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**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE
EUROPEAN PARLIAMENT**

on the 3rd United Nations Conference on Least Developed Countries

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Introduction

The 3rd United Nations Conference on Least Developed Countries, to be hosted from 14 to 20 May 2001 in Brussels by the European Union, will provide the international community with an opportunity to examine the problems and interests of the weakest and most vulnerable group of countries: the currently 48 countries defined as the "least developed countries" (LDCs) by the United Nations. For the EC, it is an opportunity to confirm its strong commitment to poverty reduction and to addressing the specific problems of the LDCs.

The 48 LDCs have a combined population of 610.5 million, representing 13.17% of all developing countries with a population of 4,636.6 million and 10.45% of the world total. In the development efforts of the UN, they receive particular attention, since their development needs are even greater than those of other developing countries are. Efforts to give particular attention to the most disadvantaged countries of the planet began in the mid-1960s. . It was of course hoped by the international community that, as development efforts increased, countries would one by one "graduate" from the LDC group as their level of development rose, but in fact in the last 25 years only one country has succeeded in doing so (Botswana in 1994).

The EC commitment to LDCs is based on the principles of the equality of the partners and of the ownership of the development strategies. Development programs will only have a lasting impact when they meet the basic needs and priorities of the country concerned, when they are fully integrated with local and national administrative structures, and when they are designed and implemented in partnership between the donors and the recipient countries. This is the approach adopted in the "Overall Policy Statement on EC Development Policy" (May 2000¹) and endorsed in the Statement by the Council and the Commission (November 2000²) as well as in the Cotonou Agreement³.

In view of the Conference, the EU has adopted on 22 December 2000 a document outlining its position on the substantive issues under discussion⁴. The purpose of that document was to provide a comprehensive framework for the negotiations on the Programme of Action, which should be adopted at the Conference.

At the Conference, the international community will also come together to agree on practical and concrete measures that can help them to revitalise their growth and development. This will help to refocus the attention of the international community and of the civil society on the

¹ Communication of the Commission to the Council and the European Parliament of 26.04.2000 on "The European Community's Development Policy", COM (2000) 212 final.

² The European Community's Development Policy – Statement by the Council and the Commission adopted on 10 November 2000.

³ Partnership Agreement between the Members of the African, Caribbean and Pacific Group of States of the one part, and the European Community and its Member States, of the other part, signed in Cotonou on 23 June 2000.

⁴ Guidelines for the European Union's participation in the Third United Nations Conference on Least Developed Countries, adopted by the Council on 22 December 2000.

needs of those countries. It is in that spirit - to highlight some initiatives that can be considered as concrete “deliverables” of the EC for the Conference - that this new Communication presents in a single document some recent and new initiatives that embody the EC’s commitment to the LDCs, such as the:

1. Commitment to increase and strengthen the poverty focus in its development co-operation activities. This results, *inter alia*, in a priority given to the allocation of resources to LDCs and other Low Income Countries (LICs) and to a careful design of actions, based on an analysis of poverty in each specific situation, to ensure that those actions have a real impact on poverty.
2. Provision of duty-free and quota free access for all products (except arms) originating in the LDCs⁵. To complement this path-breaking initiative, the EC will take further trade related measures that aim to help countries make use of the opportunities offered and integrate into the multilateral trading system with a view to economic growth, sustainable development and poverty reduction.
3. Adoption of a new policy framework and programme for action on communicable diseases in the context of poverty reduction⁶. This should result in an improved EC response to the increasing spread and impact of HIV/AIDS, malaria and tuberculosis, which affects particularly the LDCs and the poorest populations.
4. Debt elimination through settlement of ACP LDC’s Special Loans in the context of the initiative of highly indebted poor countries (HIPC). This goes beyond the already decided EC participation as a creditor in the HIPC initiative (estimated at €530 million) and implies an additional cost of roughly € 55-60 million

During the preparatory process leading to the Conference, the LDCs have prepared national programmes of action in order to identify the major constraints on their development and to suggest desirable actions, both from the LDCs themselves and from their development partners, to address those constraints. Among the constraints identified are: a lack of institutional capacity, an insufficient domestic resources mobilisation, a shortage of public health services, a low efficiency of the education system, structural weaknesses, limited supply capacities and market access opportunities, high dependence on external resources and an heavy debt burden. The initiatives of the EC described in this Communication attempt to provide a positive contribution in order to address some of those constraints.

1. AN INCREASED POVERTY FOCUS IN EC DEVELOPMENT CO-OPERATION

The European Community development co-operation has experienced an important evolution over the past few decades. From an initial concentration of efforts directed towards dependent territories and newly independent States of Africa, the co-operation programme has been extended to a global scale. In particular, the evolution of the geographical coverage of

⁵ Council Regulation (EC) No 416/2001 amending Council Regulation (EC) No 2820/98 applying a multiannual scheme of generalised tariff preferences for the period 1 July to 31 December 2001 so as to extend duty-free access without any quantitative restrictions to products originating in the least developed countries.

⁶ Communication of the Commission to the Council and the European Parliament of 20.09.2000 on “Accelerated action targeted at major communicable diseases within the context of poverty reduction”, (COM) 2000 585 final; Programme for Action on “Accelerated action on HIV/AIDS, malaria and tuberculosis in the context of poverty reduction COM (2001) 96 final 21 February, 2001.

Community aid reflects new political priorities which have led the Community to commit itself to support the Central and Eastern European Countries, and the New Independent States, and to increase substantially its support for the Mediterranean countries.

This extension of support has not been at the expense of the original group of beneficiary countries. On the contrary, all regions and all income categories of countries have seen their individual allocations increase substantially over the last decade. The growth rate for all geographical programmes has been impressive: total disbursement of aid has increased in real terms from US\$ 2,840 billion in 1986/87 to US\$ 7,569 billion in 1998/99, implying an average annual growth of 9%. The financial support given to the lowest income countries has not diminished: in both ACP and the Asia group, more than 80% of aid went to the poorest countries in 1998/1999.

The Council and the Commission reaffirmed in the Joint Statement on the EC's Development Policy (November 2000) and in the Cotonou Agreement (June 2000) the commitment to make measurable progress towards the achievement of poverty elimination goals and decided that the Community increases its focus on poverty reduction in all its development activities. Poverty is a multi-faceted concept and should not only encompass lack of income and financial resources but also deprivation of basic capabilities and non-monetary factors such as the lack of access to education, health, natural resources, water, energy, employment, land and credit, participation in the democratic process, services and infrastructure. It also covers the risk dimension and the notion of vulnerability. Reducing poverty therefore implies addressing these economic, political, social, environmental and institutional dimensions. In its programme of work for 2002, the European Commission has decided that development co-operation is one of its priorities and that its efforts will concentrate on health and education.

The refocusing of EC development co-operation on the overall objective of poverty reduction has important implications for both the nature and distribution of Community development assistance, as it means that priority attention is to be given in the allocation of resources to LDCs and LICs. Policy performance will be taken into account, including the degree of commitment of the partner country to poverty reduction strategies, governance and absorptive capacities. The refocusing of EC development co-operation also implies that the EC will continue to participate in the Poverty Reduction Strategies Papers process (PRSP) and will introduce poverty result indicators in all co-operation programs.

On the basis of these principles, the 9th EDF for ACP countries provides for a new methodology for the allocation of funds. This new methodology is based on needs and performance and implies a special treatment for least developed ACP States as well as acknowledgement of the vulnerability of island and landlocked states. In practical terms, in the 9th EDF overall allocation, nearly 90% of EDF resources (€13.5 billion) are earmarked for the poorest countries (LDCs and other LICs).

The underlying aim of the 9th EDF resource allocation has been on the one hand to further strengthen the poverty focus of Community aid and on the other to take into account the key criteria of needs and performance stipulated in the Cotonou Agreement. Consequently, there are some countries, particularly the strong performing poor countries that are the greatest beneficiaries of the system and others, particularly the poor performing middle-income countries, which will receive less financial support compared to previous EDFs. In this context, it should nevertheless be borne in mind that the consistently high number of violent conflicts, particularly in Africa, represent a major challenge to the Community as far as the absorption of these funds is concerned.

These refocusing principles are also at the centre of the methodologies used by programmes concerning Asian LDCs to determine financial allocations. Resources are concentrated in poorer countries and needs criteria are used so as to favour concentration on financial and technical co-operation in those countries with lower per capita income. Over the five years 1996-2000, the low-income countries in Asia accounted for 80% of our development co-operation funding for the region (€1.11 bn, out of a total of €1.39 bn). Within this group, the nine LDCs in the region accounted for some €0.45 bn, or 32% of the total (even though in population terms they represent only some 8% of the total population of developing Asia).

LDCs are also the most important group of countries that benefit from Commission's food security/ food aid operations. Fundamentally, food insecurity is the most basic dimension of poverty. Consequently, long-term food security objectives are best met by integrating them into long-term poverty reduction policies providing a coherent framework for national and regional development strategies. This in turn provides not only a firmer policy foundation for the Commission's food security/food aid operations but at the same time ensures convergence of all the Commission's instruments towards the key development objectives within a common operational strategy. A total amount of €217,8 million is being allocated to some twenty priority countries with a focus on sub-Saharan Africa, Latin America and Central Asia. 80% of financial flows go to the poorest countries.

2. EVERYTHING BUT ARMS INITIATIVE

On 26 February 2001 the Council of Ministers approved the Commission's proposal to provide duty and quota free access to the EU for all products originating in the LDCs, except arms and ammunition. This "Everything but Arms" (EBA) initiative extends free access to all agricultural products, including meat and dairy products, fruit and vegetables, cereals and alcoholic beverages. Only for the most sensitive products will liberalisation take effect in stages: between 1 January 2002 and 1 January 2006 for fresh bananas; between 1 July 2006 and 1 July 2009 for sugar; and between 1 September 2006 and 1 September 2009 for rice. However, in order to provide effective market access in the run-up to full liberalisation for rice and sugar, duty-free tariff quotas will be opened as from the 2001/2002 marketing year. These will be based on best LDCs exports to the EU in the recent past, increased immediately by an annual 15% growth rate.

Before EBA, the EU already provided duty-free and quota-free access for all industrial products, including textiles and clothing, and a large number of agricultural products originating in LDCs, covering 99% the volume of their exports to the EU. However, about 900 new tariff lines have been liberalised, which represents about 9% of all lines of the EC common external tariff and 40% of its agricultural part. The average preferential tariff margin on these products, in comparison with MFN treatment, is equal to 35%, which represents a very important incentive to develop supply capacities for exports.

Trade preferences alone are not a sufficient condition to allow export growth and the Community is committed to supporting the implementation of the necessary accompanying measures, notably to develop supply capacity and competitiveness of LDCs (These measures are described in annex).

These accompanying measures will be part of a comprehensive strategy, at national, regional and multilateral level, in order to reinforce the link between trade, development and poverty reduction. At the national level, the EC will continue to support the Poverty Reduction Strategy Papers (PRSPs), which are the appropriate instruments to ensure that trade

liberalisation contributes to the objective of poverty eradication. At the regional level, the EC is committed to help developing countries to build regional integration initiatives, as it will reduce transaction costs, enable firms to exploit economies of scale and thus increase competitiveness. Effective regional integration will also encourage inward foreign investment, facilitate macroeconomic policy co-ordination, improve capacities in trade and trade-related matters and can be socially and politically more sustainable, because the adjustment cost of trade liberalisation can better be addressed. Finally, at the multilateral level, the EC is committed to actions aimed at ensuring that the multilateral system has a sufficient degree of flexibility and differentiation so that every country can benefit from liberalisation according to its different potentialities, constraints and level of development.

In this multilateral context, the EU's "Everything But Arms" initiative sends a strong and credible signal to all its partners. It will promote further market opening by all developed countries, contribute to enhance market access for LDCs also by more advanced developing countries, and support the launch of a new WTO Round in which the interests of developing countries will be central to the negotiations.

3. FIGHT AGAINST COMMUNICABLE DISEASES IN THE CONTEXT OF POVERTY REDUCTION

The least developed countries and the poorest populations are critically exposed to the impact of the major communicable diseases associated with poverty. HIV/AIDS, malaria and tuberculosis together cause the deaths of more than five million people annually and cause untold suffering. The European Community recognises the devastating impact of this global emergency on health, and has therefore adopted a new policy framework and action programme for accelerated action targeted against these diseases. The Community will work with partners through a coherent set of development, trade and research policies. The Programme will support efforts to increase the impact of existing interventions, to increase the affordability and access of key pharmaceuticals and to stimulate research and development of new generations of global public goods such as vaccines, drugs and diagnostics against the three diseases.

The main elements of the Programme are the following:

The Commission will prioritise investment on health, AIDS and population (HAP) interventions over the next five years (2002-2006) with a particular focus on targeted action against the communicable diseases through approaches that strengthen national health systems. The 2000 allocation to HAP of 8% of the development budget (approximately € 800 million) will be steadily increased as delivery capacity improves. In accordance with the principle of ownership, delegations and partner countries will be encouraged to address communicable diseases within the framework of Country Strategy Papers (CSPs) and Poverty Reduction Strategy Papers (PRSPs). The Commission will provide guidance on options for accelerated action within the current country, regional and thematic programming exercises. The Commission proposes the use of all available funds to maximise access to, and utilisation of, existing proven interventions, and to scale up innovative interventions and approaches.

The EC will strengthen collaboration with the World Health Organisation, to review essential drug policies in favour of developing countries. Priorities are the inclusion of (non-generic) key pharmaceuticals in essential drug lists; the implementation of appropriate regulatory schemes to accelerate registration and marketing and the provision of key pharmaceuticals in emergency situations.

The Community is at the forefront of international efforts to establish a global tiered pricing system⁷ as the norm for key pharmaceuticals. To maintain industry confidence in such a system effective safeguards must be in place to prevent product diversion to higher-priced markets. The EC will promote consensus in international fora on the links between public health protection and TRIPS. The EC recognises the flexibility within TRIPS to address public health concerns, and the right of WTO members to make full use of it. Discussions on other aspects of trade and health might also be performed in other international fora.

The EC will study and develop an incentive package to encourage greater investment in Research and Development (R&D) activities by the industry to elaborate further on new generations of pharmaceuticals targeted at the major communicable diseases in developing countries. Recognising the importance of accelerating clinical development, the EC envisages setting up a European Clinical Trial Platform to increase the number, coherence and efficiency of clinical trials conducted by the private and the public sector on interventions for use in developing countries. The platform should allow for increased co-ordination and investments by both Member States and the Commission. In addition, the Commission will support capacity building to ensure participation of developing countries in all aspects of the R &D process.

An effective global response to these pandemics will require co-ordinated action by all partners. The Community will continue support to existing initiatives, will strengthen co-operation with partners and will continue to play an important role in global initiatives targeting action against these diseases. Particular emphasis will be directed to co-operation with the US and Japan to garner support for a more efficient and fair global financing mechanism.

The EC recognises that a cost-effective and easy access to products and services essential in the fight against communicable diseases (AIDS, malaria, tuberculosis) is a necessary element in the fight against these pandemics. In this context, the Commission proposes to replicate the ACP regime for non-ACP regional areas, allowing partner countries' firms, as well as EU firms, to bid for tenders. Beyond that, the Commission seeks to explore the opening of calls for tender for procurement of certain services or products, like key pharmaceuticals for HIV/AIDS, malaria and tuberculosis, to all developing countries.

4. DEBT ELIMINATION THROUGH SETTLEMENT OF ALL REMAINING SPECIAL LOANS OF ACP LEAST DEVELOPED HIGHLY INDEBTED POOR COUNTRIES

Already in the early 1990s the Community recognised the growing problems faced by the highly indebted developing countries and therefore decided to provide henceforth, starting with Lomé IV, its assistance under the EDF programmes to ACP countries in the form of grants only. The Community therefore welcomed and has participated actively in the HIPC debt initiative launched in 1996 aimed at reducing the debt burdens of HIPCs to sustainable levels through co-ordinated relief actions. Moreover, it has supported politically and financially the enhancement of this initiative decided in Cologne in 1999.

Presently, the Commission is implementing the €1 billion Community participation in the HIPC initiative, both as a creditor and as a donor. A first payment of €100 million has been

⁷ Tiered pricing means market segmentation so that developing countries pay less for medicines than rich countries. The Commission would wish to see key pharmaceuticals sold to the poorest countries at the lowest possible prices as has been the long-standing practice for vaccines.

made to the EIB for the alleviation of EC loans it administers within the context of the initiative. The Community's participation as a creditor in the current enhanced framework should correspond on average to about 50% debt reduction costing some €530 million (the effective reduction is variable and agreed on a case by case basis, so as to reach a sustainable debt burden). In addition, both the budget-funded €54 million and a first tranche of EDF-funded €250 million has already been disbursed to the HIPC Trust Fund set up to finance the participation of multilaterals in the enhanced HIPC debt initiative. Through the latter, the EU is by far the most important single contributor yet to the HIPC Trust Fund (about one third of total paid-in contributions so far).

Already since 1996, the Community also worked to strengthen the social content of debt relief, by specifically increasing the amount of its structural adjustment support to highly indebted poor countries primarily devoted to social spending. The Commission takes the opportunity of this 3rd UN Conference on LDCs to propose to make a further step towards alleviating the burden of our partners that continue to suffer from heavy debt service. The Commission proposes to the Council to go beyond the present EC participation in the HIPC initiative and to alleviate all LDC's special loans, which would remain after full application of the HIPC mechanisms. A proposal to Council to this effect is made jointly with this Communication.

The settlement of all LDCs HIPC's special loans, which would remain after full application of the normal HIPC mechanism, should cost roughly € 60 million which would come on top of the estimated € 530 million cost of the already decided EC contribution as a creditor.

The Community's starting point is the full participation in the current enhanced HIPC initiative which takes into account exposure both on special loans and risk capital. It also requires that HIPC countries use the funds first to repay debt on any outstanding special loans before they start repaying on risk capital. Based on current calculations in many LDCs, standard HIPC debt alleviation provided by the Community is sufficient to cancel all special loans.

The Commission proposes a disbursement of € 60 million out of the 9th EDF Reserve or reserves of former EDFs to the EIB Trust Fund dedicated to finance the Community contribution to the HIPC initiative as a creditor. Those € 60 million will be exclusively devoted to LDC additional special loans settlements. Should this amount be excessive, the rest would be added up to the already earmarked € 360 million in order to finance 'standard' HIPC debt alleviation. In case this amount would be insufficient, a new financing proposal drawing on the 9th EDF reserve will be presented to the EDF Committee.

Annex

Measures to complement Trade Initiatives

To support trade based growth the Community will provide complementary measures to help developing countries make use of the opportunities offered by trade liberalisation, notably by developing supply capacity and competitiveness and to support their efforts to integrate themselves into the multilateral trading system. Some measures can be implemented autonomously by the EC, others require the support of development partners. The Community suggests that such measures be agreed upon with the development Community for joint action and launched in the context of the 3rd UN Conference on LDCs. The trade related technical measures will be part of the wider context of EU aid programming and respect the recommendations given in the standard framework for country strategy papers.

1. INVESTMENT

- *The EC suggests an international initiative to enhance investment promotion in LDCs.*

Initiatives aimed at increasing awareness in the field of transparency and dissemination of information for potential investors are operating (the World Bank and UNCTAD being the key players), but there is insufficient focus and co-ordination. The EC suggests increased focus on LDCs in these activities in line with the poverty reduction objectives. In addition, the EC is committed to and the international community should support LDCs' investment promotion efforts through co-operation programmes, including by support for capacity building and structural adjustment, and by an endeavour to allocate a greater share of investment guarantees to LDC, in function of demand.

2. TRADE RELATED TECHNICAL ASSISTANCE AND CAPACITY BUILDING

- *Funding the Integrated Framework Trust Fund, increasing WTO related assistance, including in relation to new issues, and better integration of trade in country specific programmes; invitation for the international community to follow.*

Assistance is needed to help LDCs participate effectively in the multilateral trading system (included by adequate representation in Geneva). Where appropriate one could consider using the WTO Trade Policy Review Mechanism to identify needs. The international community should provide funding for the Integrated Framework Trust Fund in support for a better integration of trade into country specific programmes and enhanced trade related technical assistance in the WTO specific fields. Trade related capacity building should also take account of sustainable development aspects and support should be provided to initiatives such as the joint trade related capacity building task force (CBTF) of UNCTAD and UNEP. Assistance should also be given for preparation of, participation in, and implementation of any new WTO agreements such as investment, competition or trade facilitation.

3. SANITARY AND PHYTO-SANITARY MEASURES AND TECHNICAL BARRIERS TO TRADE: TECHNICAL ASSISTANCE AND CAPACITY BUILDING

- *Commitment to enhance technical assistance and capacity building to help LDCs meet standards in export markets*

The EC is committed to enhance assistance to help LDCs meet standards in export markets. Technical assistance should be demand driven and adjusted to the economic, business and export structures. It should build on co-ordination with other donors and complement efforts to ensure participation of LDCs in international standard setting.

4. ACCESSION TO THE WTO

- *Seeking to launch an international initiative to facilitate accession of LDCs to the WTO initiated by a unilateral declaration by the EC of the conditions it requests for the accession of LDCs*

The UN Conference on LDCs should provide:

- (1) *A unilateral declaration by the EC of the conditions it requests for the accession of LDCs to the WTO. This could in particular, highlight flexibility concerning a number of legislative requirements concerning the working party process.*
- (2) *A multilateral declaration that accession of LDCs to the WTO is a priority and that their economic and social conditions should be considered during the process. This should be backed up by a commitment to give priority in WTO technical assistance to LDCs requesting accession.*

5. IMPLEMENTATION OF WTO AGREEMENTS

- *Seeking an international commitment to identify implementation proposals that would bring particular benefits to LDCs.*

Specific measures for LDCs in the context of the WTO's Implementation Work Programme should be considered, and in particular those that would bring particular benefits to LDCs. In addition, proposals to review the application of Special And Differential Treatment in existing Agreements, in order to make them more operational, should take into account the special needs of the LDCs.

6. ANTI-DUMPING

- *Promote in the 3rd UN LDCs Conference and in the subsequent discussions in the WTO, a multilateral initiative to forego the use of anti-dumping instruments vis-à-vis LDCs provided that adequate safeguards are available to avoid circumvention.*

A multilateral initiative to forego the use of anti-dumping instruments vis-à-vis LDCs would be greatly beneficial for least developed countries. This initiative would require that at the same time appropriate rules against circumvention of anti-dumping measures are adopted in the WTO.

7. Regional integration

- *Commitment to continued support for regional integration processes of LDCs by the international community*

Regional integration agreements can be an important stepping stone for LDCs to integrate themselves into the world economy and the EU is committed to assisting LDCs' participating in regional agreements. The international community should strengthen its assistance for capacity building to facilitate LDCs participation in regional integration agreements. This should be the joint responsibility of relevant international organisations (UNCTAD, World Bank, UNDP) and bilateral donors, and should also be designed to support LDCs in ensuring that they have a solid basis on which to assess and implement the policy consequences of such agreements.