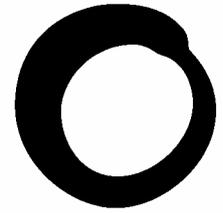


September 2005



**Friends of
the Earth**

Briefing

What's wrong with world trade?

An introduction to the trade and sustainability debate

With or without cash transactions, locally, nationally or internationally, trade affects almost everything we do. It has tremendous power that can be harnessed for good, but when not managed properly trade also has the power to harm people and damage our environment in far-reaching ways.

Friends of the Earth believes in a rules-based international trade system, but the one we've got now is fundamentally flawed. This briefing introduces some of the reasons for this to help those unfamiliar with the debate about trade and sustainability understand the scope and import of these vital economic issues.

Friends of the Earth inspires solutions to environmental problems, which make life better for people.

Friends of the Earth is:

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- the most extensive environmental network in the world, with almost one million supporters across five continents and over 60 national organisations worldwide
- a unique network of campaigning local groups, working in over 200 communities throughout England, Wales and Northern Ireland
- dependent on individuals for over 90 per cent of its income.

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Friends of the Earth, 26-28 Underwood Street, London N1 7JQ

Tel: 020 7490 1555 Fax: 020 7490 0881 Email: info@foe.co.uk Website: www.foe.co.uk

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What is trade?

Trade affects almost everything we do. Put simply, it's the everyday activity of buying and selling goods and services - something we're all involved in. It doesn't even have to involve money. If you babysit for your neighbours in exchange for a box of their home-grown vegetables, that is trade, essentially the same kind of transaction that happens millions of times all over the world.

Over the centuries international trade has become increasingly complex. The volume of goods and services we buy from abroad and sell back has increased dramatically in recent decades, and we have come to associate trade with financial transactions, international commerce and long-distance transport. Trade has been controlled through a range of measures from military force to trade restrictions such as taxes, quotas and bans. Despite seemingly different approaches, the aim has usually been the same – to protect and “grow” the domestic economy.

Some people believe, however, that protecting the domestic economy, often known as protectionism, blocks international trade, is inefficient and eventually leads to job losses. This argument has pushed the concept of “free” trade (also known as trade liberalisation) to the fore to become widely accepted worldwide as the prevailing economic theory. Over the past 50 years the theory has encouraged more and more governments to “open up” their markets to foreign trade and investment, so that goods and services now move between countries in larger quantities with fewer restrictions than ever before. Annual global trade in goods and services topped US\$9.1 trillion in 2003 according to the World Trade Organisation (WTO).¹

Friends of the Earth believes that the “free” trade theory is flawed and unsupported by evidence of benefit, although there is mounting evidence of the damage it does to communities and the environment. Friends of the Earth therefore believes that “free” trade must be scrutinised closely, and current headlong pursuit of “free” trade must be halted until there is clearer indication that such an approach is in the best interests of sustainability and poverty eradication.

Trade liberalisation and poverty

Supporters of trade liberalisation assert that if countries adopt a “free” trade approach they can improve their economic performance and prospects. To do this they must specialise in producing what they are best at and “open” their markets by dropping trade restrictions, forcing their companies to compete internationally to increase their efficiency. This is called the theory of competitive (or some say comparative) advantage.

The theory states that by increasing competition and efficiency in this way prices are driven down making products more attractive to consumers and increasing demand. This should make business boom, national income should increase and everyone should eventually benefit as the wealth “trickles down”. Poverty will be, we are told, dispelled.

However, there is an increasing body of evidence showing that the reality of “free” trade is rather different, even the opposite in some cases, and the pressure is growing on “free” traders to prove that their theory works before further damage is done.

Friends of the Earth believes that a considerable part of the problem is that the overall costs of trade and the way it is currently managed outweigh any benefits to society as a whole. We have “freer” but not *fairer* trade, and certainly not green sustainable trade. Nor have the promised benefits materialized – for example the theory of “trickle down”, whereby encouraging business and the wealthy to help them acquire more wealth which will then “trickle down” to the poor, is not happening. Decisions of the WTO actively seek to overturn the laws of democratically elected governments, damaging communities, squandering natural resources and scarring the environment.

Overall, economic growth continues to benefit those who are already rich and large companies. Poor people, particularly women, small businesses and workers all lose. What's worse, trade is destroying the environment they fall back on for income, food, medicine and a host of other things when times get tough – a double blow many cannot withstand. The ranks of the poor are growing around the world, and they are growing increasingly poor. The disparity between rich and poor, both within and between countries, is growing. Those reaping the benefits strongly support and advocate further liberalization and promise future improvements, yet many millions more are implacably opposed to it in light of these effects.

The World Trade Organisation

Trade, and the transition to “free” trade, is governed by sets of rules negotiated between countries or groups of countries. There are many regional agreements, like the North American Free Trade Agreement (NAFTA), and thousands of bi-lateral agreements. The largest multi-lateral negotiating body on trade, with 148 members and headed by former EU Trade Commissioner Pascal Lamy, is the WTO. Member countries are meant to negotiate and apply new trade agreements to “open” their markets step-by-step so long as others do the same. The WTO also oversees the global trade liberalisation process with its own internal “court” and is probably best known for handling controversial trade disputes between member states in this way. Its power to authorise hefty trade sanctions against countries who do not comply with the findings of this mechanism give the WTO its clout.

A number of governments had planned to use the WTO's November 1999 meeting in Seattle, USA to launch a new round of market-opening negotiations. The talks collapsed. The next meeting, held in Doha, Qatar in the aftermath of the terrorist attacks on New York on 11 September of that year, produced the Doha Development Agenda (DDA).

The DDA continued from where Seattle left off, advocating that developing countries further and deepen their trade liberalisation. While it was again acknowledgement that developing countries would need “special and differential” treatment to cushion the transition when “opening up” to the global economy, those countries continued to complain that previous promises of that kind have not been honoured. The DDA also reiterated that trade rules should not prevent countries from taking measures to protect human and animal health and the environment. However, exercising this right remains difficult as WTO rules often undermine or outflank or claim to outrank such measures. Countries who attempt to protect the environment, as Europe did with regard to GM food and farming, risk finding themselves in dispute facing heavy sanctions.ⁱⁱ The fear of such retaliation contributes to the overall “chilling” affect of the WTO with regard to social and environmental standards – countries

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decline to implement badly needed regulations rather than risk conflict in the WTO.

The DDA was barely born before the wrangling began over just who was expected to sacrifice what in order to secure a more equitable future, and who should move first. The collapse of the next WTO Ministerial in Cancun, Mexico in 2003 brought to light a clear polarisation of opinion between the North and South on the way forward. It also highlighted the growing difficulties over the lack of democracy in the decision making processes at the WTO as more powerful members attempted to drive forward their agenda against the wishes of the rest. It was this dynamic that finally broke the Cancun meeting.

These differences of opinion and a chronic lack of transparency mean that the next meeting in Hong Kong in December 2005 is already under pressure. The now traditional brinksmanship between the developed and the developing world is heating up, yet negotiations are going nowhere fast. With a scant six months to go, the WTO Director-General Supachai Panitchpakdi had already warned members that “progress is nowhere near sufficient in terms of our critical path to Hong Kong.”ⁱⁱⁱ WTO negotiations always include a healthy application of spin by all parties, so it is difficult to judge the true severity of the impasse, but it is clear that there has been no substantive progress in any of the major negotiations for months. Some reports say parties are in fact moving further apart. With a string of failed meetings and no apparent way forward, the WTO, it would appear, is in trouble.

What are the key problems?

Since Seattle, WTO Ministerials have attracted increasing protests. People from all walks of life around the world feel sufficiently distressed by what the WTO represents to travel to the meetings to demonstrate. Nearly 2,000 organisations from 83 countries sent members to Cancun to voice their concerns about the impacts of trade liberalization, and hundreds more went as unofficial witnesses.^{iv} This unprecedented level of opposition centers on a number of arguments outlined below.

The gap between the rich and poor is getting wider

Some 1.1 billion people are forced to survive on less than one dollar a day.^v In a world of plenty, their basic needs - such as adequate nutrition and literacy - are still not being achieved. The burden is falling heavily on Africans. In a year when Tony Blair put eradication of poverty in Africa at the “top” of his agenda, some 200 million Africans are still underfed and 136 million cannot read.^{vi,vii} Globally the situation is taking its toll, as is too often the case, on women, who look after the needs of their families before their own and who are regularly denied the education given to their brothers. This in itself has implications not only for the health and well being of women, but for their entire communities as well.

By the end of 2004, the world's three richest individuals had amassed as much wealth the total combined Gross Domestic Product (GDP, the standard measure of a country's cash wealth) of the 47 poorest *countries* – three individuals have more than a quarter of the world's countries of the combined.^{viii} The richest 1 per cent of the world's population have as much income as the poorest 57 per cent.

This situation has been worsening for decades. In 1988, the richest 5 per cent of the world's

population were 78 times richer than the poorest 5 per cent, and by 1993 they were 114 times richer. The poor are sliding backwards at the same time – they've lost 25 per cent of the income between 1988 and 1993 while the richest 20 per cent gained 12 per cent, showing that “free” trade has not brought about the poverty eradication it claims.^{ix}

A link between globalisation and increasing inequality is acknowledged by the United Nations. Those who rely on GDP to demonstrate the “success” of free trade fail to take into account that while the overall GDP number may rise for a country as a whole, it masks a worsening situation for individuals and communities, as shown above.

The wrong kind of growth is overwhelming the natural world we depend on

Trade liberalisation encourages richer countries to consume more and poorer countries to export more and join the race to adopt this more consumptive model of development. It often destroys irreplaceable natural resources. According to the UN, 75 per cent of marine stocks are currently fully exploited, over exploited or depleted.^x The net loss of forest area during the 1990s was an estimated 94 million hectares.^{xi} The rate we are using resources such as petrochemicals and metals, the resulting climate change, health impacts of pollution and habitat damage are already exceeding sustainable levels - and growing as consumption rates continue to rise.

People in the wealthy world consume far more than their fair share, and far more than they need. This displaces a heavy burden onto other countries, such as extraction of natural resources, with all the pollution and destruction of communities that entails, and living in an increasingly unstable climate, with the flooding, drought and other devastation that brings. If UK consumption levels and patterns were to be matched globally, we would need two planets by 2050 to supply sufficient resources.^{xii} The fact is that poor people are not only more reliant on the natural environment, but they are also better at looking after it. For example, research by Friends of the Earth found that rural women are the most efficient guardians of forests.^{xiii}

Since some 40 per cent of global economic activity is based on natural resources in one way or another, genuine ecological sustainability must be firmly planted in all trade policy urgently. If this is not done, trade cannot “lift people out of poverty” in any lasting way, as is so often promised, but will in fact be a key factor in driving the poor deeper into poverty and forcing more people to join the growing ranks of the impoverished.

Did you know?

If current trends continue, by 2065 economic losses due to environmental destruction and an increasingly unstable climate will outstrip total world economic output.^{xiv}

Big business is becoming too powerful

It is convenient for governments to act as if what is good for business is good for everyone else, but this is increasingly difficult to prove. The world's top 5 companies have combined revenues of US\$1.3 trillion, not far short of China's GDP, yet the statistics above show that this is not reducing poverty.^{xv} Companies are legally bound to provide the “best” for their shareholders, and multinational companies strengthen their positions in the competitive

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global economy by pressing for increased access to foreign markets. However, what is good for shareholders is not necessarily best for everyone.

Multinational companies also seek to reduce costs by reducing standards, like shifting their operations to other countries to evade health and safety or environmental protection measures or to pay lower wages for workers – but often not for executives back home. The pressure of global competition is causing many countries to adopt more 'flexible' (ie, weaker) approach to labour policies in order to attract business. Mergers and reorganizations are also used to cut costs and lead to large numbers of people losing their jobs. Furthermore smaller businesses and farms simply can't compete with the influence and market power of these new global giants, driving them out of business and costing even more jobs. As the market is concentrated into the hands of fewer and fewer big companies and their power grows, consumer choice and power is eroded while overall job security continues to decline worldwide.

Big business is a key driving force behind Government moves to "open up" markets in other countries, including through the WTO. The world's largest companies have regular access to high level decision makers on trade issues, and they bring substantial amounts of money with them. Of the US\$1 billion donated to federal candidates and political parties in the US between 1989 and 2002, US\$ 446 million came from the business sector, with half of this coming from the financial sector.^{xvi} The number of people lobbying on behalf of big business and the sheer scale of the financial resources behind them vastly outweigh what civil society can amass to try to strike a balance.

These factors combined make it increasingly difficult for any government, but particularly poorer ones, to resist the demands of big business and take other concerns on board.

Weaker countries struggle for a fair deal at the WTO

The WTO is heavily influenced by a small group of very powerful trading nations or blocs - including the US, the EU, Canada and Japan. Other nations risk being isolated in the global economy if they do not join the WTO. However, many poorer countries (who cannot afford to field huge teams at the WTO) are often excluded from meetings where important decisions are taken, and other problems are rife. The WTO is widely criticised for its unfair practices, including bullying of weaker members by more powerful ones, lack of transparency and democratic deficit.

How do these issues play out in the real world?

Trade in oil, the world's most valuable commodity, show how these factors come together to harm people and the environment.

Oil is one of the world's most versatile resources. Many industries, such as those that manufacture plastics or petrol, are also dependent on oil as a raw material. Countries' whole economies are based on oil, which is still a key underpinning of global energy production. International trade requires oil for both surface and air transport. Oil consumption in 2004 was up 3.4 per cent on the previous year, the most rapid increase since 1986.^{xvii} One estimate suggests the US currently consumes 3,700 gallons of gasoline per second.^{xviii} Oil consumption is expected to continue to increase by 1.9 per cent per year to 2025.^{xix}

Yet oil can seriously damage our environment, and the world's dependence on oil leads to widespread corruption, civil conflict and war, each with further environmental implications.^{xx} Oil exploration often destroys valuable habitats such as forests and wetlands. Spills during transport, discharges from ships, illegal dumping and other pollution dump million of tons of oil into the oceans every year. Furthermore the extraction, use and disposal of oil and oil products all cause pollution, including creation of carbon dioxide, a key green house gas contributing to climate change – itself made worse by using oil in cars and planes.

Did you know?

Since 1988, more than 100,000 new oil exploration wells have been drilled. In the process, access to an area the size as the US and Europe combined has been granted to companies searching for oil regardless of whether or not it is already used or inhabited. This threatens many indigenous peoples - including the U'wa in Colombia, the Karen in Burma, and the Baka and Efe indigenous peoples in the Congo basin. It also threatens untouched forest in 22 countries and coral reefs in 38 countries.^{xxi}

Additionally, oil companies are now some of the most powerful institutions in the world. Mergers between oil companies in the last decade have resulted in the five largest oil companies controlling 14 per cent of global oil production.^{xxii} In 2004, the 5 biggest oil companies produced around 11.5 million barrels of oil per day, which is the equivalent of 47 per cent of the total produced per day by all the Middle Eastern countries put together.^{xxiii} Since 2001 they have amassed cumulative after tax profits exceeding US\$125 billion.^{xxiv} The cost to individuals, however, has been high. Job losses from the Exxon-Mobil merger topped 9,000, while estimates for the BP-Amoco partnership projected losses might reach 20,000 – 1 in 5 of the workforce.^{xxv}

Did you know?

ExxonMobil is the world's third largest company with revenues of US\$ 290 billion, which makes it larger economic force than South Africa.^{xxvi} As the production, trade and marketing of petroleum products remains the lifeblood of the company, it opposes efforts to agree an international climate change treaty.

As with other products, the solution to these global impacts may not be directly related to changing trade rules - for example, each of us needs to use less oil to slow the progress of climate change. However, the trade liberalisation process itself, which seeks to remove regulations and other controls, has made it more difficult for governments to restrain production and consumption in order to maintain key health and environmental standards.

What does Friends of the Earth want?

Friends of the Earth is not anti-trade, but a rules-based trade system does need to be much more fair and green, based on sustainability, with the costs and benefits shared more equally. In particular, we want to see the value of local communities and economies around the world acknowledged, supported and strengthened. Economic growth cannot be pursued as an end in itself – the impact and costs of that growth must be considered in setting trade policy. We also believe there is an urgent need to make big business accountable for the

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damage it does to those communities and the environment.

How can this be achieved?

Friends of the Earth believes that a key first step to making the trade system work for us all is to stop the liberalisation process and rollback the power and authority of the WTO. We need urgently to review the trade system and its rules to thoroughly assess what has or has not been achieved economically, environmentally and socially before proceeding any further.

There are a number of steps that should be taken to restrain the WTO. In particular:

- The WTO cannot have authority over basic human needs like food, water, health and education, as they are fundamental human rights and should not be subject to market forces;
- Similarly matters affecting animal welfare or the environment should not be subject to WTO rules;
- The remit - and hence the power - of the WTO should not be expanded to include any new issues such as investment or government procurement. While the immediate threat of this was reduced in Cancun, that was itself the second attempt by the WTO to expand, and we need to ensure it does not try again;
- WTO rules cannot be permitted to override democratically arrived at laws designed to protect local communities and the environment;
- The WTO cannot legitimately oversee and judge disputes that include non-trade impacts, for example cause harm to people or damage to the environment. Such disputes should be heard by an independent authority;
- The WTO must be more democratic and transparent, and it must reflect the needs and wishes of everyone. There is an acute need to include and value the contributions of people currently marginalized or excluded outright from the global economy, including poor countries, poor people, women, children, workers and indigenous peoples.

In addition, we need strong, binding rules governing the activities of corporations and bringing them to account for the damage they cause. For example, governments should be allowed to screen and set standards for incoming investors, and have access to justice if those standards are breached.

What should we do now?

Much of what is wrong with the WTO is exemplified in the current negotiations on Non-Agricultural Market Access (NAMA). These talks seek to further trade liberalization by removing tariffs (such as export taxes) and other measures regardless of the reasons they are implemented. This includes removing so-called "barriers" to trade designed to protect some of our most vulnerable natural assets from over-exploitation.

Our natural resources are already under serious pressure, and NAMA threatens to usher in a regime of unbridled exploitation of the world's forests, fish stocks, and minerals. Certification requirements to guarantee products have been produced from sustainable sources, labeling schemes to help consumers choose more energy efficient products, the

“CE” mark of safety and quality on goods in Europe, plus scores of other measures are all under threat.

Friends of the Earth is further concerned that both the UK and EU authorities are taking decisions about trade negotiations at the WTO in ways that do not permit appropriate Parliamentary scrutiny, which undermines the legitimate authority of democratically elected representatives. The system lacks proper democratic checks and balances. For example, the highly controversial Committee 133 is a secret committee responsible for deciding EU trade policy under twice-disgraced former UK MP Peter Mandelson, now appointed European Commissioner for Trade. When Friends of the Earth asked in 2004 for access to documents about environment discussions in the Committee 133, the European Commission declined, saying secrecy was needed to protect their negotiating position. When Friends of the Earth then complained to the European Ombudsman that this was a clear failure to provide proper transparency, the Ombudsman replied:

“The Ombudsman finds that even if the limitations on public access imposed by the nature of the negotiations within the WTO framework are legally acceptable, regard has to be had to the expectations of many citizens towards greater transparency and openness in this important policy area. Particularly so, in view of the recognition of the importance of transparency in the WTO's Guidelines and Procedures for the Negotiations on Trade in Services. Transparency cannot be attained by entirely excluding public access to information. The Ombudsman believes that it would therefore be advisable for the Commission to consider additional means which may render these negotiations more open and transparent for the citizens, and thus facilitate public access to the exchanges among the parties.”^{xxvii}

Friends of the Earth is working with MPs and MEPs in the run up to the December 2005 Hong Kong WTO meeting to ensure that these problems are properly understood and addressed. In particular we hope democratically elected representatives will press the Government to ensure that proper Parliamentary scrutiny of trade policy and negotiating positions becomes the norm. You can help by writing to your MP and MEP about these issues and ask for their support.

What can you do?

Get involved

- Write to the Secretary of State for Trade and Industry asking for assurance that all UK trade policy will be brought into full compliance with the “Promises” the Government made in the UK Sustainable Development Strategy to create a “one planet economy” that does not shift our environmental burden onto other countries. They chose the word “promise”, and the UK Government’s current enthusiastic support for the NAMA negotiations in the WTO violates it. This must be addressed urgently.
- Get the latest campaign information and actions at:
http://www.foe.co.uk/campaigns/global_trade/

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Make wise lifestyle choices

It's important that people living in rich countries - who consume most of the world's resources - reduce the impact of our lifestyles. Consumers in Europe can:

- Support local, independent shops. Ask them to stock locally produced organic products, a full range of fair trade products, and to adopt policies that support and develop fairer, greener trade;
- Buy locally produced, preferably organic, food wherever possible;
- Buy environmentally-friendly and fair trade products wherever possible;
- Increase the amount you reduce, reuse or recycle in your home and office.

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