

Draft reflection paper: Trade Policy alternatives from an Ecological Perspective

Prepared by Green/EFA MEPs Molly Scott Cato, Florent Marcellesi, Max Anderson for the conference ‘How to Save Trade Policy: New Ideas for a Globalised World’

Project Overview

The Green/EFA Group in the European Parliament has tasked its’ internal Trade Working Group with developing a Trade Policy Paper in 2017-18. This decision comes following a tumultuous period for EU trade policy and growing national concerns about the benefits of trade policy for ordinary people and the planet.

This early draft reflection paper (June 2017) is based on input papers from the Greens’ Trade WG, as led by the named MEPs, and is distilled down to highlight five key issue areas: *ecological trade, trade subsidiarity, trade democracy, trade solidarity and trade standards*. The paper takes a distinctly global view of trade policy with a new radical ecological approach that is required for the future. By December 2017 an updated draft which includes a new chapter on policy recommendations is planned.

Political process & future adoption

A final draft ‘*Trade Policy Paper*’ will be concluded before the end of January 2018. The Green/EFA Group, under the guidance of the Secretary-General, will then commence an amendment and voting process in order to formally adopt it as a position of the Greens/EFA Group.

The policy paper, if approved, would be finalised one year before the European Elections. It could serve as a helpful foundation for national Green parties who have previously been interested in developing their own trade policies in recent years.

The EGP’s Trade Working Group in Karlstad is the first opportunity to discuss openly the ideas in the paper, with a view to continue to shape the debate on trade policy amongst national Green parties across Europe and form concrete positions for EGP members in the coming years.

Disclaimer: this draft is a personal reflection paper. It does not present the policy of the Greens/EFA Group

Disclaimer: this draft is a personal reflection paper. It does not present the policy of the Greens/EFA Group

Draft reflection paper: Trade Policy alternatives from an Ecological Perspective

Prepared by MEPs Molly Scott Cato, Florent Marcellesi, Max Anderson for the conference *'How to Save Trade Policy: New Ideas for a Globalised World'*

Disclaimer: this draft is a personal reflection paper. It does not present the policy of the Greens/EFA Group

Introduction

- 0.1 Trade policy is an issue of political contestation in most parts of the world for the most time of the last two decades. This is understandable, given that wrong trade policies can lead to profound social and ecological problems in this era of nearly accomplished economic globalization.
- 0.2 As Greens in the European Parliament, we were engaged in all recent battles about EU trade policy. We opposed the “Mandelson Doctrine” of 2006 (Global Europe) of unconditionally opening trade to the unfettered forces of the free market. In 2010, Greens expressed some relief that the “De Gucht Doctrine” at least acknowledged that politicians are not as stupid as to believe that free markets could be fair. Some Green hopes accompany the “Malmström Doctrine” of 2015 that trade policy ought to be based on values beyond return-on-investment and economic growth. It still needs to be proved, moreover, that the announcement of changed intentions are being followed by real policy changes.
- 0.3 However, a grab-the-share-of-your-neighbour mentality has set in since the unilateral withdrawal of the US from the Trans-Pacific Treaty (TPP) and the start of the Brexit negotiations. It shows that trade through all these different announcement of changes remains in essence a zero-sum game in which the one side wins what the other side loses. This is all the more prevalent in times of market saturation when trade policy does not create meaningful additional trade but merely diverts trade routes away from the competitor towards your own economy.
- 0.4 Other things don't remain immobile. Instead they move quickly. In these last two decades, our knowledge of the finiteness of global resources and the limits of the regenerative and assimilative capacities of the ecosystems has grown tremendously. But

globalisation continues to drive an economic model which is based on double of the resources that the planet can provide for or support. This knowledge is political responsibility for the Greens. At the same time, frameworks for global action, such as the Paris Agreement and the 2030 Millennium Development Goals, have been created and provide benchmarks on which to measure progress towards a future-proof development.

- 0.5 In this context, trade as a zero-sum gamble between nations, with high global material input and low global output of human well-being, is no longer a policy option. For Greens, the time is ripe to reconsider the function of trade in economics as such. Greens are open to the world; indeed our measure is the world and the planet. International trade is not the enemy. But the policy governing trade needs to be firmly rooted in a vision of socio-ecological justice of economic policies.
- 0.6 The overarching goal of a Green trade policy is to ensure that trade achieves the maximum human well-being for the minimum use of energy and resources. This entails the redesigning of the global trade system so that it does not undermine the regeneration of ecosystems, while ensuring the possibility of high quality employment and environmental protection at home and abroad.
- 0.7 Trade in services has become an ever more important factor of economic life and welfare production. Services are rapidly becoming integrated part of a good, changing the concept of material ownership towards a concept of function. This entails a promise of decreasing the use of material input. It could lead also to increased human well-being if the enjoyment of a good is getting decoupled from its possession. On the other hand, it can also worsen human well-being if the rules on trade in services are set wrongly, leading to an increase of the power of service multinationals.
- 0.8 Certain services are an important source of democratic empowerment and social solidarity, especially on the local level. The way a service is being provided has, moreover, as the provision of goods, a profound impact on gender roles and the empowerment of women. We need to carefully look at how service provisions are affecting the dominant roles of men and women and use gender stereotypes to lower costs for the provider, or whether they contribute to the recognition of care and unpaid household labour, and the difference of men's and women's use of time and resources. Public services in general should therefore not be regarded as tradable services.
- 0.9 Green trade policy needs to identify the first steps on the avenues bringing us closer to an ecological vision of trade. Such steps should be developed as much as possible at the multilateral level, including bringing the necessary changes of the existing rules of the world trade system as embodied in the WTO.
- 0.10 The ecological imperative of the Green trade policy is developed in the first chapter. It leads into the four building blocks for Green policy directions that are outlined in the following chapters: trade subsidiarity (chapter 2), trade democracy (chapter 3), trade solidarity (chapter 4), and trade standards (chapter 5). Concrete Green policy demands are developed in chapter 6.

Chapter 1: Global trade from an ecological perspective

- 1.1 In the classical perspective, trade is the exchange of a product containing labour, capital and the transformation of a certain amount of biophysical resources against a monetary value. All countries compete to drive down the costs of capital and labour, while resources are regarded a gift of nature. From an ecological perspective, the dimension of the use of the biosphere, that is to say land and soil, raw materials, energy, water and environmental space, is instead of primary importance. If trade statistics would include data about the exchange of the biophysical factors embodied in a product, they would show an ecologically unequal exchange at the global level. The core regions of the industrialized world are net importers of the biosphere of the other regions, and notwithstanding technological progress they continue to import biosphere. The other regions are net exporters of their biosphere, and notwithstanding decades of trade they need to continue to export their biosphere in order to maintain a positive trade balance.
- 1.2 The rules of liberalized global trade and investment flows in the last decades have contributed to ensure that net biosphere importers are entitled to displace environmental pressures away from their own territory, have a positive biophysical trade balance and are able to maintain high consumption rates per capita, which upholds social stability. Net biosphere exporters instead run a negative biophysical trade balance, experience more directly the adverse environmental effects of overstretched resource use, and have much lower levels of consumption per capita. However, the situation remains conflict-prone because it is not build on socio-ecologic justice. Many of today's conflicts, such as cross-border migration and increasing social fragmentation, are the result of overstretched biosphere exports.
- 1.3 The biosphere for export, on which the global trade system is build, produces collateral damage that is stretching the regenerative capacities of ecosystems even further. It depends especially on the availability of cheap fuels for long distance transport, which add a substantive amount to greenhouse gas emissions.
- 1.4 A Green trade strategy build on the principle of socio-ecologic justice which respects global ecological boundaries must be oriented at limiting the import-export of biosphere, that is, the need of supplying products from far away, and at decreasing the biophysical content of consumption goods. This would free up biosphere for a socially more fair redistribution of the global welfare effect of the remaining trade.

Chapter 2: Trade subsidiarity

- 2.1 The global trade system conceives of trade within the frame of a competitive market, and the focus of trade is the exploitation of price differentials. Goods are made in countries where biosphere export is cheap and wages and environmental standards low, and exported to countries where consumers are wealthier, thus gaining a differential between the cost of production and the cost of sale, which generates a profit. Much of

the activity of transporting goods from distant sites of production to local markets achieves no welfare advantage and is dictated merely by the interests of arbitrage. This does not meet the fundamental Green criterion of maximizing human well-being for the minimum use of energy and resources.

- 2.2 In contrast, the principle of trade subsidiarity states that the distance between production and consumption should be as short as reasonably possible. It raises the question of what is the appropriate level to access the products needed for a satisfying life. Clearly, the distance that is appropriate for products to travel depends on the complexity of the good, the materials and skills needed for its production, and the size of the potential market.
- 2.3 Products which are less labour intense, which require some skills and for which raw materials are plentiful can have short travel distances. Many food products and a range of consumer goods could be sourced at a regional level. The re-shoring of production and connected services would lead to a rise in prices but also to a return of skilled employment.
- 2.4 The situation is different for complex products which entail a high level of skill, design and process knowledge, but also intense labour. These are typical supply chain products which are sourced at the global level. However, the construction and functioning of supply chains is the result of the control of 'intellectual property' by the corporations that dominate the supply chain. This seems to be an arbitrage advantage that we can no longer afford in an era of overstretched biosphere use. Under the condition of more freely available design and process knowledge, parts of the supply chain could be localized, especially the stages leading to the final product, in which value-added could be created through regionally specified end-use applications. Such re-shoring of production parts and connected services would not lead to a rise in prices, if the regional market for specific applications is big enough, and it would create new skilled employment.
- 2.5 Products which are highly labour intense and require a specific raw material base, such as coffee or diamonds, are beyond the reach of trade subsidiarity. The global trade of such products is here to stay. However, under conditions of their fair pricing (see chapters 4 and 5) demand would probably decrease.
- 2.6 Trade subsidiarity would change global biosphere trade patterns towards a more fair balance. Regions which so far have been net exporters would gain breathing space for the regeneration of their ecosystems, if less biosphere is used up for exports. Regions such as the EU which so far have been net biosphere importers would need to accommodate new requirements for biosphere use and become much more innovative in finding appropriate solutions for minimizing such needs to the utmost minimal.

Policy Directions:

- tax consumer goods (and potentially services) according to biosphere use;
- ease patent rights
- develop methodology to discriminate between like-products according to their Product and Processing Methods (PPM) at the WTO

- increase R&D spending for de-materialization and re-use of products, and their adaptation to conditions of a sharing economy
- increase local content in public procurement

Chapter 3: Trade democracy

- 3.1 The core WTO principle of non-discrimination and the rules of the EU Internal Market provide for a parity of chances of all economic actors. However, in the praxis of cross border trade, multinational corporations and their investors control large parts of global productive resources, trade flows and consumer markets. Trade policy is one of the instruments for this small group of economic actors to extent their wealth and power, and to secure their dominance.
- 3.2 The structural dominance of multinational corporations is exacerbated in production processes segregating the different steps of value-added along the supply chain. Smaller economic actors are confined to the status of suppliers of a specific global value chain or to local niche markets. It prevents smaller economic actors of having a fair chance to participate in trade flows. The value of their products is measured by the company at the next level of the value chain, not independently by the market. Product innovation is restricted, if a product has just a few customers and is disconnected from a broader field of applications. Both are factors which make it difficult for smaller actors to find investors.
- 3.3 Trade democracy connotes the idea that all economic actors have a fair chance to participate in existing trade flows within and beyond borders. Big multinational corporations and top-down organized global supply chain processes are the antidote to trade democracy. They hinder the entry of new actors.
- 3.4 The entry of new, and smaller, actors in existing trade flows is, moreover, a key component for the transition to network-based economic structures which compensate the shortfall of capital and access to cheap biosphere usage through a high degree of technology transfer within the network.
- 3.5 Some countries shelter domestic markets selectively and temporarily in order to enable smaller domestic economic actors to grow up to the level of competence at which outside competition can be afforded. However, this strategy results mostly in “national champions” which then compete with multinational corporations. Sheltering selectively domestic markets could however help in preserving space to facilitate novel paths to economic development which are not yet regulated by trade rules, such as presently in the field of distant service delivery, e-commerce and green servicing for an extended product use and responsibility (Product Service Systems, PSS).
- 3.6 Another way to provide for fair conditions for smaller economic actors to engage in trade is to make multinational corporations pay the real price of production which smaller economic actors need to pay, with regard to taxes, observation of labour rights and environmental requirements.

Policy Directions:

- stricter rules against transfer mispricing and tax evasion
- “publish what you pay” and country-by-country reporting for multinationals
- trade agreements facilitating technology transfer
- creating an enabling environment for smaller economic actors by excluding procurement, new services and innovative products from trade agreements

Chapter 4: Global trade solidarity

- 4.1 Global equality is a primary Green principle. In the context of trade this means ensuring that our lifestyles do not inflict damage on the lifestyles or livelihoods of other people we share the planet with. This is the principle of global solidarity that we should follow when developing our trade policy.
- 4.2 Trade has opened up opportunities to the so called poorer and less developed countries. There is no doubt that trade has helped many economies to expand their productive capacity and increase the standards of living of their citizens. However, productive gains are often achieved on the expense of the sustainability of livelihoods. If subsistence farmers leave their land to work in factories for very low wages they may have lost as much as they have gained and are certainly vulnerable and dependent in a way they were not before. On the other hand they have access to more services, health and education for example, and an expanded lifestyle. So we need to be cautious about who really benefits from trade.
- 4.3 Many less industrialized countries also find it hard to really gain from trade because the ‘terms of trade’ are stacked against them, meaning that the monetary value of the things they can export increases less than the value of the things they must import. Especially the commodity exporting countries need to constantly increase the volume of their exports just to maintain their level of welfare. The increase in productivity does not leave them better off after all. So we need to be cautious about what really makes trade beneficial in the sense of maximising human welfare and minimizing the use of resources.
- 4.4 Greens want to ensure that trade is truly fair and achieves its purpose of welfare creation. We already have fair trade, a voluntary system whereby wealthy Western consumers choose to pay higher prices for products that have been produced in a way that does not exploit those in the world’s poorer countries. However, we need to move beyond such voluntary schemes towards a trade system which is based on global solidarity. In the first place, this requires a change of the rules in the World Trade Organisation (WTO) and a change of the way in which decisions at the WTO are being made.

Policy Directions:

- establish the supremacy of human rights and environmental treaties in trade agreements. in particular, the Paris Agreement on climate change should represent a guideline for any trade policy
- trade agreements which provide space for time-bound and sector-wide exceptions
- for this reason, participatory involvement of civil society in the negotiation process
- establishing a currency basket of the IMF which takes due account of key regional currencies
- safeguard mechanism in trade agreements which can be triggered by parliamentary decisions

Chapter 5: Trade standards

- 5.1 International trade will remain a part of economic activity though its volume hopefully decreases and its importance changes: less quantity but more quality and sustainability. For this remaining trade needs, equally high social and environmental standards and requirements for production need to be applied throughout the globe for companies that have a link to European markets. Standards should eventually reach the same level whether a company is sourcing from inside or from outside of Europe. A system where requirements are circumvented by taking production to countries less regulated is unsustainable.
- 5.2 Legislation that requires and enables the tracing of supply chains to the origins of the raw materials and which puts the duty of vigilance with regards to environmental, social and human rights on companies on each step of the supply chain is necessary. Companies to a large extent are already aware of the need to ensure that their supply chains are free of human rights abuses, environmental crimes, and social rights violations. Sustainability is good business. However, a level playing field is required for companies to ensure that the benefits go to those respecting social and environmental rights. Moreover, without clear obligations set by the regulator, companies face difficulties in acquiring full transparency throughout their supply chains. Transparency in trade and supply chains is a means of promoting the implementation and enforcement of labour and environmental laws in third countries.
- 5.3 Respect of indigenous peoples' and community rights to land and water has been deemed one of the most efficient ways of protecting forests, biodiversity and carbon sequestration. The aim is to engage partner countries in improvements, not to stop trading due to in compliance. Therefore clear indications, requirements, obligations, engagement, transparency are the responses to achieving sustainable trade.
- 5.4 It remains crucial to increase technical assistance and capacity building to poorest countries in order for them to have the means to meet the higher standards. This contributes to both their inclusion in the world market, and in increasing the standards of production locally. The EU needs to reinforce its support to the sustainable development of the so called least developed countries. These countries are under threat of being even further excluded from international trade by mega-regional agreements which define standards on trade and favour imports from compliant countries.

5.5 Trade policy must both safeguard and proactively promote environmental, social and human rights, featuring the trade-related SDG's and the UN Guiding Principles on business and human rights in all agreements. Trade policy must be coherent and fully in line with other policy areas such as development policy and fundamental and human rights obligations.

Policy Directions:

- inclusion of UN Guiding Principles on business and human rights into EU trade agreements
- standard setting through enforceable sustainable development chapters in trade agreements
- trade agreements to be fully compatible with Multilateral Environmental Agreements (MEAs)
- inclusion of investor duties in a multilateral investment court's mandate
- WTO agreements on specific global value chain goods

Molly Scott-Cato

Florent Marcellesi

Max Anderson

14 June 2017

Disclaimer: this draft is a personal reflection paper. It does not present the policy of the Greens/EFA Group