPR report notes that the Community Fishing Fleet consisted of 99,000 vessels in 1999. Greece, Italy and Spain have the highest number of vessels and Spain the highest tonnage. Employment at sea is estimated at 244,000; adding jobs in the processing industry takes this to 600,000. Although fishing is important for certain regions, such as Galicia in Spain, the Hebrides in Scotland, Brittany in France and the Aegean in Greece, the EU is a net importer of fish, with imports valued at €10bn in 1999 and exports at €1.9bn. The Common Fisheries Policy of the EU will be reviewed at the end of 2002. The Commission's Green Paper recognises that "from a biological point of view the sustainability of a high number of stocks will be threatened if the current levels of exploitation are maintained" (EU Trade Policy Review). Although the number of vessels has been declining, the EU admits that due to technological improvements "the EU has twice the capacity needed to catch the available fish".

An aspect of the EU policy in terms of this overcapacity is to negotiate fishing access agreements with third (mainly African and Indian Ocean) countries in exchange for financial assistance and fees from vessel operators. One study notes that the EU has such agreements with 19 African countries, but says much of this is uncontrolled fishing (catching and discarding immature fish). Studies have concluded that the subsidy to European fisheries and the excessive depletion of marine resources restrict the exports of developing countries and inhibit the development of local fishing industries.

Reducing protection (subsidies and tariffs) in a range of sectors will reduce environmental degradation and contribute to increased economic development and reduction of poverty in developing countries.

V. Technical Regulations and Social Policies of the EU

Do EU technical regulations or social policies exacerbate the regime of protection? And are these social policies being captured by protectionist lobbies in the EU, further delaying the EU objective of liberalisation and the advancement of economic development in the South?

EU standards are a source of non-tariff barriers for developing country exports to the EU market and could have a devastating impact on such countries' export capacity. A recent case study undertaken by Lifeonline (*http://www.lifeonline.org*) for Ghana drew on the direct experience of exporters facing non-tariff barriers in the EU market. Ghanaian banana producers complained that their attempts to export into the EU were frustrated by EU regulations on the length and size of bananas. (The EU regulations require a longer size which small producers failed to meet.) In addition, fish smokers from the Lake Volta region explained how they had made repeated but iunsuccessful attempts to meet the health and hygiene standards of the EU by developing a standardised facility to smoke the fish.

In general, these technical regulations or social policies have proliferated, and without a doubt raise the costs of foreign or third-country producers, more than that of EU firms. For example, the EU directive on producer responsibility for waste could have a disastrous impact on small producers from developing countries. In the context of the EU internal integration process, these regulations can be a source of trade diversion. For these reasons such regulations and social policies have been regarded as protectionist instruments or the "new protection" (Messerlin, 2001).

In addition, mutual recognition agreements for conformity assessment procedures have tended to be available only to a few trading partners. While these are conducted in terms of the provisions of the Technical Barriers to Trade agreement, the consistency of these agreements with the most favoured nation (MFN) principle – that any advantage given to one trading partner must be given to all other WTO trading partners automatically and unconditionally – is questionable. Also, the list of trading partners (Canada, US, Japan, Australia, New Zealand, Israel) who currently enjoy these mutual recognition agreements with the EU suggests special and differential treatment in reverse.

Food safety concerns have been used to enforce import bans in the EU, with such decisions based on the controversial precautionary principle, which requires action if there is a risk, even if there is no scientific certainty that the risk will exist in the long run. Undoubtedly the huge popular appeal of this principle allows for its misuse by both those with vested interests and politicians. This tendency for abuse would need careful monitoring and vigilance by the EU.

The EU policy on international standard setting, while understandable, provides room for concern (*see the Secretariat Report, p44*). On the one hand, the EU recognises the need to participate in international standard-setting bodies, but on the other asserts the right to develop its own standards in terms of its own policy objectives, provided these are not applied in a "discriminatory and arbitrary manner".

Although the Government Report addresses this (p14), it raises the issue of governance and participation in the decision-making of EU technical regulations. In particular, it raises the need for transparency and participation by civil society. What about the role of foreign producers and other parties whose interests are directly affected by EU trade policies? The EU would need to develop a more inclusive and transparent decision-making process.

VI. Dynamic Forces for Change in the EU

In his government statement to the WTO (EU Trade Policy Review), Abbot boasted that the EU had assumed leadership of the multilateral trading system over the past four years. This leadership, he pointed out, "comes at a price, but has high rewards". It is this leadership that the Commissioner for Agriculture, Franz Fischler, displayed when he produced the Commission's Mid-Term Review proposals to reform the CAP (EU Commission, 2002). In terms of these proposals, direct subsidies to farmers would no longer be linked to what they produce. Instead, there would be a flat-rate payment, based on what the farmer has received in recent years, and would be pegged more closely to environmental, animal welfare and food quality standards. In addition, payment would be reduced gradually over six or seven years and the money saved would be used to fund rural development. Subsidies to an individual farm would be capped at €300,000 a year.

In general, these proposals have been applauded as a step in the right direction, even by the EU's most severe critics. Australia Trade Minister and co-ordinator of the Cairns Group of agricultural exporting countries, Mark Vaile, was encouraged by the decoupling of farm payments from production. However he stressed that the Mid-Term Review does not propose to make any significant reductions in the overall level of expenditure on farm support, which it proposes to cut minimally by 0.4%. In addition, the review neither makes any proposals to reduce tariffs or quotas, nor does it speak of reducing export subsidies. Fischler's proposals, however, must still be discussed by the EU member states, and there are already signs that some would oppose these reforms, with France's President Chirac signalling that some leaders would reject these proposals at the EU December 2002 Summit in Copenhagen (The Times, 28 June). He told French ambassadors that new EU members expecting to accede at the end of 2004 had to have a say in the future of the CAP: "I will not allow enlargement to serve as an excuse for bringing forward a reform of the Common Agricultural Policy, a reform than can only take place in 2006 as agreed in Berlin" (*Financial Times, 30 August 2002*). The outcome of the 2002 elections in Germany and Sweden will further impact on the EU's political appetite to reform the CAP.

However Abbot was more optimistic about the possibilities of the reform succeeding, pointing to two powerful domestic reasons for such optimism. He argued that the EU has "a budget envelope that we have to live in, and we have an enlargement in prospect which, if present policies were to be continued, would put us in Chapter 11". He was referring to the EU Council's decision to cap EC transfers to CEE farmers at €3.4bn in 2006, which will not allow the current level of CAP subsidies to be transferred to the CEE. Current estimates are that about €9bn to €23bn will be required to bring all 10 CEE countries into the current CAP system (Messerlin 2002). The planned inclusion of 10 more CEE member states into the EU by the end of 2004 will increase by half the total number of farmers in the EU. Poland alone has more farmers than France and Germany combined.

There are also a number of reasons why the current system of protection in the EU, particularly for agriculture, is being challenged. First, there is an asymmetry in the proportion of contributions members make and benefits they receive from the existing CAP, with Germany being the main contributor and France the main beneficiary. Secondly, the CAP is biased in favour of large farmers, with up to 80% of the benefits going to just 20% of the farmers (*The Times, 28 June* 2002). Fischler's proposals seek to address this by capping large farmer (more than 2,000 acres) support to a maximum of €300,000 per annum. Thirdly, European consumers pay about 44% more for food because of CAP subsidies and the market intervention pricing system (*Herald Tribune, 26 June 2002*). According to the *Herald Tribune* article, an OECD study found that EU consumers pay 70% more for milk, 221% more for beef, and 94% more for sugar due to CAP policies. A recent OECD study quoted by the British Consumers Association argued that a family of four in the UK spends about $1,200 more on food than they would without the CAP. Fourthly, agri-business in the EU has benefited from tariff escalation in the post-Uruguay period. However these firms are increasingly multinational and their global sourcing and networking strategies make them strong advocates of trade liberalisation (for example Unilever, Nestle, etc.). In the fifth place, environmental NGOs in the EU are concerned with the CAP's negative environmental effects and can be a positive force for ensuring that trade liberalisation in the EU is accelerated, especially where this also meets environmental objectives.

It is clear that a number of internal forces have an interest in changing the current EU regime of protection. The EU will need to undertake radical internal reforms if it is to meet its responsibilities and the expectations of its trading partners in the WTO.

VII. Implications for the CEE

13 new countries are candidates for accession into the EU, with 10 involved in intense accession negotiations to bring their policies in line with the 31 chapters of the *acquis communautaire*. These 10 members – Poland, Hungary, Czech Republic, Slovakia, Slovenia, Estonia, Latvia, Lithuania, Cyprus and Malta – hope to conclude their negotiations by the end of 2002 and become members of an enlarged EU (EU-25) by 1 January 2005. Bulgaria and Romania are expected to join later and negotiations with Turkey have not yet begun. With all the above members, the EU-25 is expected to increase its population by 45% (170-million people) and its gross domestic product (GDP) by 7% (EU Trade Policy Review).

There is no doubt that while the EU accession process will be costly for the CEE countries, the benefits will be great. It is estimated that acceding countries will raise their GDP levels as a result by up to 2% annually for about 10 years. Already the benefits of integration with the EU have been spectacular for some countries. For example, the EU accounts for 65% of Poland's foreign trade, which has become the fourth-largest market for the EU after the US, Switzerland and Japan. Of the total foreign direct investments (FDI) Poland has received in the past few years (about $56.8bn), 68% came from EU member states (*Polish Statement to the EU Trade Policy Review*).

For the CEE countries to comply with with the EU *acquis communautaire*, they will have to make major changes to their institutions, laws and regulations. The EU will only assist with some of this, providing limited funding for structural adjustments. (Spain has insisted on its right to veto any structural funds to the CEE states up to 2006.)

There are a number of reasons why CEE countries should support reform of the CAP and liberalisation within the EU. First, the existing CAP is biased in favour of large farmers and as most CEE farmers are small, they will not benefit significantly. Secondly, CEE farmers will have to compete with highly subsidised farmers in the EU, who already have an advantage, making it prudent for CEE farmers to support the reduction of subsidies and CAP protection. Thirdly, large farmers in the EU-15 could purchase land in the CEE countries and become the main beneficiaries of the existing CAP (Messerlin 2002).

CEE countries would do well by becoming a force for reform of the CAP and reducing the level of protection within the existing EU-15, and in this way levelling the playing field. Increasing their levels of protection would see CEE countries fall into the trap of EU protectionism and postpone the

adjustments needed to compete in an increasingly globalised world economy. In addition, CEE countries would become a positive force for the creation of a fair and just multilateral trading system that encourages liberalisation of trade and sustainable development, contributing to the reduction of poverty in the developing world.

VIII. Conclusion

This paper has engaged with EU policy concerns to balance trade liberalisation with social policies to meet environmentally sustainable outcomes, and the recognition that this can only be done in the context of adjustment. The paper has argued that poverty and development are the most urgent and fundamental challenges for developing countries, and that the EU needs to undertake radical adjustment to fulfil its commitment to trade liberalisation and efficient markets. This will have a positive impact on economic development and the reduction of poverty in developing countries. Moreover, the EU's commitment to environmental sustainability will be viewed sceptically if it does not address the issue of its own trade policies that contribute to environmental degradation, particularly in agriculture and fisheries. It is also argued that EU technical regulations or social policies run the risk of being captured by rent-seeking protectionist interests unless there is great vigilance, transparency and participation by all interest groups, both within and outside of the EU.

The paper further points out that EU enlargement looms large in the process of the EU CAP reform, making current levels of protection in the EU-15 CAP unsustainable when it includes the acceding CEE countries. In addition, a number of other dynamic forces within the EU are driving the process of reform in the direction of greater liberalisation.

Finally, the paper argues that it is in the interests of CEE countries to support reform of the CAP and the reduction of protection in the EU, so that they can compete more effectively within the EU and make the necessary adjustments to compete globally. In this manner, the CEE countries can become a force within the EU for global trade liberalisation, sustainable development and a more equitable global trading system.

Acronyms

CAP	Common Agricultural Policy
CEE	Central East-European
EADI	European Association of Development, Research and Training Institutes
EU TPR	European Union Trade Policy Review
GATT	General Agreement on Tariffs and Trade
GSP	Generalised System of Preference
LDC	Least Developed Country
MFN	Most Favoured Nation
NGO	Non-Governmental Organisation
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
TRIPS	Trade-Related Intellectual Property Rights
UNDP	United Nations Development Programme
WHO	World Health Organisation
WTO	World Trade Organisation
WTO TPR	WTO Secretariat Trade Policy Review

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