Investing for Development?

Examining the impacts of the EU’s investment regime on food security, the right to food and land governance

A FAIR EUROPE for a FAIR WORLD
Summary

Foreign Direct Investments flows into developing countries have largely outstripped Official Development Aid, and attracting private capital flows is increasingly perceived as the new vector for the development of poor countries.

This policy paper reveals that the dominance of the corporate private sector-led approach in both the European Union's (EU) investment regime and development cooperation framework adversely impacts the food security and the livelihoods of small-scale food producers, women in particular, in developing countries.

• CONCORD recalls that Investment frameworks and agreements promoted and concluded by the EU must be coherent with the EU’s and its member states’ international human rights obligations to ensure that such agreements do not directly or indirectly undermine human rights in other countries. Instead, today, the EU’s current investment regime facilitates and protects corporate grabbing of resources and markets in the Global South with negative impacts on small-scale food producers’ human right to adequate food.

• EU policies and practices impacting on developing countries’ food security must be coherent with the 2010 EU Policy Framework to Assist Developing Countries in Addressing Food Security Challenges, which constitutes the most comprehensive reference on how to address food and nutrition issues in accordance with EU values and vision. Instead, recent communications have introduced internal contradictions into the EU’s cooperation strategy. They risk undermining support for small-scale food producers and exporting an agro-industrial model of farming whose negative impacts are being criticized today, including in Europe itself.

• The EU should rehabilitate and reinforce the role of public sector policies and investment in development. Robust regulatory frameworks need to be put in place within which the various private sector actors must operate, including where the use of Public-Private Partnerships is concerned. These policies and frameworks should protect the rights and food security of the vulnerable and prioritize investment in small-scale producers and domestic Small and Medium-sized enterprises and micro-enterprises since they offer the greatest potential to drive equitable development.
1. EU commitments on food security, the right to food and natural resources governance: a solid basis for policy coherence for development (PCD)

EU commitments regarding land governance and related natural resources are stated clearly in the EU guidelines on land from 2004. Key points include the need to take into account the traditional and informal land rights of villages, families and individuals; to respect the specific local social and institutional context; to institute participatory processes involving the competent public authorities and civil society actors. The Guidelines helped to define the EU’s engagement in the negotiation of the Voluntary Guidelines on Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security approved by the Committee on World Food Security (CFS) in 2012, which constitutes the most authoritative international framework on land tenure governance.

In 2007, the EU formulated a forward-looking cooperation framework with the African Union at continental and regional levels in its Communication on Advancing African Agriculture. This policy document focused on family farming as the basis for stimulating agricultural development and urged the public sector to play a more effective role by ensuring regulatory frameworks and intervening in situations of market failure.

The 2010 “EU Policy Framework to Assist Developing Countries in Addressing Food Security Challenges” (FSPF) builds further in this direction by encouraging the EU and Member states to:

- focus on sustainable small-scale food production to increase availability of food in developing countries, recognizing its multiple effects of enhancing incomes and resilience for rural producers, making food available for consumers, and maintaining or enhancing environmental quality;
- help create employment in rural areas through agro-processing, mainly in small and medium sized enterprises;
- support research and innovation which have clear benefits for smallholder farmers;
- support the application of the right to food in developing countries through strategies that tackle the root causes of hunger and empowerment of marginalised groups in the design, implementation and monitoring of national programs;
- support the reformed CFS to become the pivotal institution to coordinate global food security.

2. The shift towards a private-sector-led approach to development

The Commission’s Communication “Increasing the impact of EU Development Policy: An Agenda for Change”, released in May 2012, reiterates the EU’s commitment to promoting democracy, human rights, gender equality, women’s empowerment and natural resources protection. At the same time, however, it opens the door to an important role for the private sector without clearly distinguishing among the range of actors and interests that this category comprises. According to CONCORD this Communication introduces an element of internal contradiction into the EU’s development cooperation strategy.

The 2014 Communication: “A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries” exacerbates this incoherence by failing to distinguish between the corporate private sector and domestic small and medium-sized Enterprises (SMEs) including smallholders. Private sector engagement and funding is deemed an indispensable complement to EU development assistance. The public sector in partner countries is tasked with ensuring business-friendly regulatory environments, while the EU will promote “innovative” financial mechanisms, and blending opportunities encouraging Public-Private Partnerships (PPPs) in which business enterprises’ obligations are subjected only to soft laws. The “multi-stakeholder” approach is expected to ensure democratic participation, failing to acknowledge power imbalances and conflicts of interest among different actors. CONCORD has already expressed its “serious concerns around the ability of PPPs to meet poverty eradication and food security goals” since “past experiences indicate PPPs can be very problematic in term of delivering positive development outcomes, strengthening domestic micro, small and medium-sized enterprises and even distribution of risk and transparency.”

"SMALLHOLDERS ARE RESPONSIBLE FOR 80% OF INVESTMENTS IN AGRICULTURE AND 80% OF THE FOOD PRODUCED IN THE WORLD. THE EU MUST SUPPORT THEM!"

1 In 2013 ODA represented only 28% of all financial flows to developing countries while FDI’s share reached 60% in 2012. See OECD, Development Cooperation Report 2014: Mobilising resources for Sustainable Development, 2014
2 Guidelines for support to land policy design and land policy reform processes in developing countries, November 2014
4 Communication from the Commission, COM (2010) 127, 31 March 2010. The framework also establishes an implementation plan and a monitoring exercise on biennial basis, to ensure accountability and transparency. Despite this, civil society organizations have not been systematically engaged until now. See Staff Working Document (2013) 104. Boosting food and nutrition security through EU action: implementing our commitments, 27 March 2013
5 Communication from the Commission, COM(2011) 637, 13 October 2011
6 CONCORD’s response to the Communication “Agenda for Change”, October 2011
This trend reflects an alarming global tendency which is capturing development discourse and shaping development policy around the needs of transnational capital instead of benefiting local small and medium enterprises and the domestic private sector. In general terms, the shift underway is from public sector responsibility for food security towards the private sector as the remedy to hunger and malnutrition. Scarcity of public resources for development in donor countries’ and a presumed but understudied fear of corporate management and technology are cited to justify this shift, ignoring the fact that smallholders are responsible for over 90% of all investments in agriculture and for up to 80% of all the food produced and consumed in the world, which reaches those who consume it through local markets rather than “modern” value chains and supermarkets. Contract-farming and out-grower schemes adopted as key business models of PPPs launched in recent years are reshaping the agriculture sector without clear evidence of benefiting smallholders. Studies undertaken by small-scale producer organizations themselves express the concern that inclusion in corporation-led value chains risks undermining smallholders’ autonomy, which is the basis of their resilience.

The experience of Civil Society Organisations (CSOs) suggests that investments should support smallholder’s own investments by promoting small-scale agricultural production – that is more resilient to climate change and better able to preserve local biodiversity - and decentralized units of processing and marketing. As the United Nations Special Rapporteur on the Right to Food Olivier De Schutter pointed out in his 2011 report, some types of investments are more effective than others in achieving poverty reduction. The multiplier effects are significantly higher when growth is triggered by higher incomes for smallholders, stimulating demand for goods and services from local sellers and service providers. When large agricultural enterprises increase their revenue, most of it is spent on imported inputs and machinery, and much less trickles down to local traders.

The New Alliance for Food Security and Nutrition

The New Alliance is an alarming example of the new wave of PPPs. Launched at the 2012 G8 Summit the New Alliance now covers 10 African countries and brings well over 180 companies to the table as investors, in addition to the G8 governments and the European Union as donors. This initiative “aims to accelerate responsible investment in African agriculture and lift 50 million out of poverty by 2022” through a partnership that “includes specific commitments from African leaders, private sector companies, donor partners”. It has been heavily criticized by civil society for promoting the interests of transnational corporations rather than those of African small-scale food producers and local SMEs. Its cooperation framework agreements include commitments for legislative and policy changes like corporation-friendly seed laws, land privatization, tax reduction on agribusiness and imported inputs.

These commitments may lead to forcing communities off lands that they have farmed for generations to make way for foreign companies, without benefiting the country’s food security. Under the cooperation framework of Malawi, where the EU is the lead agency, the government commits to release 200,000 hectares for large scale commercial agriculture by 2015. The cooperation framework aims at eliminating export bans, reviewing taxation regimes in order to maximize incentives to investment in the growth clusters, supporting agricultural mechanization and implementing the Seed Harmonization Programme that limits smallholders’ rights to use and exchange their own seeds and facilitates sale of corporation seeds.

3. The EU’s investment regime: who is benefiting?

In certain cases, EU’s investment policies facilitate corporate grabbing of resources and markets in the Global South, in contradiction with the EU’s own development objectives to increase food security and reduce rural poverty. The fact that the EU has become competent for investment policy under the 2009 Lisbon Treaty could represent not only an opportunity to harmonise protection regimes amongst its Member States but also to re-center public interest in the future EU investment policy.

The European Commission outlined its approach in 2010 in its Communication “Towards a comprehensive European international investment policy”. The declared objectives are for the EU to remain the largest source as well as destination of Foreign Direct Investment (FDI) in the world and to further increase market access. To this end the EU promotes International Investment Agreements (IIAs).
More than a third of the world’s 3,200 IIAs in force involve EU Member States countries. However, those IIAs have been heavily criticised by CSOs and international experts because they overwhelmingly protect the interests of investors while posing serious threats to human rights. This trend is particularly worrying in the context of last years’ dramatic surge of FDI in the form of large-scale land deals where international protection of investors under IIAs contrasts with the weak protection of land rights of local communities and marginalised groups like peasants, rural workers, indigenous peoples, fisher folk, pastoralists, etc. For those people the loss of land and natural resources is directly impacting their food security.

Myanmar CSOs opposing investment negotiations with the EU.

After the EU launched investment treaty negotiations with Myanmar in 2014, 223 Myanmar NGOs issued a public statement against concluding an investment treaty, including important concerns about the lack of “national land policies and laws in place that secure the rights of Myanmar citizens vis a vis foreign investors.”

Moreover, the current EU investment and trade regimes are favouring an agro-industrial model of production based on high capital costs, use of agrochemicals, increased mechanisation and reduced labour requirements. This model undermines small-scale producers’ autonomy and their models of production relying on small-scale farming.

The EU’s investment regime is also hampering public control over transnational capital and limiting governments’ policy-making space for a human rights-based approach to the governance of natural resources. When signing IIAs, governments are banned from applying restriction to capital flows. They cannot modify legislation in a way that would create an economic “prejudice” for investors even when seeking to regulate in the general public interest (the so-called “fair and equitable treatment”). They cannot adopt incentives, exemptions or special measures to protect or promote their national investors, without risking expansive lawsuits from foreign investors. They must accept binding investment arbitration providing investors with protection against “direct and indirect expropriation” – understood as including future expected profits.

EU investment regime: hampering progressive land policy in Congo?

In 2011 the Democratic Republic of Congo issued a new piece of legislation, long-awaited by peasants’ organisations since it was expected to provide support to the 70% of Congolese people who depend on farming for their livelihood. Article 16 was designed to avoid land grabbing by foreign investors. It limited access to arable lands to Congolese citizens or enterprises with majority shares held by Congolese. This provision was denounced as discriminatory by foreign investors gathered in the Federation of Enterprises of Congo (FEC). The Belgian Ministry of Foreign Affairs expressly asked for a review of this legislation during a visit in March 2012 and pressed DRC to ratify the Bilateral Investment Treaty between Belgium and DRC in order to open the way for international arbitration guaranteeing investors’ interests. The German Ministry of Foreign Affairs went further, announcing its愿 to the press during an economic visit in Kinshasa (February 2015) that Germany will release €235 million for agricultural development in DRC “once the legislation (i.e. art.16) has been reviewed by the Parliament.” Partly due to this international investment pressure DRC has now shifted from its protectionist approach of access to arable lands in favor of small-scale farmers, to a new agricultural policy aiming at creating 20 giant agro-industrial parks to attract large scale investments from agribusiness corporations.

19 Communication from the Commission, COM(2010)433, 7 July 2010
(accessed 04/04/2015)
22This was again clearly stated by a group of UN experts. See “UN experts voice concern over adverse impact of free trade and investment agreements on human rights”, 2 June 2015.
23 Over the past two decades a complex web of more than 3,200 investment agreements has developed, mostly in the form of Bilateral Investment Treaties (BITs). These have become the backbone of a corporate rights regime that protects the US$20 trillion of Foreign Direct Investment (FDI) that now flows worldwide. United Nations Conference on Trade and Development (UNCTAD), World Investment Report, 2012
25See UN Committee on Economic, Social and Cultural Rights (CESCR), General Comment No. 12: The Right to Adequate Food (Art. 11 of the Covenant), 12 May 1999; and The Voluntary Guidelines to support the Progressive Realization of the Right to Adequate Food in the Context of National Food Security, FAO, 2004
26CSO Statement on Myanmar investment treaties, Mandalay, 21 June 2014
27INI / Verenest and Reederoff, Licensed to grab: How international investment rules are undermining agrarian justice, Jan. 2015
29NDND-11.11.11, 11.11.11, ASFJN, Entretien et Fraternité, SOS Faim, Oxfam Solidarité, 24 décembre 2011 portant principes fondamentaux relatifs à l’agriculture en République démocratique du Congo », Kinshasa, 25 January 2012
30Secteur agricole de la RDC : l’Allemagne mobilise 235 millions d’euros ! http://www. obsernezaircours.fr/2015/03/secteur-agricole-de-la-rdc-lallemande-mobilise-235-millions
deuros/ (accessed 29 April 2015)
31http://www.parcagro.com/
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4. Investor-state dispute settlement: enforcing the rights of investors over human rights and agrarian justice

IIAs are enforced through international arbitration mechanisms known as Investor-State Dispute Settlement (ISDS). This arbitration mechanism allows a foreign investor to bypass national court systems and directly sue States before secretive international arbitration panels and seek compensation for alleged breaches of IIAs. The mechanism is one-sided, as only investors can sue States - the State cannot issue a complaint against the investor in the same tribunal and there is no appeal mechanism. Investor-State arbitration is not open to public scrutiny and disputes are handled by arbitrators who often involve conflicts of interest. These arbitrators also usually come from a commercial and investment law background rather than a human rights one, despite the strong human rights implications of these lawsuits, and as a result, the human rights dimension is rarely if ever taken into account.

As such, EU’s investment policies undermine the potential for a human rights-based approach to food security and land governance where the question of who ought to access which productive resource is tackled from a right to food perspective. These translate in:

- Limiting land redistribution: Agrarian reform programmes benefiting the landless rural working poor play a prominent role in addressing rural poverty in many countries. Yet, in situations where foreigners own tracts of land as a result of colonial times and efforts are made to distribute them to landless citizens, ISDS enables these foreigners to claim massive economic compensation. Land reforms in Zimbabwe, Paraguay and Namibia have triggered ISDS lawsuits from Dutch and German investors, for example.

- Hindering the scope for progressive agricultural and food policies (see the box about Congo): States can be challenged when adopting policies favouring small-scale food producers or other policies protecting public health or the environment. This investment regime is backfiring on European States too, since their ability to legislate sovereign food policies also becomes subjected to corporate censorship (see box about Poland).

Cargill in Poland.

In 2004 the American food giant Cargill lodged a US$130 million ISDS lawsuit in Poland under the US-Poland BIT. The case came after the country imposed a national quota on isoglucose production – a sweeter used for soft drinks and confectionery – as part of its efforts towards on isoglucose production – a sweeter used for soft drinks and confectionery – as part of its efforts towards achieving its treaty obligation of fair and equitable treatment, as well as the treaty’s prohibitions against discriminatory treatment and national treatment, and awarded Cargill damages plus compound interest.

European corporations have largely benefited from this system: more than half of the known cases were brought by investors from the EU, with three quarters of the complaints targeting developing countries. Even though the vast majority of EU citizens and some EU countries are critical of the Commission’s investment approach, the EU DG Trade remains strongly committed to actively pursuing IIAs and investment protection based on an ISDS clause. Current proposals on the table to address the worse adverse impact of ISDS are far from what is required to implement PCD.

HUMAN RIGHTS IMPLICATIONS ARE RARELY TAKEN INTO ACCOUNT IN INVESTOR-STATE DISPUTE SETTLEMENT LAWSUITS.
Conclusions and recommendations

The EU’s commitment to PCD and the right to food is jeopardized by its investment frameworks and by current trends in its development cooperation. CONCORD stands ready to assist in designing appropriate assessment processes and facilitating evidence collection from small-scale producers’ organizations in the Global South. The following measures can help to put collective interests and public goods back at the center of EU policies and actions.

• The EU should promote the establishment of robust regulatory frameworks with clear criteria to protect the rights and food security of the vulnerable, within which the various private sector actors must operate, including where the use of PPPs is concerned.

• The EU should make sure investors are not protected to the detriment of governments endeavouring to protect local communities’ land tenure and land use rights. The EU and its Member States should drop ISDS from all EU and bilateral trade and investment agreements since investors should rely on independent national court systems for their protection. If strong evidence proves that protection of investors could not be ensured properly, alternative dispute resolution mechanisms under which human rights and public interest considerations have precedence over any other interest should be explored. Such mechanisms should ensure transparency and accountability and allow public review and their awards must be appealable before the International Court of Justice or a yet to be created International Investment Court.

• Land use changes, land footprint, FPIC and biodiversity should be expressly and systematically integrated in the human rights and sustainability impact assessments of investment treaties. The EU and its Member States should initiate participatory reviews of their investment agreements; systematically carry out ex-ante and ex-post Human Rights Impact Assessments of all IIAs in compliance with the UN Guiding principles on human rights impact assessments of trade and investment agreements.

• The EU member states should support and engage in the process towards the adoption of an international legally binding instrument on transnational corporations and other business enterprises with respect to human rights at the UN Human Rights Council.

• As required by the Maastricht Principles on Extraterritorial Obligation of States (ETO) in the area of Economic, Social and Cultural Rights, the EU and Member states should protect people in third countries from human rights abuses by European investors, such as land grabs. In order to do so, they should ensure access to judicial or quasi-judicial remedies at EU level for groups and individuals affected by European corporations’ activities in third countries.

• The EU should take the lead in promoting further in-depth research and policy debate, involving actors in the different sectors, on the relations between small-scale food producers, markets and food security in follow-up to discussions initiated in the CFS. This process should comprise rigorous assessment of the effectiveness of PPPs and agri-business-led value chains as instruments of food security and development, as well as of the kinds of regulatory frameworks required to protect the rights of the vulnerable in situations of power imbalance. The development and monitoring of an implementation plan for the communication on the role of the private sector in development in the field of food security and rural development could provide one opportunity for doing so.

• The on-going monitoring process of the Food Security Policy Framework implementation plan should be expanded and enhanced to encompass substantive issues of policy coherence and impact, and to significantly involve civil society actors in the countries concerned, with particular attention to organizations of small-scale food producers, agricultural workers, women’s organisations and the urban poor. Countries in which the EU is lead agency for the New Alliance for Food Security and Nutrition should be included in the 2016 monitoring exercise.
CONCORD is the European confederation of Relief and Development NGOs. It is the main NGO interlocutor with the EU institutions on development policy. It is made up of 28 national associations, 18 international networks and 2 associate members that represent over 2,400 NGOs, supported by millions of citizens across Europe. The main objective of the Confederation is to enhance the impact of European development NGOs vis-à-vis the European Institutions by combining expertise and accountability.

The report “Spotlight on EU Policy Coherence for Development” is a flagship report produced by CONCORD every two years since 2009, to raise the awareness of EU political leaders and citizens on the need to apply changes to some European domestic and external policies in order to eradicate global poverty. The report is prepared by CONCORD members and its partners, draws from their analysis and the evidence they can gather, especially through their interaction with poor and vulnerable communities in countries outside Europe. In 2015 the Spotlight report takes the form of thematic policy briefs published consecutively throughout the year. For previous reports and updates visit: www.concordeurope.org

The alliance “Hands on the Land for Food Sovereignty” is an innovative and dynamic partnership between peasants and social movements, development and environmental NGOs, human rights organisations and researchers with a long history of engagement in support of movements’ struggles for democratic control of the food system and access to land. The alliance gathers more than 16 partners all across Europe: The European Coordination Via Campesina (ECVC) and its members Eco Ruralis and EHNE, Terra Nuova, FIAN International and 5 FIAN European sections, Centro Internazionale Crocevia, the Transnational Institute (TNI), Za Zemiata, IGO, FDCL and Védegylet. More information on: www.handsontheland.net