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Developments in EU Trade Policy

Report with Evidence

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FOREWORD—What this report is about

This inquiry took place during a period of increased activity and interest in international trade. For much of 2008 it looked possible that a successful conclusion to the Doha Round of WTO trade negotiations might be achieved, and indeed in July a Ministerial meeting in Geneva came close to agreement. These talks took place against the background of a gathering financial crisis and this inquiry also reflects concerns about the possibility that the huge gains in trade liberalisation made since the Second World War could be lost or jeopardised by protectionist attitudes adopted by major WTO members.

As the Secretary of State for Business, Lord Mandelson, made clear in his evidence to us, the Doha Round did not collapse this summer. The recent decision by the leaders of the G20 countries to press for a conclusion to the Round by the end of this year is to be welcomed; but as we note in this Report, there is a significant difference between rhetoric and action. This may prove to be the most opportune time to conclude the Round for several years to come. Changes in political leadership in several leading members of the WTO may make participants anxious that current offers will not be upheld by new administrations. A deepening global recession will magnify the siren calls of protectionism. Politicians must decide to spend domestic political capital on liberalising trade agreements, even though the associated economic benefits may take many years to materialise.

A return to protectionism and to beggar-thy-neighbour policies, while tempting at a time of recession, will harm global economic growth. It will also damage the World Trade Organisation. The WTO, and in particular the Dispute Settlement Mechanism, has been a successful example of the benefits of international cooperation. However, it is a member-driven organisation. While we believe that WTO members will always state their support for the Organisation, we are concerned that their actions, including the conclusion of trade-diverting bilateral agreements could undermine the Organisation. The WTO must not be allowed to decline and we recommend enhancements to its trade monitoring and research roles, including promotion of best practice in bilateral trade deals. We also support a move to plurilateral agreements in trade rounds.

As well as considering the EU's role at the WTO this summer, and its stance towards multilateral and bilateral deals, we have examined other aspects of the Commission's policies on external trade, and in particular the links between trade policy and economic development. The Commission has been negotiating Economic Partnership Agreements with ACP countries and, where it is led by the ACP countries themselves, we support the regional approach the EU has adopted to these negotiations. We also support actions aimed at building trade capacity in the Least Developed Countries, in particular tangible improvements to infrastructure as well as advice for potential exporters and associated domestic supply chains.

Developments in EU Trade Policy

CHAPTER 1: SETTING THE SCENE

This report in context

1. As we commenced this inquiry, the World Trade Organisation's Doha Development Agenda negotiations had been in progress for over six years—albeit a shorter period of time than the eight years of negotiations required to complete the Uruguay Round. We have considered the negotiations twice before: in 2004, we examined how the EU could help resurrect the talks after they broke down at the 2003 WTO Ministerial Conference in Cancún, and we updated our analysis in November 2005 ahead of the WTO Ministerial Conference in Hong Kong.¹ We now return to the subject in the shadow of another failure of negotiations, which occurred in July in Geneva after an unprecedented nine consecutive days of talks between Ministers.
2. Trade policy² is a broad subject area, and so in this report we have focused our attention on the implications of this latest collapse and some selected aspects of the EU's policy on external trade. These subjects are:
 - trade in services;
 - trade disputes;
 - preferential trade agreements (with regions and individual countries); and
 - trade and development issues, including the EU's Economic Partnership Agreements (EPAs).

We also consider the future of the Doha Round, and more generally, of WTO multilateral trade rounds.

3. Before considering these issues we set out in chapter two our underlying position, which is supportive of trade liberalisation. As we explain in paragraph 9 below, the majority of our witnesses gave evidence before three significant events had occurred: the breakdown of negotiations in Geneva this summer, the rapid decline in the prospects for economic growth that has occurred following the breakdown of the international financial system, and the election of an American President who used markedly protectionist rhetoric while campaigning. These events may have changed attitudes to trade policy.

EU Trade Policy formulation

4. In 2006, the Commission set out its overarching strategy for trade policy in *Global Europe: Competing in the world*.³ The document sets out the links between trade liberalisation and the internal Lisbon Agenda for Jobs and

¹ European Union Committee, 16th Report (2003–04): *The World Trade Organisation: the role of the EU post-Cancún* (HL 104) and 17th Report (2005–06): *The World Trade Organisation: The Hong Kong Ministerial 13th–18th December* (HL 77).

² This report deals with the EU's external trade policy. We recently considered internal trade in European Union Committee, 5th Report (2007–08): *The Single Market: Wallflower or Dancing Partner?* (HL 36)

³ COM (2006) 567.

Growth. The document makes the negotiation of an ambitious, balanced and just multilateral agreement the primary trade policy aim for the EU. It also recognises the links between trade policy and other external goals, including policies on sustainable development and support for countries neighbouring the Union.

5. Policies are categorised under two main headings: domestic (a competitive single market, openness to world trade, and support for those regions of the Union which suffer negative impacts from globalisation) and abroad (reducing tariff and non-tariff barriers, providing access to resources including energy, opening new markets in services, public procurement, and intellectual property). The document also sets out an agenda of policy priorities:
 - All domestic policies should factor in global competitiveness challenges.
 - A commitment to resuming the then stalled negotiations at the WTO.
 - Wide-ranging bilateral trade agreements with the Association of Southeast Asian Nations (ASEAN), Korea, Mercosur, India, Russia and the Gulf Co-operation Council.⁴
 - The continuation of talks with the USA about the removal of regulatory barriers to transatlantic trade.
 - Negotiations with China.
 - Strengthened intellectual property protection in future agreements.
 - Provision of more information on market access to exporters.
 - Negotiations to open countries' public procurement markets to overseas firms.
 - A review of trade defence instruments.
6. The Commission's negotiating mandates for both multilateral and bilateral trade talks are agreed by the Council of Ministers. The European Parliament has no explicit powers regarding the conduct of trade negotiations although the Commission regularly meets the Parliament to report on developments in negotiations and trade policy.
7. While trade policy is an exclusive Community competence, we were reminded by Mr Guy de Jonquières, Senior Fellow, Chatham House, that "all trade policy is ultimately about domestic politics" and that liberalisation required "very painful and uncomfortable decisions" to confront domestic producer lobbies (Q 3). Within Europe, this had been demonstrated following the end of the Multi Fibre Arrangement in 2005, when some Member States requested higher tariffs to protect their textile production industries while others preferred access to cheap garments to support their retail industries (Q 475).⁵ While we were taking evidence for this report, the French President and Ministers from some Member States were critical of

⁴ ASEAN is a political partnership including a free-trade agreement and its members are Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. Mercosur is a trade bloc comprising of Argentina, Brazil, Paraguay and Uruguay. The Gulf Co-operation Council's members are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

⁵ The Multi Fibre Arrangement was an agreed list of quotas for textile imports that existed from 1974 to 2004.

aspects of the Commission's negotiating stance—despite the fact that the Commission did not exceed its agreed mandate at any stage. Mr Thomas MP, Under Secretary of State for Trade and Consumer Affairs, described the criticism as no more than “sabre rattling” (Q 553), and Lord Mandelson, giving evidence as Secretary of State for Business, noted that a meeting of Member States' Ministers in Geneva during the 2008 Ministerial had heard some “reservations about the balance of the emerging deal” but agreed to support the Commissioner's negotiations (Q 597).⁶

8. This led Professor Jean-Pierre Lehmann, Professor of International Political Economy, IMD Business School, to comment that “Europe has a common trade policy but not a common trade ideology” (Q 475). He highlighted the liberalising stance taken by the United Kingdom Government but observed that trade was not a policy area that would “win points” in EU domestic politics (Q 458).
9. However, we have chosen not to examine the formulation of European trade policy or trade negotiation mandates in this Report, although we may return to this subject in a future inquiry.⁷

Our inquiry

10. The membership of Sub-Committee A that undertook this inquiry is set out in Appendix 1. We are grateful to those who submitted written and oral evidence, who are listed in Appendix 2; all the evidence is printed with this report. With three exceptions⁸, all of the evidence for this inquiry was received before the July WTO Ministerial meeting in Geneva. In particular we are grateful to those witnesses who took time to meet us during our visits to Brussels and Geneva in the weeks immediately prior to the Ministerial meeting. There is a glossary in Appendix 4. We also thank the Sub-Committee's specialist adviser Professor Jim Rollo, Professor of European Economic Integration, University of Sussex. **We make this report for debate.**

⁶ Lord Mandelson also noted that the Commissioner for Trade negotiated on behalf of the Member States but did not sign the final Agreement on their behalf, thus allowing them to veto the decision if they desired (Q 597).

⁷ The Lisbon Treaty would grant the European Parliament the right of co-decision with the Council on trade issues. We considered such a change briefly in our 2004 Report, when we highlighted the “potential danger for the European Parliament to become a lobby for protectionist interests, and thus for anti-liberalisation voices.” This conclusion was supported during this inquiry by Mr Kamall MEP (QQ 233–234).

⁸ Supplementary written evidence from Mr Guy de Jonquières and Professor Simon Evenett, and oral evidence from Lord Mandelson in his role as Secretary of State for Business, Mr Edward Barker, Director of Trade Policy, BERR and Ms Fiona Shera, Deputy Director for the Trade and Development Team, Joint Trade Policy Unit, DfID.

CHAPTER 2: THE NEED FOR TRADE

11. In this chapter we consider the impact of international trade on economic growth and jobs. As we commenced this inquiry, there were concerns about the impact of significant increases in food and raw material prices. These concerns have now diminished and have been replaced by doubts over the strength of the global economy, the prospects for future economic growth, and the consequent impact on attitudes towards international trade.

BOX 1

Regional groupings

Witnesses referred to several different groupings of countries in trade talks, and these are illustrated in Figure 1. Although these are not formal coalitions of states, the comparable sizes of their economies mean that they have many issues in common and often take a similar view to one another.

The “Least Developed Countries” (LDCs) are designated as such by the UN based on income, indicators of nutrition, health, education and literacy, and a measure of economic vulnerability. Many of the LDCs are landlocked and are dependent on developing country neighbours for financial capital and access to ports (Q 159). In this report we also use the phrase “developing country” to refer to countries that are ranked as having medium or low human development by the UN.⁹

During the WTO Ministerial meeting in July, observers used the phrase G7 to refer to the group of leading trade powers that was convened for several separate meetings during the week. These members were Australia, Brazil, China, the EU, India, Japan, and the USA.

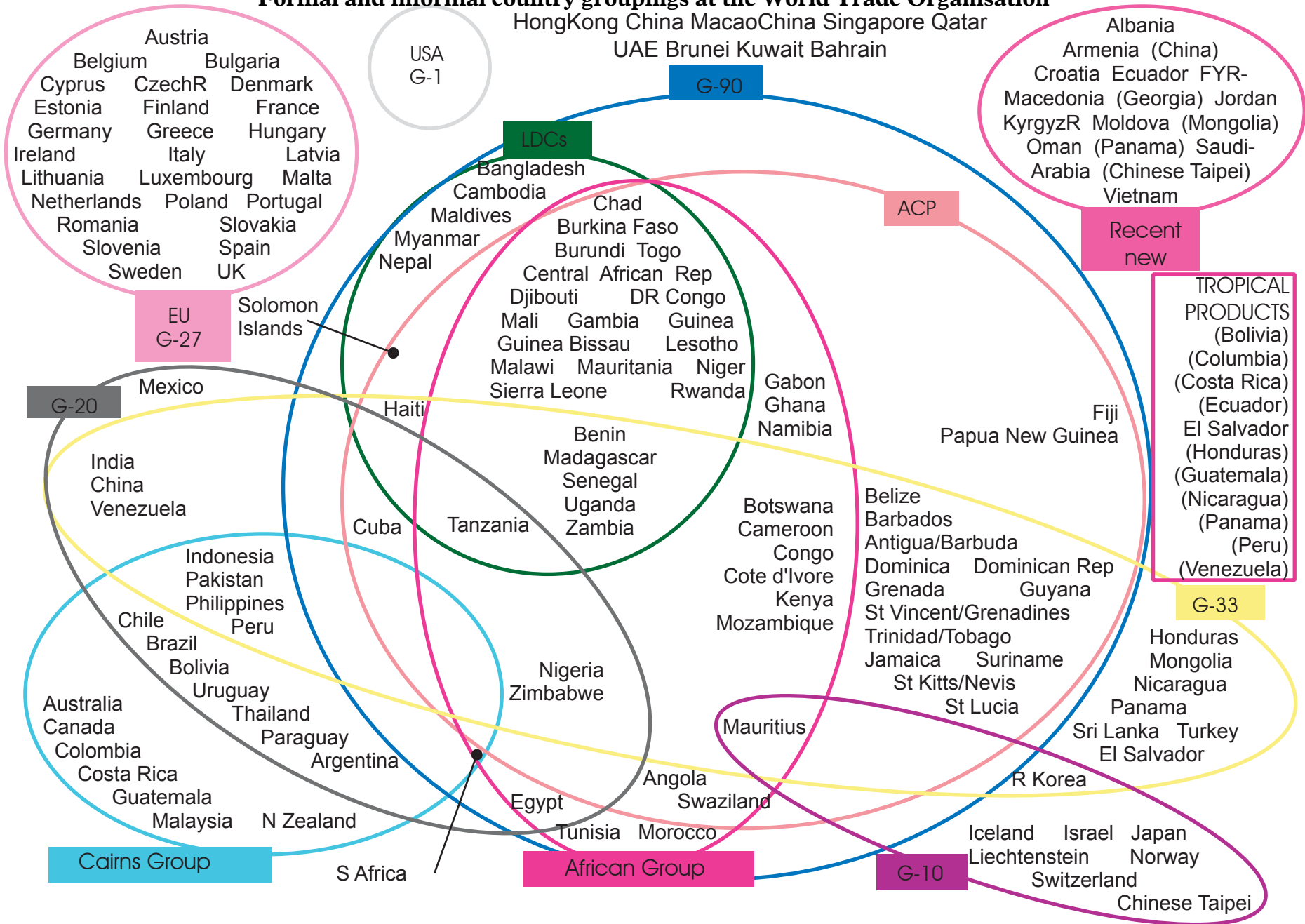
Links between trade and economic growth

12. In the past sixty years the growth in the volume of world trade in goods and services has typically exceeded the growth of GDP, often substantially. For example, from 1997 to 2007 global GDP grew by around 3% and trade in goods by around 6%. Growth fluctuations can have sharp impacts on trade. The fall in the global output growth rate from 3.7% in 2006 to 3.4% in 2007 is associated with a fall in world export growth from 8.5% to 6.0%. A period of negative output growth is therefore likely to lead to a fall in trade volumes.

⁹ The UN publishes the Human Development Index each year, which ranks countries on measures of GDP per head, life expectancy, literacy levels and educational attainment. In the most recent Index, Brazil has moved into the “high development” group of countries although many witnesses still consider the country to be developing.

FIGURE 1

Formal and informal country groupings at the World Trade Organisation



13. Multilateral rounds of negotiations on trade liberalisation are typically very complex and attempts to assess their overall effects require simplifying assumptions. This inability to capture the full complexity of multilateral liberalisation has led to different researchers producing varying estimates of impact. Estimates of the overall effects of the Uruguay Round of trade negotiations suggested increases in world output of between half and one per cent.¹⁰ World Bank economists have tried to summarise the proposals on the table in Geneva in July 2008 and give an estimate of the potential impact.¹¹ While they attempt no overall summary, their analysis suggested that the cumulative effect of the Doha Round texts would be to deliver real, if modest, cuts in applied tariffs and more substantial cuts in bound tariffs with the biggest effects falling on agriculture; that there would be modest liberalisation of existing WTO commitments in services but that these will not make a substantial difference to the reduction in applied barriers to trade; and that the abolition of agricultural product export subsidies and the cuts in trade distorting support on the table offered real gains for developing countries notably in sugar, peanuts and cotton.
14. We asked witnesses about the broader impacts of trade on balanced economic development. The British affiliate of the International Chamber of Commerce argued that the multilateral trading system had been a major driving force for growth, job creation and consumer choice (p 1). Professor Lehmann described international trade as “fundamental to the general objective of making this world a more equitable and wealthier place” (Q 482). Professor Richard Higgott, Professor of International Political Economy, University of Warwick, added that countries which had export-focused industries had grown fastest in the past fifty years (Q 60). Ms Andra Koke, Head of Unit, Trade and Development Unit, DG Trade, European Commission, added that while multilateral liberalisation was more important, measures that the EU has taken unilaterally and bilaterally have also helped developing countries (Q 153). In evidence given in his role as European Commissioner for Trade, Lord Mandelson told us he was keen to pursue further trade liberalisation, but that he had encountered resistance from emerging economies which feared that liberalisation would harm their growth (Q 244).
15. This resistance can also be found in developed countries. We were concerned to hear from Professor Lehmann of a poll reporting that a majority of Americans see trade as a threat rather than an opportunity (Q 459).¹² He argued that this swing in opinion compared to previous trade Rounds was due to several factors: NGOs (which generally oppose liberalisation) being able to spread their message quickly online; trade talks (and technical terms such as NAMA¹³) not being explained to the public; and that there was no champion for liberalisation—“the PR has been terrible” (Q 472). However,

¹⁰ Roberta Piermartini and Robert Teh, *Demystifying Modelling Methods for Trade Policy* WTO Discussion Paper 10, 2007.

¹¹ Will Martin and Aaditya Mattoo, *The Doha Development Agenda: What's on the Table*, World Bank Policy Discussion 4672

¹² The poll was published by CNN on 1 July 2008 and found that 51% of American citizens view foreign trade as a threat to the economy, and that 40% believed trade presented an opportunity for economic growth. <http://edition.cnn.com/2008/POLITICS/07/01/cnn.poll/index.html>

¹³ Non-Agricultural Market Access (NAMA) refers to all products that are not covered by the negotiations on services or agriculture.

Ambassador Don Stephenson, Chair of the WTO Negotiating Group on Market Access, told us that the view of NGOs had evolved; they had stopped opposing trade liberalisation and instead were contending that the manner of the liberalisation was wrong (Q 499).

16. Mr Pascal Lamy, Director-General, WTO, described the WTO as an “insurance policy” against protectionist surges (Q 416). Mr de Jonquières agreed, arguing that the fear of recession would encourage governments to liberalise and oppose producer lobbies who opposed the removal of tariffs (Q 3). Mr John Cooke, International Financial Services London (IFSL), also expressed hopes for services liberalisation outside the Round: he predicted continuing unilateral liberalisation of trade in services (Q 297). He feared a protectionist reaction in the services sector if agricultural liberalisation was not forthcoming (Q 337).
17. **We have not heard anything in this inquiry to change the conclusion of our 2004 inquiry on trade policy: we recommend that the Government continues to pursue further trade liberalisation through the EU as an important policy objective. This should be fully consistent with the EU’s development objectives, including the reduction of poverty in developing countries. The continued removal of trade barriers will lead to greater economic growth and jobs around the world. This growth is shared between developed and developing countries alike. A global recession will be made worse if there is a retreat into protectionism.** Our stance is summarised in the words of Mr Syed Kamall MEP: “It is not countries that trade with each other, it is people in businesses in other countries to mutual benefit. We can either get in the way or we can facilitate that. I think the best way we can facilitate that is to get out of the way” (Q 238).

The effects of commodity price volatility on attitudes towards liberalisation

18. There was significant volatility in commodity prices while we were taking evidence. We expected to find that the volatility might affect attitudes to trade. Despite fearing the worst most witnesses did not anticipate any impact upon tariffs. Mr Edwin Laurent, Commonwealth Secretariat, quoted UNCTAD in stating that he did not expect the higher prices to be a long-term phenomenon (Q 105), and Ambassador Bruce Gosper, Chair of the WTO General Council, emphasised the long-term downward trend in food prices (Q 384).
19. Professor Alan Winters, Professor of Economics, University of Sussex, was disappointed that some European countries had called for further protectionist measures (Q 29); Ambassador Gosper, Chair of the WTO General Council, feared that some countries might take a short-term view and introduce damaging protectionist measures (Q 386). Mr Trineesh Biswas, Adviser, ICTSD, aptly described this as “panicky policy making” (Q 449). Dr Michael Gasiorek, Senior Lecturer, University of Sussex, and Mr Fredrik Erixon, Director of the ECIPE think tank, were confident that the increased protectionist rhetoric would not be manifested in action, as increasing levels of trade and the nature of global supply chains meant that governments were aware that increasing tariffs could be counter-productive (QQ 30, 283).

20. Commission officials were not as confident that calls for protectionism would not develop into action: Mr Paolo Garzotti, Deputy Head of Unit, Chief Economist Unit, DG Trade, European Commission, said that liberalisation was “not a one-way street” and suggested that securing a trade agreement now would be key to safeguarding existing levels of liberalisation (Q 141). Mr Gareth Thomas MP, Under-Secretary of State for Trade and Consumer Affairs, noted that liberalisation might create a slight rise in food prices in the short term¹⁴ but told us that the Government’s view was that the abolition of significant levels of agricultural subsidy would boost investment in agriculture and thus increase productivity (Q 581).
21. **The impact of commodity price volatility during 2008 on EU trade policy was limited to protectionist rhetoric rather than actions. We hope that EU Member States do not use the current economic environment as an excuse to delay or even roll back reforms of the Common Agricultural Policy.¹⁵ We ask the Government to work with EU partners to ensure that trade liberalisation contributes to improving food security in developing countries.**

¹⁴ Protectionist policies aim to raise prices for domestic producers and consumers. This leads to a fall in consumption, an increase in domestic production, and a decrease in imports and/or an increase in exports. The result is to shrink demand and/or increase supply on world markets and hence decrease prices on world markets. Liberalisation will have the opposite effect and hence tends to raise prices on world markets. The lower levels of world trade are relative to world production and consumption, the greater the potential impact of changes in the level of protection by large producers/consumers of agricultural products is likely to have on world market prices. Agricultural exports represented 8.3% of total world exports in 2007 (WTO World Trade Statistics 2008 Table II.2).

¹⁵ We have recently discussed the Common Agricultural Policy: European Union Committee, 7th Report (2007–08): *The Future of the Common Agricultural Policy* (HL 54).

CHAPTER 3: THE DOHA ROUND

22. The Doha Development Round commenced at the 5th WTO Ministerial Conference in Doha, Qatar, in November 2001. Further details of the Round and the principles to which the discussions must adhere can be found in Box 2. Currently average applied tariffs for all products, all countries stand at 3.7% and bound rates at 9.9%. The application of the tariff cutting formulae on the table at July 2008 has been estimated to cut applied rates to 2.5% and bound rates to 5.7%.¹⁶ Lord Mandelson, Secretary of State for Business, noted that the level of agricultural support was higher, describing it as the “most distortive, least reformed part” of the global trading system (Q 604).

BOX 2

The origins of the Doha Development Round

The Doha Round of WTO trade talks started at the 5th WTO Ministerial Conference in Doha, Qatar, in November 2001. As with previous WTO trade rounds, the negotiations are designed to produce a “single undertaking”, i.e. one document that is agreed unanimously, which sets out all of the reductions in tariff levels and non-tariff barriers that have been agreed between members.¹⁷ The Doha Declaration set out six principles to which the discussions must adhere. As well as the requirement to produce a single undertaking, these are:

Participation: The negotiations are open to all WTO members.

Transparency: The negotiations have to be transparent.

Special and differential treatment: The negotiations have to take fully into account the principle of special and differential treatment for developing and least-developed countries. This means the inclusion of provisions to allow developing countries more time to adjust to the impact of liberalisation.

Sustainable development: The principles of sustainable development should be reflected in the negotiations.

Subjects not negotiated: Some elements of the WTO work programme set out in the Declaration do not require negotiations, and these must be accorded as high a priority as those that do.

Under the Doha Declaration, the work is organised by a Trade Negotiations Committee, chaired by the WTO Director-General. Work is split into nine streams, each with a separate discussion group. These cover market access, WTO rules, agriculture, services, geographical indications¹⁸, dispute settlement understanding, environment, review of special and differential treatment provisions, and negotiations on existing implementation issues.

There had previously been hope that a round of negotiations could start following the 1999 WTO Ministerial Conference in Seattle but delegates at that meeting were unable to reach agreement on the scope of the negotiations. Witnesses told us that the events of 11 September 2001 and the consequent uncertainty in global markets had been a driving force behind the creation of the Round (QQ 3, 28). Ms Sheila Page, Senior Research Associate, Overseas Development Institute, described the round as starting “in a sense by accident, from a trade point of view” (Q 6). Witnesses agreed that this expedited start to the Round had made it weak from the outset. Ms Page added that there had not been a build-up of pressure by industry groups to start the Round, and so many countries were not coming under domestic pressure to liberalise (Q 6).

¹⁶ Will Martin and Aaditya Mattoo, *The Doha Development Agenda: What's on the Table*, World Bank Policy Discussion 4672

¹⁷ WTO website.

¹⁸ This term refers to place names associated with either the quality, reputation or other characteristics of products (e.g. “Champagne”, “Melton Mowbray”).

The Doha Round and services

23. Services make up 77% of EU GDP and employment but represent only 28% of EU external trade (p 221). Liberalisation of trade in services can bring similar benefits as liberalisation of trade in other goods. Yet this area has been curiously neglected: left until last in the negotiations and of less interest to most witnesses.
24. We asked witnesses whether the removal of the Singapore issues¹⁹ from the Doha Round had, with the benefit of hindsight, damaged the Round as it had left developed countries with fewer areas in which they could gain a tangible benefit. Mr Adrian van den Hoven, Director of International Relations, BusinessEurope, said that the decision to remove them had been a reluctant one but the business community had recognised the broader deal was more important than these issues; there were still sufficient market access issues (particularly regarding access to fast-growing developing countries) in the Round to maintain the interest of the business community (Q 263). Ambassador Gosper, Chair of the WTO General Council, noted that the presence of services in the Doha Agenda meant that there was still an area of significant benefit available to developed countries (Q 370).
25. Commission officials told us that they had not been trying to achieve liberalisation in the Singapore issues as a quid pro quo for their own tariff reductions and that they had instead withdrawn on these issues because negotiating partners found the issues “too difficult [and] too demanding” to consider as part of the Round (QQ 142–144). Discussions on trade facilitation had continued and had proved fruitful (Q 144). They hoped that developing countries might take up these issues again as they developed more industrial capacity (Q 167).
26. Services firms normally find regulatory barriers or overt discrimination, rather than tariffs, acting as a barrier to trade (Q 308). So, instead of countries reducing tariffs and calculating the resultant increase in trade, services liberalisation occurs through what are in effect simultaneous bilateral negotiations on regulatory barriers to trade (QQ 297, 369). When these negotiations occur at the WTO, countries have to make the same offer to all countries. It is hard to calculate the precise benefit as trade in services often involves overseas subsidiaries rather than cross-border trade (Q 300). IFSL noted that liberalisation does not always ensure immediate progress; the removal of one regulatory barrier may reveal another which had not previously been taken into account (Q 302).
27. Progress towards a deal on services during the Doha Round has been even slower than the pace of the Round itself (Q 297). IFSL told us the lack of focus on services was regrettable but was partly because services have been “held hostage” to progress in agriculture and industry. It is also a reflection of the means by which services are negotiated (QQ 301, 310). Ambassador Bruce Gosper, Chair of the WTO General Council, and Ambassador Crawford Falconer, Chair of the WTO Negotiating Group on Agriculture,

¹⁹ Ministers from WTO member countries decided at the 1996 Singapore Ministerial Conference to set up three new working groups: on trade and investment, on competition policy, and on transparency in government procurement. They also instructed the WTO Goods Council to look at possible ways of simplifying trade procedures, an issue known as “trade facilitation”. These four subjects are collectively known as the “Singapore issues”. In August 2004, all of these except trade facilitation were removed from the Doha Round as there was no consensus on how they should be negotiated.

explained that services cut across several domestic agencies and political portfolios (for example tourism, telecommunications, professional services and postal services) which made it difficult for countries to coordinate their domestic stance before discussing it at the WTO (QQ 371–372, 515–516).

28. Ms Patricia Francis, Executive Secretary, International Trade Centre, highlighted the positive impact financial services liberalisation could have; the lack of factoring companies in LDCs was preventing small agricultural producers from investing in fertilizer and expanding production (Q 364). IFSL quoted World Bank research which indicated that 15 out of 23 studies had found a positive relationship linking financial liberalisation with growth; four found a neutral relationship and four a negative relationship (p 5). We were cautioned by IFSL and Ms Francis that financial liberalisation needed to be preceded by the creation of efficient contract and property law systems, and regulatory structures, to ensure that the developing country's economy could benefit from the change and to protect consumers (QQ 319–322, 360).
29. Mr Kamall MEP was pessimistic about the prospects for substantial progress in liberalisation of trade in services via the Doha Round. He gave three reasons: primarily because negotiators had directed their attention to the more difficult agricultural and industrial sectors (Q 208); partly because the single undertaking approach led to countries considering services liberalisation as one of their “negotiating chips” to be bought rather than as a good thing in itself (Q 214); and finally because services liberalisation was “still seen as big European companies being aggressive and taking over ... markets, and we have not addressed that concern” (Q 214). IFSL and Mr Roger Brown, British Bankers' Association, were more optimistic and hoped for at least equivalence to deals in other sectors, a binding of existing openings and new market access opportunities (Q 309).

Labour liberalisation

30. Linda Kaucher, Researcher, London School of Economics, expressed concern about the offers of labour liberalisation made by the EU during the negotiations, and in particular their compatibility with the UK's immigration policy.²⁰

The July 2008 Geneva Ministerial

31. Mr Lamy explained that the Ministerial meeting he called for July 2008 would centre on “twenty topics” which were put up for negotiation at the start of the Round (QQ 411–414, p 155). Ambassador Gosper, Chair of the WTO General Council, outlined a similar set of issues (QQ 390–391), the complexity of which highlighted the difficulties inherent in the negotiations. Despite Mr Lamy's hopefulness that a deal would be reached (Q 414), and press reports²¹ of convergence on eighteen of the topics, the Ministerial eventually broke down over the relatively innocuous issue of the design of a formula (the “special safeguard mechanism”) which would have allowed developing countries to impose new and substantially higher tariffs in the

²⁰ Agreements on Trade in Services include provisions on the international movement of labour to supply services.

²¹ *The Economist* 2 August 2008

event of rapid rises in farm commodity imports that might harm small farmers. Discussions on trade in cotton were not concluded.²²

32. We took evidence from the Chairs of the negotiating groups on agriculture and non-agricultural market access in the week before the Ministerial, and they explained the positions that had been reached in their groups (QQ 502–505, 484–489).

A lack of drivers for a deal?

33. Several witnesses told us that WTO members did not feel under pressure to secure a deal. Mr de Jonquières and Dr Mohammad Razzaque, Commonwealth Secretariat, noted research which suggested that the most likely deal, as predicted before the Ministerial, would have only added three days' worth of growth to China and a matter of weeks' worth to the Indian and Brazilian economies (QQ 12, 93). Dr Peter Holmes, Reader in Economics, University of Sussex, reported a conversation with Indian officials who had said that they were able to get a lot of the liberalisation they wanted from legal challenges through the Dispute Settlement Mechanism instead (Q 33) (the Dispute Settlement Mechanism is considered in detail in chapter four). Mr de Jonquières noted that China had made major domestic reforms when it had joined the WTO in 2001 and that the momentum for change in the country had decelerated (Q 12). This viewpoint was supported by Dr Péter Balas, Deputy Director-General, DG Trade, European Commission (Q 128).
34. Mr Lamy disagreed with this assessment of the Brazilian, Indian and Chinese positions. He told us that the three countries had promoted agriculture to the centre of the negotiations because they knew they could produce agricultural products relatively cheaply but could not match the agricultural support given by the EU and the USA, making agricultural tariff reductions a vital counterweight for industrial liberalisation on their part (Q 415). Dr Razzaque noted that the promises to Least Developed Countries that had underpinned the creation of the Round had not been met and those countries might use their veto to hold out for more progress (Q 97).
35. Professor Winters emphasised that all of the “low hanging fruit” had already been picked in previous rounds, and the sensitivity of remaining tariffs made a deal less likely (Q 28). However, Mr van den Hoven noted that the volume of European trade meant that even a very small tariff cut could produce significant benefits (Q 264). The Government told us that the overall impact on global economic output could have been in the order of €120 billion per year, of which €30 billion would accrue to the EU and €15 billion to the developing countries (QQ 569, 604). Lord Mandelson, Secretary of State for Business, gave similar figures and added that the opportunity cost of a missed round would be €300 billion per year because of the trade facilitation measures in the Round (Q 604).

²² We asked Lord Mandelson, giving evidence as Secretary of State for Business, whether the disagreement on the Special Safeguard Mechanism had been a deliberate attempt by some participants not to discuss the issue of cotton tariffs. He told us that it was “not something on which I could possibly comment” although he noted that cotton was an issue of political sensitivity in a number of American swing states, and India needed the SSM to protect its non-commercial agricultural sector and make the Doha Round “a good win” rather than “a huge threat” (QQ 595, 614).

Business community pressure

36. Pressure from the business lobby for a deal has declined in comparison with previous rounds: Professor Winters suggested that this was in part because liberalisation was no longer a pre-requisite to achieving their goals, as applied tariffs are already historically low, and key trading issues are being resolved through bilateral deals (QQ 28, 33). Professor Lehmann went further and suggested that a prolonged period of global economic growth, combined with the “short-termism” attitude of most business leaders, meant that trade was no longer a subject in which the business community was interested (Q 463).
37. Other witnesses disagreed. Mr van den Hoven explained that the time taken over the Round had made the business community more sceptical and the removal of the Singapore issues had made his organisation’s members concerned about the low ambitions for the Round. He emphasised, however, that the business community was still strongly in favour of trade liberalisation and feared a protectionist backlash in export markets in the absence of a deal (Q 261). He also complained of a lack of media interest: statements in favour of liberalisation from his members’ CEOs had been largely ignored (Q 262). Ambassador Stephenson, Chair of the WTO Negotiating Group on Market Access, and Mr Lamy were confident that the business community would lobby in favour of a deal once one was on the table (QQ 422, 499).

*Binding existing tariffs***BOX 3****Bound and applied tariffs explained**

WTO negotiations and agreements cover members’ “bound tariffs”—in effect the maximum tariff that a country has agreed it could levy on an import. The WTO Uruguay Round led to the binding of 100% of agricultural tariffs; for NAMA, bound rates apply to 99% of developed countries’ tariffs and 73% of developing countries’ tariffs.

In practice, many countries are not levying tariffs at these levels but instead have voluntarily chosen to levy “applied tariffs” which are considerably lower. The size of the gap can be significant: India, Mexico and Brazil operate applied tariffs on many products at less than a third of their bound rates, leaving scope for significant increases in applied rates which would be “WTO-legal” should their governments become more protectionist.

Conflict arose at the WTO negotiations because some parties requested tariff cuts that were very significant in order to bite into the applied tariffs of these countries. However, cuts on such a scale would have a major impact on some countries, such as South Africa, which at present have little or no gap between their applied and bound tariffs. Lord Mandelson, speaking as European Commissioner for Trade, explained that the EU was happy to give these countries more time to cut their tariffs—but this created an issue of where to draw the line for countries that are considered not to need special treatment (QQ 250–251).

38. We asked witnesses whether it would be acceptable for a deal simply to reduce bound tariffs to current applied levels and to bind unbound tariffs: this would not produce any immediate economic benefit but would prevent future moves towards protectionism. Ambassador Stephenson, Chair of the WTO Negotiating Group on Market Access, told us that such a move was

often discounted as valueless in WTO members' rhetoric, a view to which he did not subscribe (Q 494). Professor Lehmann was in favour of such a move, as it would clear the slate and allow a new Round to begin (QQ 460–462). Dr Gasiorek and Ambassador Stephenson both noted that such a move would not necessarily be easy to agree: developing countries had opposed these large reductions in bound tariffs (Q 33) and the inter-linkages of issues in the single undertaking made such a deal unlikely (Q 497).

39. The CBI told us that they wanted to see a cut in applied tariffs on industrial goods (p 3). Their view is shared across the EU: Dr Balas told us an agreement that did not cut applied tariffs would not meet the ambitions of European industry (Q 116) and Lord Mandelson, giving evidence as European Commissioner for Trade, suggested that the Member State governments would expect more in return for the reductions in agricultural tariffs that the Union had offered (Q 243). He added that viewing the continuance of the WTO and the consolidation of current tariff cuts as a success was a “rather British view”; he and his staff subscribed to an approach which also required additional market access and tangible business opportunities (QQ 248–249). Mr Thomas MP, Under-Secretary of State for Trade and Consumer Affairs, agreed that any deal would be progress but stressed that the Government's ambitions went much further: he highlighted reductions in cotton subsidies and increased market access for both industry and services as fundamental to a deal (QQ 552, 557).

The EU's position and role

40. For non-agricultural issues the EU's key objectives for the Doha round are:

- On market access for industrial goods, the EU wants to do away with high tariffs, tariff peaks and tariff escalation, so as to increase significantly trading opportunities. This objective would be achieved through reduction according to a mathematical formula applied to all tariff lines, ensuring a similar level of tariff reduction across the board.
- Further market access negotiations on services should bring considerable and real market opportunities for business as well as benefits to consumers world-wide. However, the EU does not seek general deregulation or privatisation of sectors where principles of public interest are at stake, and the EU is also committed to defending the right of WTO members to promote cultural diversity.

On agriculture the EU has offered:

- to cut its agricultural tariffs by an average of 54%;
- to use a ‘banded’ system for tariff cuts that will cut the highest tariffs the most—by at least 66%;
- to reduce trade distorting subsidies by at least 75%;
- to eliminate export subsidies completely by the end of 2013 so long as partners who operate their own export support programmes do the same.²³

41. Eoin O'Malley, Senior Advisor International Relations, BusinessEurope, and Dr Chris Stevens, Director of Programmes, Overseas Development Institute,

²³ European Commission website.

- recommended that the EU should pursue bilateral deals as a vehicle for liberalisation in services (QQ 6, 274). However, Mr O'Malley noted that the biggest steps towards services liberalisation had been taken by countries as they joined the WTO: he cited Ukraine and Vietnam as countries that had made commitments on accession that were more significant than those of other WTO members (Q 274). Ms Francis explained that this was in part because the private sector took the opportunity to push for additional reforms in the knowledge that their governments could not delay (Q 364). The British Bankers' Association praised the Commission for its work on services liberalisation, and told us that different DGs work together to discuss regulatory barriers (Q 301). Industry bodies had compiled a country-by-country list of the most significant barriers to trade in services (Q 307).
42. When we met Lord Mandelson in his role as European Commissioner for Trade and Commission officials a month before the July Ministerial, the focus was on the agricultural negotiations and the difference between bound and applied tariffs in the NAMA negotiations. Dr Balas emphasised that the average industrial bound tariff in the EU of between 4 and 5% was significantly lower than the average bound tariffs in Brazil, India and ASEAN countries of around 30% (Q 116). The Commission believed that the reductions in agricultural subsidies that are scheduled under the 2003 CAP reforms would create sufficient trade opportunities to be attractive to partners (QQ 117–118, 120) and noted that it was offering a cut in average industrial tariffs to around 2% (Q 136).
 43. Dr Supachai Panitchpakdi, Secretary-General, UN Conference on Trade and Development, praised the EU for the work it had undertaken to reduce its support for agriculture (Q 403). Ambassador Falconer, Chair of the WTO Negotiating Group on Agriculture, highlighted the fact that current consumption trends meant that the EU would become a net importer of some foods, such as beef, and that the Union had recognised it was in their own interest to liberalise agriculture (Q 507).
 44. Several witnesses were critical of the EU's position. EEF/UK Steel hoped for real market opening for UK exporters, particularly to those countries whose producers were in competition with UK industry (p 1). Anja Osterhaus, Co-ordinator, Fair Trade Advocacy Office, Fairtrade, would have preferred the EU to concede more to developing countries (Q 188). Mr Kamall MEP, Dr Miguel Rodriguez Mendoza, Senior Fellow, ICTSD and Mr van den Hoven suggested that the EU could have reduced agricultural subsidies further to unlock a deal (QQ 213, 265–268, 430)—although Mr van den Hoven would have also liked the EU to put more pressure on richer developing countries to reduce their industrial tariffs (Q 269). Mr Erixon explained that the EU's hands were tied by Member States' repeated failures to reform the CAP (Q 285). Lord Mandelson, in his role as European Commissioner for Trade, disagreed and told us that the EU was already “paying through the nose on agriculture” and that he was “not ashamed” of the offers that the Union was making (QQ 243, 247).
 45. However, none of the witnesses that we met in Geneva in the fortnight prior to the Ministerial raised the EU's position on agriculture as a significant stumbling block in the negotiations: Ambassador Falconer, Chair of the WTO Negotiating Group on Agriculture, believed that reform of CAP would continue in the long term (Q 506) and Mr Lamy said that the Union was “on the right side” of the liberalisation debate (Q 414). This appeared to

continue to be the case throughout the Ministerial: writing in a notably candid online diary during the talks, Lord Mandelson noted at one point that the EU was “in the unusual position of being on the edge of a Doha argument rather than in the middle.”²⁴

The future of the Round

46. We asked Lord Mandelson, Secretary of State for Business, why the negotiations in which he had participated had not reached agreement. He told us that while the talks did not meet their objective of agreeing the modalities, “substantial progress” had been made on reducing agricultural tariffs: “we agreed ... in respect of agriculture that the proposed reductions in agricultural trade barriers ... would be set at an average of at least 54% with the highest tariffs enjoying the greatest cuts, in the case of the European Union something in the region of 70%.” “Significant indications” had been offered in services negotiations (Q 594).
47. The breakdown of the Geneva Ministerial was not accompanied by rancour, and the leaders of the G20 countries have called for further talks and an agreement by the end of this year. However the appointment of a new Commissioner in Europe and the change in administration in the United States may create uncertainty among trade participants. Some witnesses did not see political uncertainty as a great concern, noting that the 1992 US Presidential election had not prevented progress towards completion of the Uruguay Round in 1993. Lord Mandelson, Secretary of State for Business, did not expect the 2009 Indian elections to impact upon their stance (Q 614).
48. Speaking after the end of the Ministerial, Celso Amorim, Brazilian Foreign Minister, said “people say we should preserve what we have, but it is not in our power. Life goes on. Protectionist interests will again present themselves. It will be very difficult to keep this intact.”²⁵ Mr Thomas MP, Under-Secretary of State for Trade and Consumer Affairs, agreed: he predicted that the failure to agree a deal would be a “major boost to the protectionist mood music” (Q 555).
49. In evidence given as European Commissioner for Trade, before the Ministerial, Lord Mandelson was blunt about the implications of a complete failure of the Round. He noted it would be the first trade Round not to conclude in a positive way and more significantly, it would send a signal to the developing world that the developed countries were greedy, selfish and unable to recognise the implications of globalisation and the “shift of economic power from West to East” (Q 245). Globalisation had created a “multi-polar” economic world which required new relationships, a new sort of political management and new definitions of reciprocity; the world had not yet adjusted to these (Q 259). Ambassador Stephenson, Chair of the WTO Negotiating Group on Market Access, was concerned that the mandate for the Round was becoming increasingly disconnected from current issues, making an agreement even more difficult (Q 498).
50. We detected a sense of weariness among participants and observers of the negotiations. Those we met in Geneva prior to the Ministerial were

²⁴ http://ec.europa.eu/trade/issues/newround/doha_da/geneva08/update_en.htm

²⁵ *Financial Times* 30 July 2008

understandably reluctant to discuss the implications of the Ministerial concluding without agreements or admit to a sense of frustration, but Dr Mendoza described the phenomenon of “negotiating fatigue”, in which participants believe they are wasting their time through lack of progress and stop tabling their own offers. He was confident that the Doha Round had got through a bout of fatigue and participants were engaged in the negotiations (Q 442). Professor Lehmann had observed a similar cynicism at meetings such as the World Economic Forum annual meeting (Q 472), and Ambassador Falconer, Chair of the WTO Negotiating Group on Agriculture, said the length of the Round had been “frustrating” as it was now crowding out discussions on more pressing questions (Q 509).

51. In early November, after President-elect Obama’s victory in the USA, and the sharp decline in the global economy, we asked Lord Mandelson, in his role as Secretary of State for Business, what he believed the prospects for the Round were. He told us that “the Doha deal is more urgent than ever given the financial crisis. We need to demonstrate to the world our commitment to open markets and our rejection of protectionism; otherwise we would make the present turmoil and dramas even more serious and long-term in their impact” (Q 600). He said that the meeting of G20 leaders on 15 November should “send a very strong signal” that a further WTO Ministerial meeting should be held and agreement reached before President Bush’s term expires in January 2009 (Q 601). Participants at the meeting did agree to strive for a conclusion to the round this year.
52. We also asked Lord Mandelson about the likely policies of the new Democratic administration in the United States and to contrast the present economic situation with that which led to the 1930 Smoots-Hawley Act which raised US tariffs on 20,000 items. Lord Mandelson noted that there were protectionist tendencies within the Democratic party, but that the Party had “different policy emphases ... Mr Obama has a pro-market approach, including government action to shape markets and distribute their fruits more fairly ... Inevitably, however, he and others in the Democratic party are concerned by the impact of globalisation on American workers and American industry. This could lead to Democrats becoming more sceptical about the virtues of free trade.” He said that the Government would encourage the new administration to adopt a non-protectionist policy (Q 602).
53. We were relieved to hear that the economic downturn had not led to protectionist measures in the UK’s major trading partners (Q 602).
54. **We are disappointed that the Doha Round is yet to reach a successful conclusion and are concerned that a global recession will increase pressure for protectionist measures. We therefore welcome the decision of the leaders of the G20 countries to use their November summit as a springboard towards further Ministerial meetings on the Doha Round. We commend the UK Government, Lord Mandelson (in his former role as Commissioner for Trade) and the Commission for their work to date. We welcome Commissioner Ashton’s announced commitment to work to revitalise the multilateral talks at the start of her tenure as Commissioner for Trade.**
55. **We call on the Government and the Commission to make every effort to ensure that the positive rhetoric arising from the G20 summit is translated into action and a successful conclusion to the Round. The**

Government should also work with the incoming administration in the United States to emphasise the importance of trade liberalisation.

56. **We agree with the British Bankers' Association's assessment that the services sector as the "engine" of economic growth in the EU (p 107). We are concerned about the pace of services negotiations, especially as this is the area in which the UK has the most to gain from the Doha Round. Services negotiations require more attention because of the range of issues involved. We would encourage the business community to be more vigorous in advocating the completion of the Round.**
57. **The Singapore issues should be revisited outside of the Doha Round.**
58. **A Round in which WTO members bound tariffs at existing applied tariff rates would not be a failure: we do not take the current, historically low, levels of tariffs for granted. The embedding of current low levels of protection at a time when the global economy is facing a turbulent period featuring volatile raw material prices and a likely economic contraction would be a very real gain.**
59. **We would prefer to see continued reform of the Common Agricultural Policy for its own sake, although further reductions in agricultural support would also allow the EU to offer still larger cuts in agricultural tariffs. Although it was at the periphery of the area of dispute in this summer's talks, the EU retains a central position in international trade negotiations and will need to maintain and strengthen its role as a promoter of liberalisation.**

CHAPTER 4: TRADE DISPUTES

60. This chapter examines two means by which the EU can protect itself from malicious actions by foreign exporters or third countries: trade defence mechanisms, and the WTO Dispute Settlement Mechanism.

Trade defence

BOX 4

Anti-dumping

Dumping is the practice of exporting at below cost to gain market share. Article VI of the 1994 General Agreement on Tariffs and Trade permits the imposition of anti-dumping duties against dumped goods equal to the difference between their export price and their normal value (measured either by estimates of price on the home market, the cost of production or in the case of non-market economies the price of equivalent products on the open world market) if dumping causes injury to producers of competing products in the importing country. The dumping margin is the degree to which prices of the dumped good is below the normal value: the British Ceramic Confederation noted that the imposition of margins of up to 70% demonstrated the scale of the problem (p 1).

The WTO recorded that 2,938 anti-dumping actions were initiated in the ten years to June 2006, although levels have fallen since a peak in the period from 1999 to 2001 (p 244). Trade Defence measures impact on about 1% of EU trade (Q 273).

The Commission published a Green Paper in December 2006 which proposed reforms to the use of trade defence instruments including the application of margins in anti-dumping cases. Mr van den Hoven explained that some sectors had seen the proposals in the Green Paper as a sign that the Commission did not care about industry (Q 273). The CBI stated that they were disappointed that “protectionist forces” had blocked “much needed” reforms (p 5). The proposals have not been advanced since the Green Paper.

61. Mr van den Hoven explained the need for trade defence measures: “the reality of the international trading system is that it is not always fair and that there is a lot of dumping and a lot of subsidisation around the world”. His organisation had witnessed increasing state intervention in the economies of emerging countries and this distorted trade (Q 270). He said that if Europe did not protect its basic chemical, metal or textile industries from unfair competition, then the high-value part of these markets, and the industries they supported (such as pharmaceuticals, paints and automotive parts), would also be eroded (Q 273). His members did not want to use trade defence measures but did want them in place to act as a long stop, and saw their presence as a necessary part of liberalisation (Q 273).
62. EEF/UK Steel explained that anti-dumping measures had become more contentious, and compared them to the EU’s internal market rules on abuse of a dominant position. As measures imposed by the EU generally have a five-year “sunset clause”, and the Commission has proved itself prepared to modify and adjust the scope of measures during their lifetime, EEF/UK Steel believed that the EU’s measures were targeted and proportionate (p 5). The organisation described the EU’s approach as the most liberal in the world and suggested that any revision should be accompanied by negotiation with other WTO members to liberalise their anti-dumping regimes (p 6). The ITC stated that the EU’s approach was “relatively fair” compared to the practices in some other jurisdictions (p 121).

63. Dr Holmes said reform of the rules was still necessary as the current position discriminated against European firms which wished to outsource (Q 43). The Food and Drink Federation and the Sporting Goods Industry Association explained that the EU's trade defence measures did not reflect the "widened definition of European interests", i.e. the move towards offshore production by EU-based firms (pp 3, 5). The ITC suggested that the rules needed to be more predictable and transparent, with unambiguous definitions of important concepts such as "community interest" and longer consultation and data collection periods (p 5). The British Ceramic Confederation criticised the "undue reliance" on anti-dumping margins and noted that quotas were harder to circumvent (p 1).
64. Mr van den Hoven agreed that the position was complicated, and said that the priorities for industry were clarity and predictability as these would allow firms to make decisions about production location without having to worry about the strength of rivals' lobbyists or of different Member State views in the Council (Q 273). He added that a proposed solution of giving dispensations (to avoid anti-dumping tariffs) to European affiliate firms based overseas would fall foul of WTO rules (Q 273).
65. The Commission explained that the need for trade defence instruments would remain, and that its consultation in 2007 had confirmed that stakeholders agreed with this assessment. The consultation also revealed a variety of views on the effectiveness of the current trade defence measures. At present there is no consensus among EU Member States about how to improve the system and the Commission told us that it would consult further and bring forward proposals "in due course" (p 5).
66. It is possible that dumping will increase during a downturn and an associated oversupply of goods. **We are disappointed that the Commission has not made progress on reforms to the anti-dumping rules and ask the Government to work with other Member States to prioritise this work.** We may return to this subject in a future inquiry.

Dispute Settlement

BOX 5

The WTO Dispute Settlement Mechanism

The Dispute Settlement Mechanism was introduced by the WTO in 1995 to allow members to assert their rights under multilateral trade agreements. It prohibits a member from resorting to unilateral action in response to alleged violations by other members. All WTO members have identical rights to seek redress if they believe one of their trading partners is breaking WTO rules. The system is operated under the Understanding on Rules and Procedures Governing the Settlement of Disputes, an agreement concluded during the Uruguay Round. It sets out four phases in the dispute settlement process: consultations; consideration by a panel; opportunity for appeal; and surveillance of implementation.

All WTO members are represented on the Dispute Settlement Body which has the authority to establish panels, adopt panel and Appellate Body reports, maintain surveillance of implementation of rulings and recommendations, and authorise suspension of concessions and other obligations. Dispute Settlement Panels are *ad hoc* and made up of distinguished practitioners. These issue reports containing their findings for adoption by the Dispute Settlement Body, and which may be appealed to the Appellate Body. The Appellate Body consists of seven experts in international trade law, appointed for four years (renewable once).

67. Witnesses told us that the Dispute Settlement Mechanism had become a means by which the WTO could resolve key issues which could not be resolved multilaterally. Indeed, Dr Holmes suggested the boldness of its decisions was reducing pressure on the multilateral talks to produce a deal (Q 33). Professor Higgott called it the “jewel in the crown” for the WTO (Q 70). Lord Mandelson, Secretary of State for Business, said it was “the most meaningful, sophisticated piece of architecture that we have globally. There is no form of global governance in any other sphere, including frankly many aspects of the United Nations ... that has the same bite and effectiveness as the WTO has in the operation of its Dispute Settlement Mechanism” (Q 605). Professor Evenett noted that while countries were sometimes unwilling to engage in liberalisation, interest in the WTO as a system of rules remained and was particularly strong amongst poorer countries which recognised the benefit of knowing they could not be discriminated against (QQ 53–54, 60). Developing countries have instigated more than 40% of disputes under the WTO, of which 42% have been directed against other developing countries (p 244).
68. Dr Mendoza told us that the replacement of negotiations by litigation had “serious limitations” (Q 440). Mr van den Hoven raised a concern that losers in Dispute Settlement cases would have to make reforms without gaining anything in exchange (as they would do in a multilateral deal) and that this would be politically difficult (Q 261). Professor Evenett was also keen to emphasise the risk of relying on the Mechanism to further trade liberalisation, as the system might collapse should the US or EU lose a sensitive case and refuse to comply with the ruling (Q 73). Mr Erixon gave examples of the USA-EU Boeing-Airbus dispute²⁶ and complaints from Japan and the USA about the EU’s tariff reclassifications as difficult cases which would be best solved by negotiation rather than legal means (Q 278).
69. Professor Evenett further noted that developing countries had little retaliatory capability should a country not honour a ruling under the Mechanism (Q 72). As an example, Mr Erixon highlighted Antigua’s inability to take retaliatory action against the USA should the USA fail to meet its obligations in a ruling on online gaming that Antigua had won; to do so Antigua would need to raise tariffs against imports from the USA which would hurt Antiguan citizens (Q 281). Ambassador Falconer, Chair of the WTO Negotiating Group on Agriculture, explained that a country could delay implementation of a ruling by five years by appealing against the finding, and then waiting for an enforcement review before making any changes (Q 510). More generally, he was also concerned that the strict rules-based approach of the Mechanism would mean that political realities would be ignored: trade policy did not exist in a vacuum (Q 511).
70. Ambassador Gail Mathurin, Permanent Representative of Jamaica to the WTO, discussed the dispute between the USA and the EU over bananas to highlight some of the problems with the Dispute Settlement Mechanism. The panel has ruled against the EU’s preferential treatment for some banana producers and as a consequence the EU will have to change its tariff structure on the products. While Jamaica has been able to make representations to both parties in the dispute, it has not been able to make a formal representation to the panel. The inability to impact upon cases

²⁶ The United States have filed a complaint regarding the financial support given by EU Member States to Airbus and the EU has filed a similar complaint regarding support by the US government for Boeing.

between third parties which have a “profound” economic impact was described as difficult to accept (QQ 526–529).

71. Despite these factors, Commission officials and Mr Erixon expected increased use of the Mechanism in lieu of a Doha Round conclusion (QQ 134, 278), a prospect to which they did not look forward (QQ 110, 134, 278). While the Commission expected initial cases, particularly in agriculture, to be successful (Q 134), we also heard that there was a risk that the Mechanism might become separated from the realities of trade without regular Rounds which could be used to update its provisions, prevent it from becoming clogged up with highly contentious issues (such as trade defence measures and genetically modified produce (Q 135)), and deal with the side-effects of its rulings. Lord Mandelson in his role as European Commissioner for Trade, added that WTO members would lose their confidence in the Mechanism without the conclusion of trade rounds (Q 260).
72. Mr Lamy elaborated on this point. He expressed concern that the settlement panel and appellate body would have to apply rules, some of which were sixty years old, to contemporary cases. He told us that he would prefer to have countries adjusting the rules than what he had heard critics refer to as the “seven gnomes in Geneva” (Q 418). Ambassador Gosper, Chair of the WTO General Council, noted that after 13 years of operation, the Mechanism needed refining and modifying and was hopeful that minor improvements might be included in the eventual Doha deal even though they were not formally part of the single undertaking (QQ 377, 390).
73. We heard some suggestions for improvements to the Dispute Settlement Mechanism. Professor Higgott called for more support for poorer members of the WTO; developing countries are complainants in less than a half of cases and he argued that the underlying reason for this was the cost and complexity of cases (Q 70). Professor Higgott told us that the Warwick Commission had concluded there was a need to promote transparency in the Dispute Settlement Mechanism: it has suggested that panels and hearings be open to the public. (The EU and the USA have allowed this at hearings where they are the parties (Q 130)). The Warwick Commission has also promoted a more professional approach to the appointment of the panel, rather than the *ad hoc* use of diplomats or academics (Q 130).
74. Mr Thomas MP, Under-Secretary of State for Trade and Consumer Affairs told us that the Dispute Settlement Mechanism would be fundamental to the future role of the WTO. He agreed that it needed revising, but told us that the Government was yet to look at what changes they might wish to propose (Q 579).
75. **Because its rulings have largely been accepted, the WTO Dispute Settlement Mechanism has generally been a success, although smaller participants have faced delays and third parties may be prejudiced by the outcome of cases between larger parties. We do recognise the need for support for Least Developed Countries and non-combatants to participate; more should be done to promote transparency. We look forward to the Government’s proposals for these changes.**

CHAPTER 5: TRADE AND DEVELOPMENT

76. In line with our remit to scrutinise European Union policy, we have taken this opportunity to consider two areas of EU trade policy in detail: support for trade facilitation in developing countries; and Economic Partnership Agreements. As outlined in chapter two, the foundation of our approach is that liberalisation has brought benefits to developing countries—an approach supported by Mr Laurent who told us LDCs would be able to generate funding to tackle domestic needs through trading activity (Q 85). In addition, we note that Articles 177–181 of the EC Treaty require the Community and Member States to foster sustainable economic development in developing countries.
77. Developing countries' share of world trade has risen from 27% to 40% in the last twenty years, but the Least Developed Countries' share is still below a peak of 1.5% achieved in the 1970s despite recent increases (Q 98). However Lord Mandelson, in his role as European Commissioner for Trade, and Professor Winters commented that a lot of civil society (e.g. non-governmental organisations) had turned against international trade as a tool for development (QQ 28, 252) and Fairtrade told us that the benefits of liberalisation did not accrue evenly across the population of poorer countries (QQ 179, 204). Ms Francis used a sporting analogy: cutting tariff barriers for LDCs had been the equivalent of putting them on the tennis court, but they had never been given lessons in how to play the game (Q 346).

Aid for Trade

BOX 6

Aid for Trade

Many poor countries lack the basic infrastructure to take advantage of opportunities resulting from trade liberalisation. The Doha Ministerial Declaration included technical support and trade capacity building as part of the development objectives of the Round, and at the December 2005 Hong Kong Ministerial Conference a new WTO work programme on Aid for Trade was created, and the WTO was subsequently given a monitoring and evaluation role.

In theory, the phrase “Aid for Trade” should only apply to work that is overseen through a WTO programme agreed under the Doha Round, but in practice it is already being applied to ongoing aid projects.

78. Dr Razzaque noted that liberalisation would not by itself bring growth in exports to poorer countries: he gave the example of Vietnam, which has shown an export growth rate much higher than that of Kenya, Tanzania or Bangladesh despite having similar tariff regimes. He explained that other economic policies were responsible for Vietnam's growth and also noted that the country's economic diversification had allowed it to move away from dependency on tariffs for tax income (Q 99). In many LDCs, the priority for government and aid spending has until now been improving health and education and increases in trade capacity have been ignored (Q 349).

79. Most support and funding directed towards developing countries for trade development is now being listed under the “Aid for Trade” umbrella and this has generated confusion (QQ 80, 92). Fairtrade’s research into funding under the heading had found a huge range of projects that had been funded, including some infrastructure works—such as road building—which would have previously been funded as general development support and were not exclusively trade related (QQ 184, 195). They had also found that funding was often focused on big projects and larger companies and rarely reached smaller producers (Q 184). Mrs Glenys Kinnock MEP noted that some Member States were yet to match their promises to provide support with actual commitments of cash (p 241).
80. Fairtrade noted that developed countries had introduced Aid for Trade just two days before the Hong Kong meeting because they hoped they would be able to use it as a “bargaining tool” with poorer countries, and were not really committed to the concept (Q 184). Dr Supachai was concerned that this was still the case for some WTO participants (Q 402). Professor Evenett suggested that this area was a risk for the WTO: it had a convening role and was seen as the face of Aid for Trade even though decisions on how much funding should be given and on what it should be spent were not its responsibility (Q 80). However Mr Lamy said it was the Organisation’s role to promote the principle, and it was an issue on which the Organisation would lose influence should the Doha Round fall (Q 417).
81. Several witnesses put forward suggestions for how Aid for Trade funds should be targeted. Professor Evenett and Dr Mendoza said that funds should be available to help countries develop their supply-side capabilities (i.e. to help them produce and transport export goods) and adjust to changes in the world economy (QQ 63, 424). Fairtrade also highlighted the supply-side constraints that smaller producers face but cautioned that support for producers could be counter-productive: over-production of coffee had depressed world prices in the past and damaged smaller producers (Q 179). Specific practical examples of barriers to trade were supplied by Ms Francis: a lack of sanitary and phytosanitary organisations to certify exports, and of refrigeration at ports and airports to store products awaiting shipment; a lack of information about niche markets which could be exploited; and a lack of knowledge of how to produce business plans (Q 350, pp 3, 5). Dr Mendoza added that poorer countries also lacked the ability to carry out the “real implementation” of trade agreements; for example, many did not have a suitable institution to enforce commitments under agreements on Intellectual Property (Q 427).
82. Mr Kamall MEP and Mr Laurent agreed that funds should support economic diversification but Mr Laurent added that this would require Aid for Trade to be more “creative” than it has been to date (QQ 92, 224). Dr Mendoza emphasised that developing countries should have a say in how money granted to them should be spent (Q 424). Mr Kamall MEP also supported expenditure on infrastructure; private enterprise was unlikely to pay for this as it could not guarantee a long-term return on investment (Q 210). Ms Francis added that infrastructure alone would not provide a solution and that EU Member States should

encourage bodies such as UK Trade & Investment²⁷ to provide more advice to potential exporters in developing countries on how they can work with European importers and on basic issues such as packaging requirements (QQ 351, 353).

83. Dr Mendoza also suggested that Aid for Trade should include funding to help developing countries participate more fully at the WTO, including the Dispute Settlement Mechanism (Q 424). Ms Francis added that the private sector in developing countries was often left out of decisions about spending priorities and aid providers needed to do more to identify their needs (Q 351).
84. The Commission supported the principle of Aid for Trade: Lord Mandelson, in his role as European Commissioner for Trade, suggested that funds could be used to encourage poorer countries to trade with their neighbours, as this would generate economies of scale which would act as a “magnet” for foreign direct investment (Q 253). The Government supported the WTO’s role as Aid for Trade convenor, and praised the Organisation’s work to galvanise donors, but stated that it was not the right forum in which to hold donors to account (Q 580). Mr Thomas MP, Under-Secretary of State for Trade and Consumer Affairs, told us that the EU had committed to spend €2 billion per year on Aid for Trade by 2010 but cautioned that some Member States had been “late to the issue” (QQ 589–590). He highlighted infrastructure constraints (including road, rail and power supplies) and the need to reduce and harmonise customs procedures as areas to which the Government had targeted funding (Q 590). He also agreed that there was a need for donors to work with all stakeholders within a country, and NGOs, to ensure that money was spent effectively (Q 591).
85. **Support for trade capacity building in Least Developed Countries and other developing nations is required in order to allow these countries to benefit from liberalisation. While we congratulate the Government for their leadership role to date, we are concerned that Aid for Trade has been in many cases no more than a rebranding of existing or pre-planned development aid. Funds should be directed towards tangible infrastructure improvements and support and advice for potential exporters and associated domestic supply chains.**
86. **Aid for Trade must not be allowed to become a bargaining chip in multilateral trade talks: developed countries should recognise the benefits of capacity building in Least Developed Countries regardless of whether multilateral talks are continuing.**

²⁷ UK Trade & Investment is a Government organisation with responsibility for marketing the UK overseas, promoting British exports and attracting inward investment.

Economic Partnership Agreements

BOX 7

The history of Economic Partnership Agreements

Under the 1975 Lomé Convention between the EC and African, Caribbean and Pacific (ACP) countries, the EC gave substantial trade preferences as well as aid and investment to the ACP signatories. While this was primarily aimed at the former colonies of European countries, the number of ACP signatories rose as the Convention was revised and expanded in the 1980s. In the 1990s, the WTO Dispute Settlement Body ruled the Convention incompatible with WTO rules. As a result it was replaced in 2000 by the Cotonou Agreement, a broader aid and development agreement between the EU and ACP countries.

The principal difference, in terms of trade, between the Lomé Convention and the Cotonou Agreement was the ending of non-reciprocal trade agreements between the EU and the ACP countries: reciprocal Economic Partnership Agreements (EPAs) would be introduced instead. However, Least Developed Countries in the ACP could instead choose to trade under the terms of the EU's "Everything But Arms" initiative: this gives them duty and quota free access to European markets on all products other than weapons. The Cotonou Agreement stated that the Economic Partnership Agreements would come into force in January 2008; however the Agreements were not finalised by this deadline and, on the whole, remain outstanding. The Cotonou Agreement also states that the EPAs should be signed on a regional basis (via the East African Community, the Southern African Development Community, the Central African Economic and Monetary Community, the West African Economic and Monetary Union, the Caribbean Forum of ACP States, and the Pacific region).

87. Many witnesses were critical of the EU's approach to the EPA negotiations. Ms Page and Dr Stevens described the draft agreements as "a mess" (Q 18). While they acknowledged that some of the delay had been because the ACP participants were happy to take their time (Q 16), they suggested that the Commission officials able to make policy decisions had not been engaged in the negotiations until early 2007 (Q 17); and because the Commission had been slow to make its position clear, ACP countries had been unable to draw up negotiating strategies or consider applying for an alternative trading status (QQ 22, 25).
88. Mrs Kinnock MEP criticised the Commission for initially treating the EPAs as "conventional free trade negotiations based on market opening, rather than tools for development". She highlighted research findings that the Agreements will decrease ACP exports to the EU by €6.5 billion per year by 2035 (p 3). Fairtrade told us that the Commission had not involved its development staff in the process until NGOs had put pressure on them to do so in the last two years (Q 201).
89. Professor Winters highlighted the proposed EPAs' complexity and the amount of the developing countries' limited negotiating capacity they had taken up (Q 46); this problem was confirmed by Ambassador Mathurin (Q 533). Mrs Kinnock MEP, Mr Laurent and Dr Supachai noted that the EU had taken the chance to reintroduce some of the Singapore issues despite their removal from the WTO agenda (p 1, QQ 100, 403). He added that some proposed texts required market opening at a pace quicker than that felt

suitable by the developing countries, which either needed more time for their domestic industry to adjust or were currently dependent on tariffs for government funding (Q 101). Mr Kamall MEP agreed that the EU had been too aggressive, giving an example from the proposed Caribbean EPA that states that the signatories are not allowed to have ownership restrictions, thus ruling out joint ventures between local firms and overseas organisations (Q 217).

90. Dr Mendoza outlined research that the ICTSD had undertaken on the content of the proposed EPA with Caribbean countries, and the contrasts with the bilateral agreements which the EU had negotiated with developing countries in the recent past. He had found that the EPA would grant the Caribbean countries deeper and more stable access to EU markets and longer periods to phase out tariffs than the previous agreements. The EPAs required more commitment from the developing countries in the areas of intellectual property, services and investment (Q 429).
91. Ambassador Mathurin discussed her country's EPA. The Jamaican government believed the Agreement would help modernise the country's economy and raise living standards. However it also came with many challenges such as increased competition for the country's exports and an uneven distribution of benefits within the country's population. The Ambassador estimated that the combined cost to Caribbean nations of implementing the EPA (i.e. the policy and regulatory changes and loss of tariff revenue) would be €400 million (QQ 520–522).

The regional approach

92. The provision in the Cotonou Agreement requiring negotiations on a regional basis was particularly criticised. Witnesses suggested that this “divide and rule” approach put pressure on states to work together in a way that they were not used to doing (QQ 20, 46). Fairtrade noted that regional blocs required countries which were otherwise approaching war to work together (QQ 186, 197), although this had not been an issue in the Caribbean where countries used to working together had achieved more in the negotiations (QQ 197, 200). Mr Erixon questioned the approach as poorer countries had little to gain from accessing each others' relatively small markets (Q 291). Mr Kamall MEP noted that the Commission was attempting in its negotiations to “almost replicate” the EU and create regional assemblies (Q 219). More practically, we heard that draft regional texts did not cover products of significance to some countries in that region, and were inconsistent with public pronouncements on the subject (QQ 18, 197). We have also noted during our scrutiny of the interim texts published to date that there are significant issues arising from the overlapping membership of regional associations in Africa.
93. We were alarmed to hear from Mr Laurent that some countries felt that they had no choice but to enter into an EPA because the alternative—a loss of duty-free entry into Europe for products—would be “an economic disaster” (Q 103). Dr Supachai said that this had led to divisions between those countries able to agree to the terms offered to their region and those still wishing to negotiate (Q 403). Mrs Kinnock MEP stated that the Commission had thus “splintered” the regions, with some countries liberalising trade with the EU before liberalising trade with their regional neighbours; she supported stronger regional trading relationships (pp 3, 5).

94. Professor Lehmann was in favour of poorer countries working together within their regions. Although the EPA process had been venomous (Q 469), he highlighted the fact that Sub-Saharan Africa was experiencing a population explosion and it was important to make the region as economically efficient as possible. He was concerned about the possibility of a trade diverting “economic trade war” between China and the West in Sub-Saharan Africa (Q 476).
95. We welcome the recent decision taken by members of the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the South African Development Community (SADC) to form a unified trade bloc covering 26 countries.

The Commission and Government's views

96. We discussed some of the comments of other witnesses with Mr Douglas Brew, Expert/Negotiator, DG Trade, European Commission. He said that the LDCs in each region had felt under no pressure to sign an agreement as they knew that they would benefit from Everything But Arms and this had undermined efforts by the regional groupings to commence their work. He emphasised that the EU did not want to put countries under any pressure to negotiate and had extended the offer of duty- and quota-free access to countries outside the LDC category while negotiations continued. He admitted that the atmosphere in 2007 had become “very poisonous” but said that progress had been made this year since the need to meet an immediate deadline had been removed. Mr Brew emphasised that the Commission would not press any region into commitments they were unwilling to accept (Q 160). Another target for the Commission was the promotion of “value added” product processing in ACP countries rather than them exporting unprocessed raw materials (Q 161).
97. Mr Brew also defended the decision to work with regional groupings; the Commission hoped that it would encourage countries within the regions to work together on trade facilitation and speed the flow of goods through ports (Q 161). The Commission saw itself working with the regional groupings over an extended period of 15–20 years and did not see the EPA signing as a one-off event but the catalyst for continuing development (Q 162). Ms Koke added that the Commission would support regional free trade areas within the ACP countries and hoped that the EPAs could promote these (QQ 163–164). Lord Mandelson, in his role as European Commissioner for Trade, said the promotion of regional development strategies was at the “philosophical and policy core” of the EPAs and was “a better development paradigm” and “a more modern 21st Century approach to combining development and trade strategies” (Q 253). He conceded that countries did not want to be “told what to do” by the EU and that there were political tensions between countries which hindered economic integration (Q 254).
98. Mr Thomas MP, Under-Secretary of State for Trade and Consumer Affairs, admitted that the negotiating process had been “bumpy”, in part because of disagreements between Member State governments over the EU’s position. In hindsight these difficulties had had a silver lining: trade and development issues had been promoted to prime and finance ministerial level which was “enormously helpful”. He also noted that the EU had overestimated the negotiating capacity of the ACP countries. He welcomed the introduction of the EPAs and said they had two major benefits: duty- and quota-free access

to European markets for developing countries outside the LDC classification, and improvements to the Rules of Origin (QQ 583–586). (Rules of Origin are explained in Box 8, below) Lord Mandelson, Secretary of State for Business, set out why regional integration was a “key part of development strategy: “when you are considering different locations in which you might want to invest you are going to go for bigger markets and economies which are joined and have fewer barriers between them” (Q 613).

99. As part of our scrutiny function, we have considered the Caribbean, West African, Central African and Southern African interim Economic Partnership Agreements. We have noted that the proposed African Agreements do not cover every country within the blocs; the Commission has chosen to press ahead with those countries that are able to sign. In their explanatory memoranda for the documents, the Government emphasises that it is working with those African states which have not signed up to ensure their concerns over the Agreements are dealt with.²⁸
100. While scrutinising these documents, we have noted that the Government have significant concerns regarding the Southern African interim EPA. The interim EPA covers only some of the states within the existing Southern African Customs Union (SACU), and thus has the potential to disrupt the customs union, with implications for regional integration. South Africa, the largest SACU member, has not initialled the interim EPA and the Government is concerned about the feasibility of free circulation of goods in the union. The SACU agreement also prevents members from concluding new trade agreements without the consent of all.²⁹ This issue highlights the difficulties posed by the regional approach when there is no unanimity within the region.
101. In their Explanatory Memoranda, the Government also highlight concerns raised by some African countries over the inclusion of “Most Favoured Nation” clauses in the interim EPAs. These clauses would require the ACP countries to offer the same trade terms to Europe as they wish to offer to any other trading partner. They are not required for the Agreements to comply with WTO rules.
102. **The Commission’s initial handling of the EPA negotiations was far from perfect, but improvements have been made. In particular we welcome the extension of the offer of duty-free, quota-free access to negotiating partners to remove the pressure of time on the talks. The desire to encourage ACP countries to work together in regional blocs is commendable and we hope it will lead to lower tariffs within the blocs.**
103. **Where the regional approach is clearly not working we recommend that the Commission scales back its hopes for integration and instead works with individual countries: this could take place within a common framework which would enable any future regional integration. The Commission should also do more to explain its reasons for this regional approach to its critics.**

²⁸ The interim and “stepping stone” EPAs are documents 7505/08, 8012/08, 11852/08, 11862/08, 11913/08, 11958/08, 11959/08, 13314/08, 13386/08. The Government’s Explanatory Memoranda are available at <http://europeanmemorandum.cabinetoffice.gov.uk/search.aspx>

²⁹ Explanatory Memorandum 13314/08, 13386/08, submitted by the Department for International Development, 10 October 2008.

104. **We recommend that the Government monitor the remaining negotiations closely and provide the House with regular Written Statements on the progress towards agreement of the remaining EPAs, and in particular the steps they are taking to ensure that signatories are satisfied with their content.**

Rules of Origin

BOX 8

Rules of Origin

“Rules of Origin” are the tests applied to an import to determine where it was produced, for tariff purposes. The exact rules vary from country to country, and they are used to avoid third country exporters circumventing an import tariff by sending their products via a partner in a country against whom the importing country levies a lower tariff or higher quota. Tests that are applied include an examination of whether there has been a substantial transformation or the degree of local content in the country from which the import is arriving.

105. Dr Gasiorek called on the EU to make the rules of origin “significantly easier” for developing countries (Q 44). Mrs Kinnock MEP supported the World Bank and Commission for Africa recommendations that the EU should apply a “value added” rule of 10% to ACP imports, allowing African producers to import low-cost inputs, undertake some work, and then qualify for duty-free access (p 5).
106. Ms Koke told us that work is continuing on reform of the rules of origin (Q 175). Lord Mandelson, in his role as European Commissioner for Trade, told us that he would favour more simplicity and flexibility in the rules in order to allow firms in developing countries to undertake final production of products before they are exported to the developed world. He said that this, tied with the trade facilitation support provided under Aid for Trade, would allow developing countries to become part of a global supply chain and would encourage these countries to move away from reliance on exports of raw materials. However, his pro-trade stance had met opposition from European industry which feared that increased flexibility would lead to very small transformations (the Commissioner gave the example of simply adding a garment label) being sufficient to meet the Rules and which would thus expose European markets to goods from major developing countries channelled through the smaller countries (Q 253).
107. Lord Mandelson, in his role as Secretary of State for Business, noted that the Government had a similar view but recognised the potential loopholes that “big exporting countries, and China ... comes to mind” would seek to exploit (Q 609). He added that “some within the European Commission arguably have yet to be fully persuaded of the virtues of their revision” (Q 611).
108. **While the detail remains to be finalised, we support in principle moves towards a more flexible Rules of Origin regime for LDCs.**

The EU and development

109. Thus far in this chapter we have considered three specific trade and development issues to which many witnesses referred. However, we also

- sensed an underlying theme to witnesses' criticism of the Commission's policies on trade and development, which we now discuss. This theme was one of a lack of coherence in trade and development policy: supportive measures were undermined either in their own poor execution, or by other policies. For example, criticism was levelled at the Commission's and the Government's approach to supporting developing countries' trade negotiations: Ms Page said that the EU had tried to be present at the meetings of ACP regions when they were planning their EPA negotiating strategies (Q 22). She suggested that training should instead focus on how a government trade department might work.
110. Mr Brew did not accept this criticism. He said that the Commission studied what each country required, funded their attendance according to their needs, and was "very very conscious" of the need to support the countries. He noted that the EU traded more with Switzerland than with the entire ACP region and that commercial interests were not driving EU support for these countries or their development programme more generally (Q 168). Mr Kamall MEP noted that NGOs provided advice to smaller countries and did not always have a pro-liberalisation agenda (QQ 216–217).
 111. Professor Winters and Dr Gasiorek were particularly critical of the EU's attitude and rhetoric towards developing countries, as demonstrated specifically by the EPA process and its failure to follow through on proposals to reform the rules of origin (Q 47). Professor Evenett agreed and suggested that the EU could help build relations with the "rising emerging powers" who sometimes see "the WTO as the 'Western Trade Organisation'" (Q 64). He also called for more funding towards support for developing countries at the WTO (QQ 70–71).
 112. Dr Supachai told us that a valuable role for the EU and its Member States would be to provide more support to those countries that are relatively poor but do not qualify for LDC status. While LDCs were targeted for support, there was a risk that some lower "middle income" countries would drop into the LDC category as they were being largely ignored by the developed world. The high level of support for LDCs was such that some feared graduating from the category (QQ 398–399).
 113. Fairtrade was concerned that the advocates of sustainable trade within DG Trade were drowned out by their colleagues whose role was to promote European business interests: "the real issue is business. There is a lot of talk about development but it does not happen" (Q 190). The ITC also cautioned the Commission against the use of trade policy to meet other objectives, such as environmental policy, and warned that the emergence of private standards, such as the Soil Association's suggestion that air freighted imports should not receive organic certification in the United Kingdom, was undermining the EU's "well-intentioned pro-development" trade initiatives (p 4).
 114. Ms Koke explained that DG Trade's Trade & Development Unit's remit is to look at how DG Trade can ensure that policies relevant to sustainable development are "being served optimally" by the EU trade policy. She said that trade should be part of a country's wider development strategy including the development of social security systems and improved infrastructure (Q 155). Sustainable development was defined by the Commission as broad economic and social development, rather than in simple environment terms (Q 169) and we heard some examples of how poorer countries are taken

account of when other policies are being considered. The EU has never taken a trade defence measure against an ACP country and, in the likely event of a complaint, would consider development issues in balance with the economic interests of the complainant (QQ 170–172). We were also told that all bilateral agreements are subject to a “trade sustainability impact assessment” which examines the knock-on effects on LDCs before the agreement is concluded. This is made available to negotiators and is designed to ensure that no proposals will be agreed if they have a deleterious effect (QQ 174–175).

115. We asked Lord Mandelson, as Secretary of State for Business, whether he accepted that development policy in the Commission suffered from effectively being the subject matter for more than one DG.³⁰ He told us that he did not think it was the case and described the “alliance” that he had had with Commissioner for Development Louis Michel (Q 613).
116. **We are satisfied that the Commission continues to work towards the EU’s Treaty-based objective to support sustainable development of developing countries. We are also reassured that DG Trade and DG Development work together to consider the development implication of trade and liberalisation decisions. However, the Commission could do more to promote its development work.**

³⁰ DG Development leads on development and relations with ACP countries. DG Trade, DG Enlargement and DG External Relations also handle development issues.

CHAPTER 6: UNILATERAL, BILATERAL & REGIONAL LIBERALISATION

117. Alongside the WTO multilateral negotiations, liberalisation occurs through unilateral action and bilateral and regional agreements. This chapter considers these alternatives and their interaction with the multilateral process.

Unilateral liberalisation

118. Mr Erixon told us that 65–70% of all liberalisation since 1980 has been unilateral (with the remainder split between bilateral and multilateral deals) and he predicted that this would continue (QQ 287–288). Professor Evenett noted that unilateral liberalisation was a real prospect in developing countries, as governments were under pressure to demonstrate to their electorates the gains from bilateral and multilateral trade negotiations, but could take unilateral liberalising actions for their own sake (QQ 55, 62). Mr Laurent suggested that many of the unilateral concessions were in fact tied to support from the World Bank and IMF—although countries who had been made to liberalise did now recognise the benefits of liberalisation (Q 86). India and the South East Asian countries were cited as examples of countries which had chosen to liberalise unilaterally in order to attract overseas investment (QQ 140, 236). Mr Erixon noted that the EU had unilaterally liberalised on agriculture through its reforms on the CAP (Q 287).
119. Whatever the source of this liberalisation, the challenge for the WTO in the present economic environment is to find a way to ensure that countries, under pressure from the economic downturn, do not return from these positions to their bound tariff levels, and ideally to expand their application. Mr Laurent suggested that countries would not want to bind existing tariffs as they would want to maintain “policy flexibility” (Q 86). **The Government should work with developing countries to promote policies in the WTO which allow credit to be given for unilateral liberalisation in multilateral negotiations and thus encourage countries to bind their unilateral actions.**

Bilateral trade agreements

120. The number of bilateral trade agreements notified to the WTO has grown in recent years, although ICC UK noted that the rate of growth was below that of the increase in the number of WTO members over the same period (p 2). Currently there are some 200 preferential trade agreements notified to the WTO with perhaps another 100 under negotiation. The share of world trade covered by preferences is estimated at up to a third, although it is also estimated that less than half of that level actually benefits from the preferences given by the agreements.³¹
121. The ITC gave five reasons for the growth in bilateral trade agreements:
- Some agreements are a reaction to implementation of WTO agreements, and aim to maintain some preferential access to beneficiary countries.

³¹ Denis Medvedev *Preferential Trade Agreements and Their Role in World Trade*, World Bank Policy Research Working Paper 4038, October 2006.

- An attempt to align historical relationships (such as that between the EU and former colonies) with the multilateral trading system.
 - Regional political integration has driven agreements in East and South East Asia.
 - Some agreements are attempts to cover issues which are not yet in the purview of multilateral trade talks.
 - Some agreements reflect the “slow progress” in multilateral liberalisation (p 119).
122. There are disadvantages to bilateral agreements. The CBI and Professor Higgott explained that bilateral agreements distort trade flows, leading to market segmentation and higher prices for those not party to the deal (Q 74, p 4). Agreements are often asymmetrical, giving more economic benefit to the more developed partner (Q 74) although poorer countries appreciate the certainty of a secure export market (Q 89). The CBI added that some agreements include their own dispute settlement mechanism which can conflict with the WTO panels (p 4).
123. Bilateral agreements also created a complex system of overlapping rules and tariffs (commonly known as a “spaghetti bowl”) which exporters need to learn (QQ 219, 355, 442, pp 216, 226). Mr Biswas explained that in some cases exporters chose to pay a tariff as if they were in a third country rather than deal with the bureaucracy created as part of the bilateral deal (Q 43). Mr Kamall MEP recalled that the EU negotiations with South Korea had stumbled on an issue where the South Koreans were unable to give ground on account of their bilateral with the USA (Q 219). Ms Francis gave an astonishing example of trade diversion from an agreement between the USA and Central America which required the pockets of garments to be produced in the USA regardless of where the rest of the production took place (Q 356). However, IFSL argued that bilateral deals are less damaging in services than in manufactured goods (p 2).
124. The CBI also said that trade was sometimes a secondary factor to political drivers for a deal (p 4): Ms Page agreed and characterised some examples as “trade free” agreements (Q 14). Professor Lehmann argued that further reasons for bilateral agreements were to “keep people busy” in government trade departments and because politicians wanted the political kudos of reaching agreement with certain countries (Q 476). However, CIDSE³² argued that non-trade issues, including human rights and environmental protection, should be taken into account in bilateral agreements (p 223).
125. Dr Gasiorek explained that his colleagues at the University of Sussex had developed the Sussex Framework as a way of measuring the impact of free trade agreements. It examined existing trade flows, data on economic growth, inflation and unemployment and the contents of proposed agreements to examine the potential welfare costs or gains arising from the agreements. In the cases to which the Framework had been applied to date, the “very common conclusion” was that the agreements examined had slender welfare gains because of trade diversion issues (QQ 35–36).

³² International Cooperation for Development and Solidarity: an international network of Catholic development agencies.

126. Lord Mandelson, in his role as European Commissioner for Trade, provided an insight into why bilateral deals are popular despite these disadvantages. He told us that Ministers from developing countries preferred bilateral deals because they could choose the countries to whom they opened up: in particular they could avoid liberalising trade with China which they saw as a threat to their own domestic manufacturing base (Q 247).
127. Occasionally, bilateral agreements can have wider benefit. Professor Evenett told us that a number of agreements extended rules on foreign investment beyond their signatories (Q 74). Mr Kamall MEP suggested that, for smaller countries, a bilateral negotiation offered an opportunity to develop negotiating experience and skills, which could be transferred to the multilateral arena (Q 218). The ITC agreed, and also argued that bilateral deals allowed governments selectively to liberalise without incurring the wrath of domestic lobby groups which feared globalisation (p 3).
128. Ambassador Gosper, Chair of the WTO General Council, expressed regret that the Doha Round had not considered the rules that relate to bilateral and regional trade agreements to ensure that they are not used to entrench existing protected interests (Q 373).

The EU's approach

129. The EU introduced a moratorium on bilateral deal negotiations in 1999 (Q 285) in order to focus on multilateral talks, but this ended in 2006. Mr Jonathan Peel, a member of the European Economic and Social Committee, noted that the 2006 decision had seemed to indicate a lack of faith in the multilateral process at the time, but that in retrospect it appeared to be more pragmatic (p 3). In its 2006 policy document *Global Europe*, the Commission set out with which countries it would choose to negotiate bilateral Free Trade Agreements (FTAs), and the content of the FTAs:

“The key economic criteria for new FTA partners should be market potential (economic size and growth) and the level of protection against EU export interests (tariffs and non tariff barriers). We should also take account of our potential partners’ negotiations with EU competitors, the likely impact of this on EU markets and economies, as well as the risk that the preferential access to EU markets currently enjoyed by our neighbouring and developing country partners may be eroded.

“Based on these criteria, ASEAN, Korea and Mercosur (with whom negotiations are ongoing) emerge as priorities. They combine high levels of protection with large market potential and they are active in concluding FTAs with EU competitors. India, Russia and the Gulf Co-operation Council (negotiations also currently active) also have combinations of market potential and levels of protection which make them of direct interest to the EU. China also meets many of these criteria, but requires special attention because of the opportunities and risks it presents.

“FTAs would need to be comprehensive and ambitious in coverage, aiming at the highest possible degree of trade liberalisation including far-reaching liberalisation of services and investment ... Where our partners have signed FTAs with other countries that are competitors to the EU, we should seek full parity at least. Quantitative import restrictions and

all forms of duties, taxes, charges and restrictions on exports should be eliminated.

“FTAs should also tackle non tariff barriers through regulatory convergence wherever possible and contain strong trade facilitation provisions. They should include stronger provisions for IPR and competition, including for example provisions on enforcement of IP rights along the lines of the EC Enforcement Directive. We will seek to include provisions on good governance in financial, tax and judicial areas where appropriate. We should also ensure Rules of Origin in FTAs are simpler and more modern and reflect the realities of globalisation. We will put in place internal mechanisms to monitor the implementation and the results of new FTAs.

“In considering new FTAs, we will need to work to strengthen sustainable development through our bilateral trade relations.”³³

130. Dr Balas told us that he expected the majority of Member States to support a move towards bilateral deals to fill the vacuum created by the inability to conclude a multilateral deal this year; European business was reporting that bilateral agreements already signed between Asian nations were having a negative impact on European exports (Q 114). Lord Mandelson, in his role as European Commissioner for Trade, was blunter and explained why he had begun bilateral talks in 2006: “I wanted to be ready for what I anticipated would be the completion of the Doha Round in 2007 ... and, also, because in the event of the multilateral talks failing, I felt Europe should be in a position where it could make up, in trade terms through bilateral agreements, some of what it had, I hope, temporarily lost through the temporary failure of the multilateral. I cannot stand still. I cannot see the United States or Japan and others concluding bilateral agreements of their own and have Europe left so far behind the curve” (Q 257).
131. Mrs Kinnock MEP criticised the Commission’s approach, arguing that bilateral negotiations undermined the multilateral approach and saying that FTAs would harm non-signatories in nearly every case (p 238). None of the industry groups which submitted evidence objected to the Commission’s approach and choice of partners, particularly given the slow progress of the multilateral talks (pp 214, 218, 226, 234, 246). The Sporting Goods Industry Association and EEF/UK Steel added that the Commission should focus on removing raw material export restrictions during its negotiations (pp 228, 246).
132. Prior to the July Ministerial, we asked Lord Mandelson, in his role as European Commissioner for Trade, whether, given that the multilateral talks had not concluded, the aims set out in *Global Europe* remained compatible with continued negotiations at the WTO. He said that the multilateral deals sat alongside the plurilateral and bilateral deals, with the latter extending benefits to trading partners that it was not possible to secure through the multilateral process. The bilateral deals that the EU hoped to sign would not be narrow and trade diverting but WTO compliant, trade creating and capable of multilateral expansion (QQ 247, 256). In addition, he made it clear that he would not focus on agreements with other developed countries as to do so would damage international trade (Q 260)

³³ COM (2006) 567

133. Dr Balas was not optimistic about the possibilities of plurilateral agreements (Q 125). His colleague Mr Garzotti provided us with an update on negotiating priorities: in India and Korea, the EU is working to address competitiveness issues for EU firms; talks with the Gulf Co-operation Council have market access as the priority (Q 145).
134. We also asked the European Commission about the inclusion of social clauses in bilateral trade agreements. Mr Gareth Steel, Expert, Sustainable Development, DG Trade, European Commission, said that requiring potential trade partners to reform their social practices (such as labour or environmental standards) would be counter-productive. He noted that these practices had not been put in place to act as trade barriers and that bilateral agreements were a chance to discuss good practice and encourage co-operation on social issues (QQ 151–152). (Fairtrade agreed and advocated a stronger role for the International Labour Organisation to enforce labour rights (Q 206).) Mr Jean Charles van Eeckhaute, Deputy Head of Unit, Policy Coordination, DG Trade, European Commission, noted that there were strong demands within the European Parliament for a more coercive approach to these issues (Q 152). We did not collect enough evidence to be able conclude on social clauses.
135. We also heard evidence of a lack of capacity to handle multilateral and bilateral negotiations concurrently. BusinessEurope, which supported the development of bilateral agreements, including in the long term those with other OECD countries, noted that India was prioritising its resources towards the WTO talks to the extent that it was delaying the bilateral talks with the EU (Q 274). Mr Peel expressed a concern that the Commission might face similar resource shortages (p 3). ICC UK suggested that the Commission should systematically undertake an impact assessment of any proposed bilateral deal involving the EU, to include its consistency with the WTO rules, the impact upon rules of origin (see chapter five), compatibility of regulatory structures and standards, and the proposal's impact upon the Commission's administrative capacity to negotiate multilateral agreements (p 3).
136. Mr Thomas MP, Under-Secretary of State for Trade and Consumer Affairs, told us that the failure of the July WTO Ministerial to agree a deal would lead to these potential bilateral agreements receiving greater attention and, he hoped, accelerated progress towards their conclusion (Q 568).

Blending bilateral and multilateral agreements

137. The ITC and Mr Biswas suggested that, over time, as the “spaghetti bowl” got increasingly complex, pressure from business would lead to renewed interest in either a multilateral approach or agreements between the major regional trade blocs (p 2, QQ 442–448). If the latter were to occur, Mr Biswas expected that LDCs not included in free trade agreements would be brought in through a WTO multilateral deal (QQ 442–448). He outlined two scenarios for the future: the first saw bilateral deals working alongside the WTO process, with the WTO working to multilateralise bilateral deals; the second saw bilateral agreements taking over from the WTO and the Organisation becoming paralysed (QQ 453–455).

138. Professor Higgott summed up the view of many witnesses when he outlined the approach of the Warwick Commission³⁴: “it was not sufficient ... simply to condemn the rise of preferential trading arrangements. Recognising that they are sub-optimal is not a sufficient reason for saying they will go away, so the question was: ‘How do you live with these arrangements?’” (Q 48). His colleague Professor Evenett suggested that the WTO should do more to publicise the contents of newly signed bilateral agreements and promote those clauses in agreements which had broad trade promotion effects. This would require placing the transparency mechanism of the WTO, adopted in December 2006, on a permanent footing (Q 74). Mr Lamy accepted that the WTO rules concerning bilateral agreements could be clearer (Q 416). The Commission also supported an enhanced role for the WTO in monitoring bilateral agreements (Q 130).
139. Ambassador Falconer, Chair of the WTO Negotiating Group on Agriculture, expected the WTO to maintain a central role, but as a consolidator of national decisions rather than a body “that changes the way people do things”. Barriers to trade would fall unilaterally or bilaterally, and the Organisation would be the place where states “promised” to their “fellow states in the international community not to do certain things” (Q 513). ICC UK suggested that, with this approach, bilateral deals would be the “building blocks” of future rounds of multilateral liberalisation (p 242).
140. **We recognise that bilateral agreements are now a fixture of the trade negotiation landscape, and they can contribute to economic growth and liberalisation, both by making progress beyond the WTO remit and acting as the foundations for future multilateral deals. Some witnesses took the view that their proliferation has not been conducive to a multilateral settlement. To minimise the risk we recommend that the Government and the Commission should work with the WTO to enhance the Organisation’s role in the monitoring of bilateral negotiations, and allow it to encourage good practice and the inclusion of provisions in bilateral agreements which help to minimise damage to non-signatories.**
141. **The Commission’s work on bilateral agreements has not undermined its commitment to multilateral trade agreements. We were particularly reassured that the previous Commissioner opposed agreements with developed nations which would freeze out poorer countries and hope that the new Commissioner will maintain this stance. We recommend that the Government and the Commission look at ways to help developing countries deal with the complexities of negotiating bilateral agreements, and welcome the Government’s commitment of funds for this purpose. Aid for Trade facility is a suitable source of funds for such help and the Sussex Framework one possible instrument.**

³⁴ The 2007 Warwick Commission, coordinated by the University of Warwick, was a group of international trade practitioners and analysts who considered the multilateral trading system.

CHAPTER 7: THE ROLE OF THE WTO

142. It has been argued that the inability to conclude a trade round would damage all of the WTO's functions. This is known as the "bicycle theory" on the basis that the Organisation has to move forward to stay upright (QQ 134, 497). Lord Mandelson, Secretary of State for Business, was confident that the WTO would continue to function but cautioned that "many countries' attachment to the WTO, and its machinery too, could be weakened" if the Round did not reach a conclusion (Q 605). Mr Lamy described failure as a "big geopolitical problem" (Q 417).
143. Several witnesses, including Mr Lamy, Lord Mandelson, as European Commissioner for Trade, Commission staff, and Professor Lehmann also drew parallels between WTO-based trade talks and negotiations on other subjects where consensus would be important, such as climate change and security. They argued that a failure to conclude trade talks would not bode well for talks on these other global problems (QQ 134, 258–259, 417, 422, 456). In particular, Professor Lehmann noted that, compared to these other issues, trade was a "win-win", making the talks "not only an intellectual exercise but an important exercise for the planet" (Q 456).
144. On the other hand, Professor Higgott suggested that many countries were attaching a decreasing level of importance to the global institutions and that the breakdown of the multilateral talks was a symptom of this (Q 57); we were also told that this change in attitude was a reflection of the governance structures of some of the institutions which did not always reflect countries modern relative strengths (Q 482).³⁵ Although Professor Higgot's evidence was given to us in June, before the recent financial market bailouts, Mr de Jonquières echoed it when he wrote in October that participants looking to reform the global institutions may not have the time and energy needed to strengthen the WTO (p 11).
145. Mr Lamy said politicians used the WTO as "insurance policy ... against protectionist surges". He described it as a "member driven organisation", moving at the speed that the members chose (Q 416).
146. Lord Mandelson, Secretary of State for Business, highlighted the role Mr Lamy had played in the Round: "my admiration for Pascal Lamy knows almost no bounds. His energy, his stamina, his technical grasp and his ability to operate politically amongst so many cross-cutting interests and issues really was remarkably impressive" (Q 594). **We endorse the Minister's praise for Mr Lamy, and welcome the Government's support for his decision to seek a second term as Director-General of the WTO.**
147. Ambassador Stephenson, Chair of the WTO Negotiating Group on Market Access, told us that attempts over the past four years to review the WTO decision making process had been avoided while the Round negotiations were live. He felt that a hiatus in the negotiations would be an opportunity to commence a "real debate" (Q 490). With this in mind, we now examine whether the existing approach of a single agreement, resolved by consensus, remains realistic in a WTO of over 150 members.

³⁵ The July 1944 conference in Bretton Woods led to the creation of the International Monetary Fund, the International Bank for Reconstruction and Development, and the General Agreement on Tariffs and Trade (the forerunner of the WTO). Recent events have led to the promotion of reforms to these organisations.

Consensus

148. Despite the difficulties involved in reaching a consensus—Dr Balas highlighted this as a key difficulty in the Round (Q 109)—witnesses remained committed to the current decision-making process. Mr Garzotti emphasised this point: “[The WTO] is not like other institutions where you have one dollar one vote, this is one country one vote” (Q 130). He argued that granting all members equal standing and requiring unanimity gave more strength to developing countries than is the case in other organisations (Q 132). The Government described equal voting rights for members as “the great strength” of the WTO (Q 572).
149. However, while consensus in the decision-making process is the theory, some witnesses suggested that this did not happen in practice. Fairtrade noted that organisations such as the EU could afford to bring “hundreds of specialist negotiators” to talks as opposed to “one or two” from smaller countries. She argued that this meant negotiating power was “completely different” between WTO members (Q 179). During the Ministerial, Mr Lamy held separate meetings of leading trade powers: while an agreement between these parties would have resolved many of the issues on the table, it would probably have created a sense of exclusion amongst smaller nations. However, Mr van Eeckhaute added that Mr Lamy had taken steps to improve the representation of the poorer countries in the informal decision-making groups within the WTO (Q 133).
150. Ambassador Falconer, Chair of the WTO Negotiating Group on Agriculture, cautioned that the Organisation was at the limit of unanimity and thought that the groupings (outlined in Box 1) might become more solid than in the past (Q 513). Ambassador Mathurin said that having the groups of countries speak as one greatly assisted the negotiating process as they were able to pool responsibility and expertise (QQ 531–533).
151. Mr Garzotti added that role of the WTO Secretariat and the Director General in negotiations could be strengthened, for example by allowing them to propose compromise texts (Q 130). Mr Lamy highlighted the member-driven process to initiate new proposals as a source of delays to the negotiations, although he did not go as far as suggesting that the WTO should have the right of initiative (Q 419).
152. Mr Lamy was unequivocal about the advantages of consensus: he told us that developing countries had invested in the WTO not only because of a desire to expand trade but because it was the international organisation where the “decision making and governance system is the most flexible to their interests. We do not have a security council, veto rights which have been inherited from 60 years ago, quotas, voting rights, we do not have to spend five years to transfer 1.5 per cent of voting rights from Belgium to Brazil” (Q 417).
153. Mr Thomas MP, Under-Secretary of State for Trade and Consumer Affairs, told us that the Government did not have a definitive position on a reform agenda for the WTO, and said that it was an area that they planned to examine, possibly as soon as this autumn. He reported that there had been no debate on this subject between EU Trade Ministers (QQ 572–574).

The single undertaking

154. At a press conference after the collapse of the Ministerial talks, Mr Lamy drew an analogy between the principle that the talks produce a “single undertaking” and the construction of a cathedral: “First you have the vague idea for a cathedral, then plans for the cathedral, then you have to start adding chapels everywhere. The fundamental reality is that it has become too complex.”³⁶ However, he also made clear that any changes to the principle of the single undertaking should not be made retrospectively to the Doha Declaration, and that this Round should continue under the principle.
155. Mr Peel stated that the concept of the single undertaking needed revisiting to prevent agreed advances from being lost (p 2). Professor Higgott and Professor Evenett advocated allowing WTO members with particular interests to be allowed to negotiate upon them separately, as long as this was done in a way that allowed other members to join in if they desired, and the usual WTO negotiating principles (e.g. all trading partners are treated equally) were respected (QQ 58–59). Dr Supachai explained that multilateral solutions would always be the first choice but that the “variable geometry” of plurilateral agreements could work better (Q 406). Despite acknowledging the benefits of the plurilateral approach, Ambassador Stephenson, Chair of the WTO Negotiating Group on Market Access, preferred the multilateral approach (QQ 495–496).
156. Emphasising it was a personal view, Ambassador Gosper, Chair of the WTO General Council, foresaw increased use of “critical mass sectoral agreements”, i.e. agreements applying to a particular industry or product which come into force once countries representing an agreed percentage of world trade sign up to them (Q 376).³⁷ Dr Mendoza concurred (Q 434). Mr Lamy also indicated he would be content with this approach as long as the principle of non-discrimination (i.e. liberalisation is made available to all rather than just the participants in the agreement) was maintained (Q 420).
157. Dr Balas implied that the EU preferred a single undertaking: he said that the EU was offering agricultural subsidy cuts to be weighed against improvements in industrial tariffs elsewhere (QQ 117–121). Similarly, Mr Thomas MP, Under-Secretary of State for Trade and Consumer Affairs, made it clear that services liberalisation would be balanced with market opening in agriculture and industrial markets (Q 561–563).

Other roles for the WTO

158. No witnesses suggested radical departures from the WTO’s existing role, although several suggested that some of its other functions, away from the facilitation of multilateral negotiations, should be strengthened. These functions are the Dispute Settlement Mechanism (discussed in chapter four) and monitoring individual members’ trade policy and regional and bilateral trade agreements made outside the WTO.
159. Ambassador Falconer, Chair of the WTO Negotiating Group on Agriculture, suggested there was a policy vacuum in international trade and that the Organisation could move to fill this by undertaking more research and peer

³⁶ *Financial Times* 31 July 2008

³⁷ An example is the 1997 Information Technology Agreement, which signatories agreed would come into force once WTO members comprising 90% of trade in the products it covered had signed up.

review work (Q 509). He also argued that the challenge over the next ten years would be how to marry up the contractual set of relationships between states in trade policy, with political relationships in other policies (Q 514). Dr Mendoza expected that the remit of the Organisation would naturally evolve to incorporate these other issues which are beginning to affect trade, including climate change (Q 432). Dr Supachai used the current trend towards measuring carbon footprints as an example of a potential, and controversial, protectionist measure that he expected the WTO to be asked to look at in the future (Q 406).³⁸ He feared that the need to rely on scientific confirmation and research would make the WTO's role "very complicated" (Q 406). Mr Thomas MP, Under-Secretary of State for Trade and Consumer Affairs, repeated that the Government had not formed a view on changes to the WTO's role or remit (QQ 575–576, 580).

160. The European Commission made several suggestions about the future of the WTO. Mr Garzotti suggested that the WTO should expand its role in monitoring and promoting transparency in bilateral and regional trade agreements, and that links between the WTO and national parliaments should be strengthened (Q 130). Mr Erixon proposed a similar role. The WTO secretariat already undertook a large amount of research and analysis of trade agreements, but the membership had constrained what it had published. Expansion of this role would only require the members' agreement rather than a significant change to the organisation (QQ 275–277).
161. **Although the focus of WTO members' attention should be on completing the Round, it is not too soon to examine the future of the WTO. While the existing Round should be completed under the current rules, discussions about the Organisation's future should not wait until the end of the Round.**
162. 10 countries represent 80% of world trade and 50 countries in excess of 90% which raises the question of why the other 100 WTO members have jointly or severally a veto. **The consensual approach to agreement should remain a fundamental tenet of the WTO. It is no longer appropriate however that the Organisation should move at the speed of the slowest or most cautious. We therefore support an extension of the plurilateral approach to negotiations. If groups of WTO members wish to negotiate agreements on particular subjects, within the consensual approach and on terms which they then make open to all WTO members, they should be allowed to do so.**
163. **The WTO should also undertake work to promote unilateral liberalisation and encourage members to set applied tariffs at rates below their bound levels. We also support calls for the WTO to strengthen its research and monitoring work with a view to encouraging more liberalisation among members.**
164. **WTO members should not underestimate the value of the functions performed by the Organisation outside of the multilateral trade negotiations. We look forward to the Government's work on the role and structure of the WTO and invite them to detail their emerging conclusions in the response to this report.**

³⁸ Dr Supachai gave an example from this debate: he told us that the carbon footprint of flowers imported by air from Africa to Europe was lower than that of flowers grown in heated greenhouses in Europe.

165. **We welcome the support given to the principle of free trade by the November G20 summit and believe that it bodes well for the future of the WTO. We share Mr Lamy's confidence that the WTO will be supported by its members, but we are concerned that actions members may take, such as the conclusion of unambitious bilateral agreements or increased protectionism, could undermine the Organisation. The WTO is of crucial importance to the wellbeing of the global economy, with a vital role to play in the current financial turmoil, and it must not be allowed to decline. The rule-making function and above all the dispute settlement system must be kept in good health even if traditional multilateral liberalisation is making slow progress.**

CHAPTER 8: SUMMARY OF CONCLUSIONS

The need for trade

166. We have not heard anything in this inquiry to change the conclusion of our 2004 inquiry on trade policy: we recommend that the Government continues to pursue further trade liberalisation through the EU as an important policy objective. This should be fully consistent with the EU's development objectives, including the reduction of poverty in developing countries. The continued removal of trade barriers will lead to greater economic growth and jobs around the world. This growth is shared between developed and developing countries alike. A global recession will be made worse if there is a retreat into protectionism (para 17).
167. The impact of commodity price volatility during 2008 on EU trade policy was limited to protectionist rhetoric rather than actions. We hope that EU Member States do not use the current economic environment as an excuse to delay or even roll back reforms of the Common Agricultural Policy.³⁹ We ask the Government to work with EU partners to ensure that trade liberalisation contributes to improving food security in developing countries (para 21).

The Doha Round

168. We are disappointed that the Doha Round is yet to reach a successful conclusion and are concerned that a global recession will increase pressure for protectionist measures. We therefore welcome the decision of the leaders of the G20 countries to use their November summit as a springboard towards further Ministerial meetings on the Doha Round. We commend the UK Government, Lord Mandelson (in his former role as Commissioner for Trade) and the Commission for their work to date. We welcome Commissioner Ashton's announced commitment to work to revitalise the multilateral talks at the start of her tenure as Commissioner for Trade (para 54).
169. We call on the Government and the Commission to make every effort to ensure that the positive rhetoric arising from the G20 summit is translated into action and a successful conclusion to the Round. The Government should also work with the incoming administration in the United States to emphasise the importance of trade liberalisation (para 55).
170. We are concerned about the pace of services negotiations, especially as this is the area in which the UK has the most to gain from the Doha Round. Services negotiations require more attention because of the range of issues involved. We would encourage the business community to be more vigorous in advocating the completion of the Round (para 56).
171. The Singapore issues should be revisited outside of the Doha Round (para 57).
172. A Round in which WTO members bound tariffs at existing applied tariff rates would not be a failure: we do not take the current, historically low, levels of tariffs for granted. The embedding of current low levels of protection at a time when the global economy is facing a turbulent period

³⁹ We have recently discussed the Common Agricultural Policy: European Union Committee, 7th Report (2007–08): *The Future of the Common Agricultural Policy* (HL 54).

featuring volatile raw material prices and a likely economic contraction would be a very real gain (para 58).

173. We would prefer to see continued reform of the Common Agricultural Policy for its own sake, although further reductions in agricultural support would also allow the EU to offer still larger cuts in agricultural tariffs. Although it was at the periphery of the area of dispute in this summer's talks, the EU retains a central position in international trade negotiations and will need to maintain and strengthen its role as a promoter of liberalisation (para 59).

Trade disputes

174. We are disappointed that the Commission has not made progress on reforms to the anti-dumping rules and ask the Government to work with other Member States to prioritise this work (para 66).
175. Because its rulings have largely been accepted, the WTO Dispute Settlement Mechanism has generally been a success, although smaller participants have faced delays and third parties may be prejudiced by the outcome of cases between larger parties. We do recognise the need for support for Least Developed Countries and non-combatants to participate; more should be done to promote transparency. We look forward to the Government's proposals for these changes (para 75).

Trade and development

176. Support for trade capacity building in Least Developed Countries and other developing nations is required in order to allow these countries to benefit from liberalisation. While we congratulate the Government for their leadership role to date, we are concerned that Aid for Trade has been in many cases no more than a rebranding of existing or pre-planned development aid. Funds should be directed towards tangible infrastructure improvements and support and advice for potential exporters and associated domestic supply chains (para 85).
177. Aid for Trade must not be allowed to become a bargaining chip in multilateral trade talks: developed countries should recognise the benefits of capacity building in Least Developed Countries regardless of whether multilateral talks are continuing (para 86).
178. The Commission's initial handling of the EPA negotiations was far from perfect, but improvements have been made. In particular we welcome the extension of the offer of duty-free, quota-free access to negotiating partners to remove the pressure of time on the talks. The desire to encourage ACP countries to work together in regional blocs is commendable and we hope it will lead to lower tariffs within the blocs (para 102).
179. Where the regional approach is clearly not working we recommend that the Commission scales back its hopes for integration and instead works with individual countries: this could take place within a common framework which would enable any future regional integration. The Commission should also do more to explain its reasons for this regional approach to its critics (para 103).
180. We recommend that the Government monitor the remaining negotiations closely and provide the House with regular Written Statements on the progress towards agreement of the remaining EPAs, and in particular the

steps they are taking to ensure that signatories are satisfied with their content (para 104).

181. While the detail remains to be finalised, we support in principle moves towards a more flexible Rules of Origin regime for LDCs (para 108).
182. We are satisfied that the Commission continues to work towards the EU's Treaty-based objective to support sustainable development of developing countries. We are also reassured that DG Trade and DG Development work together to consider the development implication of trade and liberalisation decisions. However, the Commission could do more to promote its development work (para 116).

Unilateral, bilateral & regional liberalisation

183. The Government should work with developing countries to promote policies in the WTO which allow credit to be given for unilateral liberalisation in multilateral negotiations and thus encourage countries to bind their unilateral actions (para 119).
184. We recognise that bilateral agreements are now a fixture of the trade negotiation landscape, and they can contribute to economic growth and liberalisation, both by making progress beyond the WTO remit and acting as the foundations for future multilateral deals. Some witnesses took the view that their proliferation has not been conducive to a multilateral settlement. To minimise the risk we recommend that the Government and the Commission should work with the WTO to enhance the Organisation's role in the monitoring of bilateral negotiations, and allow it to encourage good practice and the inclusion of provisions in bilateral agreements which help to minimise damage to non-signatories (para 140).
185. The Commission's work on bilateral agreements has not undermined its commitment to multilateral trade agreements. We were particularly reassured that the previous Commissioner opposed agreements with developed nations which would freeze out poorer countries and hope that the new Commissioner will maintain this stance. We recommend that the Government and the Commission look at ways to help developing countries deal with the complexities of negotiating bilateral agreements, and welcome the Government's commitment of funds for this purpose. Aid for Trade facility is a suitable source of funds for such help and the Sussex Framework one possible instrument (para 141).

The role of the WTO

186. We endorse the Minister's praise for Mr Lamy, and welcome the Government's support for his decision to seek a second term as Director-General of the WTO (para 146).
187. Although the focus of WTO members' attention should be on completing the Round, it is not too soon to examine the future of the WTO. While the existing Round should be completed under the current rules, discussions about the Organisation's future should not wait until the end of the Round (para 161).
188. The consensual approach to agreement should remain a fundamental tenet of the WTO. It is no longer appropriate however that the Organisation should move at the speed of the slowest or most cautious. We therefore

support an extension of the plurilateral approach to negotiations. If groups of WTO members wish to negotiate agreements on particular subjects, within the consensual approach and on terms which they then make open to all WTO members, they should be allowed to do so (para 162).

189. The WTO should also undertake work to promote unilateral liberalisation and encourage members to set applied tariffs at rates below their bound levels. We also support calls for the WTO to strengthen its research and monitoring work with a view to encouraging more liberalisation among members (para 163).
190. WTO members should not underestimate the value of the functions performed by the Organisation outside of the multilateral trade negotiations. We look forward to the Government's work on the role and structure of the WTO and invite them to detail their emerging conclusions in the response to this report (para 164).
191. We welcome the support given to the principle of free trade by the November G20 summit and believe that it bodes well for the future of the WTO. We share Mr Lamy's confidence that the WTO will be supported by its members, but we are concerned that actions members may take, such as the conclusion of unambitious bilateral agreements or increased protectionism, could undermine the Organisation. The WTO is of crucial importance to the wellbeing of the global economy, with a vital role to play in the current financial turmoil, and it must not be allowed to decline. The rule-making function and above all the dispute settlement system must be kept in good health even if traditional multilateral liberalisation is making slow progress (para 165).

APPENDIX 1: SUB-COMMITTEE A (ECONOMIC AND FINANCIAL AFFAIRS, AND INTERNATIONAL TRADE)

Sub-Committee A

The members of the Sub-Committee which conducted this inquiry were:

- Baroness Cohen of Pimlico (Chairman)
- Lord Haskins
- Lord Kerr of Kinlochard
- Lord Maclennan of Rogart
- Lord Moser
- Lord Renton of Mount Harry
- Lord Steinberg
- Lord Trimble
- Lord Watson of Richmond
- Lord Woolmer of Leeds

Declaration of Interests

A full list of Members' interests can be found in the Register of Lords Interests:

<http://www.publications.parliament.uk/pa/ld/ldreg.htm>

APPENDIX 2: LIST OF WITNESSES

The following witnesses gave evidence. Those marked ** gave both oral and written evidence; those marked * gave oral evidence only

- ** British Bankers Association (BBA)
- British Ceramic Confederation
- * BusinessEurope
- Confederation of Business Industry (CBI)
- * Commonwealth Secretariat
- Coopération Internationale pour le Développement et la Solidarité (CIDSE)
- ** DG Trade, European Commission
- * European Centre for International Political Economy (ECIPE)
- EEF and UK Steel
- ** Professor Simon Evenett, University of St Gallen, Switzerland
- * Fair Trade
- * Ambassador Crawford Falconer, Permanent Representative of New Zealand and Chair of the WTO Agriculture Negotiations
- Food and Drink Federation
- * Dr Michael Gasiorek, Dr Peter Holmes and Professor L. Alan Winters, Sussex University
- * Ambassador Bruce Gosper, Permanent Representative of Australia to the WTO
- * Professor Richard Higgott, University of Warwick
- * International Centre for Trade and Sustainable Development
- International Chamber of Commerce
- ** International Finances Services London
- ** International Trade Centre
- ** Mr Guy de Jonquières, Senior Fellow, Chatham House
- * Mr Syed Kamall MEP, European Parliament
- Ms Linda Kaucher, Researcher, London School of Economics (LSE)
- Ms Glenys Kinnock MEP, European Parliament
- * Professor Jean-Pierre Lehmann, the Evian Group at IMD Business School
- * Rt Hon the Lord Mandelson (as EU Commissioner for External Trade, European Commission)
- * Rt Hon the Lord Mandelson, Secretary of State, Department for Business, Enterprise and Regulatory Reform (BERR)
- * Ambassador Gail Mathurin, Permanent Representative of Jamaica and Coordinator of the ACP Group
- * Overseas Development Institute

Mr Jonathan Peel, European Economic and Social Committee

- * Ambassador Don Stephenson, Permanent Representative of Canada to the WTO
 - * Mr Gareth Thomas MP, Parliamentary Under Secretary of State for Trade and Consumer Affairs, Mr Eoin Parker, Department for Business, Enterprise and Regulatory Reform (BERR), Ms Fiona Shera and Ms Mandeep Grewal, Department for International Development (DfID)
- UK Sporting Goods Industry
- * United Nations Conference on Trade and Development (UNCTAD)
 - ** World Trade Organisation

We would like to take the opportunity to thank all our witnesses for their submissions to our inquiry.

APPENDIX 3: CALL FOR EVIDENCE

Multilateral negotiations to reduce trade tariffs have been a feature of the second half of the twentieth century. However as we enter the twenty first century, securing a new multilateral agreement has proved increasingly difficult, and the number of bilateral agreements is rising. Levels of trade and capital flows continue to grow, and enhancements in information technology have created unprecedented opportunities for trade development, alongside new pressures on natural resources. With these factors in mind, the Sub-Committee under the Chairmanship of Baroness Cohen of Pimlico, has decided to commence an inquiry into the future of European trade policy.

The inquiry will seek to answer the following key questions:

What are the future prospects for multilateral trade negotiations? What effect will the rising number of bilateral agreements have on the existence and further development of multilateral agreements?

What role can European trade policy play to stimulate growth and create jobs in Europe?

What should be the relationship between European trade policy and policies on development, climate change and depletion of natural resources?

Have developing countries benefited from multilateral trade agreements? What steps should European trade policy take to help less developed countries reap the benefits of global trade?

Is there still a need for Trade Defence Instruments, and if so, how can these be designed to ensure that their effects are targeted and proportionate?

What is the best approach for ensuring that Intellectual Property Rights are protected? Do these rights hinder development goals—and if so, how can an appropriate balance be struck?

Services represent 77% of European GDP and employment. What are the best mechanisms to remove barriers to trade in services? Is the GATS still fit for purpose?

Is there still a role for the WTO in the 21st Century?

APPENDIX 4: GLOSSARY

ACP	African, Caribbean and Pacific Countries
ASEAN	Association of Southeast Asian Nations
BBA	British Bankers' Association
BERR	Department for Business, Enterprise and Regulatory Reform
CAP	Common Agricultural Policy
CARIFORUM	Caribbean Forum of ACP States
CBI	Confederation of Business Industry
CEO	Chief Executive Officer
CIDSE	Coopération Internationale pour le Développement at la Solidarité
COMESA	Common Market for Eastern and Southern Africa
DfID	Department for International Development
DG Trade	Directorate-General for Trade Policy, European Commission
EAC	East African Community
ECIPE	European Centre for International Political Economy
EPA	Economic Partnership Agreement
EU	European Union
FTA	Free Trade Agreement
FYR	Former Yugoslav Republic
GDP	Gross Domestic Product
ICC UK	International Chamber of Commerce UK
ICTSD	International Centre for Trade and Sustainable Development
IFSL	International Financial Services London
IMD	Institute for Management Development (Business School at Lausanne University)
IMF	International Monetary Fund
ITC	International Trade Centre
LDC	Least Developed Countries
MEP	Member of the European Parliament
MP	Member of Parliament
NAMA	Non-Agricultural Market Access
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Cooperation and Development
SACU	South African Customs Union
SADC	South African Development Community
USA	United States of America
UNCTAD	United Nations Conference on Trade and Development
UAE	United Arab Emirates
WTO	World Trade Organisation

APPENDIX 5: REPORTS

Recent Reports from the Select Committee

EUROPOL: Coordinating the fight against serious and organised crime (29th Report session 2007–2008, HL Paper 183)

Evidence from the Minister for Europe on the June European Council (28th Report session 2007–2008, HL Paper 176)

The EU's Target for Renewable Energy: 20% by 2020 (27th Report session 2007–2008, HL Paper 175)

Working Time and Temporary Agency Workers: towards EU agreement (26th Report session 2007–2008, HL Paper 170)

Current Developments in European Foreign Policy (25th Report session 2007–2008, HL Paper 169)

Session 2007–2008 Reports prepared by Sub-Committee A

The Future of EU Regional Policy (19th Report, HL Paper 141)

The 2009 EC Budget (18th Report, HL Paper 140)

The euro (13th Report, HL Paper 90)

Solvency II (6th Report, HL Paper 42)

Current Developments in European Trade Policy (1st Report, HL Paper 8)

Other Relevant Reports prepared by Sub-Committee A

The World Trade Organization: the Hong King Ministerial 13th–18th December (17th Report session 2005–06, HL Paper 77)

Proposal to ban trade in products used for capital punishment or torture (8th Report session 2004–05, HL Paper 75)

The World Trade Organization: the role of the EU post-Cancún (16th Report session 2003–04, HL Paper 104)

The World Trade Organisation: the EU mandate after Seattle (10th Report session 1999–2000, HL Paper 76)

Minutes of Evidence

TAKEN BEFORE THE COMMITTEE ON THE EUROPEAN UNION
(SUB-COMMITTEE A)

TUESDAY 6 MAY 2008

Present: Cohen of Pimlico, B (Chairman) Moser, L
Kerr of Kinlochard, L Trimble, L

Examination of Witnesses

Witnesses: MR GUY DE JONQUIÈRES, Senior Fellow, Chatham House, DR CHRISTOPHER STEVENS, Overseas Development Institute, and Ms SHEILA PAGE, Overseas Development Institute, examined.

Chairman: Good morning, thank you very much for coming. Can I first remind you that our sessions are all recorded and we do also have a full transcript which you will get to see. Can I remind members on this side that neither of the organisations before us has submitted written evidence; so we are going to have to elicit from the witnesses anything that we wish to get into evidence. The same applies to the witnesses, we cannot use recent articles, we use what we get here or written evidence specifically submitted. Since we feel we know your views or we have evidence of your views we might dispense with the normal opening statements and launch into questions; if that is all right with you I will do that. Lord Kerr.

Q1 Lord Kerr of Kinlochard: Could I ask Mr de Jonquières first how he sees the prospect for the current Doha round multilateral trade negotiations and whether he thinks it is on life support, is going to pull through, or is not going to pull through.

Mr de Jonquières: The most optimistic thing I would say about it is that if it does pull through it is going to produce a relatively modest package at the end of the day, which will be chiefly in the area of agriculture; on services there is virtually nothing, on industrial tariffs there is not a great deal and on rules it is a pretty slim agenda as well. I have learnt over time—ten years as the *FT*'s world trade editor—about the hazards of predicting the way these things will go. I suppose I would say it is about 50-50 at the moment, but the political timetable does not look very promising, chiefly due to the US elections. There was a flurry of excitement about three weeks ago that maybe it was all about to happen, but the reason given as far as I could see was chiefly that George Bush wanted a legacy, which did not seem to me to be very convincing, and in any case does not answer the question of how would Congress deal with it and how would an ex-President deal with it because it certainly would not go through before January 20 of next year. All the signs coming out of the Congress, which will

undoubtedly be Democrat-dominated next time round, are that the Democrats are continuing to cool on trade, even if one bears off for the usual protectionist rhetoric that arises during the primaries. It is almost two questions really as to whether a deal is done and, secondly, whether it gets ratified and, if so, how rapidly.

Q2 Lord Kerr of Kinlochard: It is 50-50 you say, but the odds on something conclusive happening in this calendar year are perhaps longer than that?

Mr de Jonquières: When you say conclusive, there are those in the WTO who argue that the best solution, if there is to be one, would be to get something teed up but not completely concluded this year, so that rather as happened when Clinton came into office, the next president would have a fresh mandate, would be in a much stronger position than the current incumbent and would have the kudos of completing it and would then be locked into support it, obviously, just as Clinton was with the Uruguay round. It is a question of what you mean by conclusive; movement in the right direction I suspect is more likely than a final package this year, but I am very well aware that I might be proven wrong in the next few weeks.

Q3 Lord Kerr of Kinlochard: I suppose that raises a question (though perhaps it is not for just yet) whether an extremely good scheme would be to get a deal quasi-pre-negotiated, but not completed, and whether the desirability of that is compatible with the strong plea from Dr Stevens for a bit more openness and transparency in negotiation—I am an ex-negotiator and I always had difficulty with this one! Mr de Jonquières, you have I know gone public with the intriguing thesis that there would be something to be said for a sharp dose of recession which might bring people's minds to bear on the Doha round. I have some difficulty with that because it seems to me that recessions tend to breed protectionism and so on, and I think in all the years during which I have

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Mr Guy de Jonquières, Dr Christopher Stevens and Ms Sheila Page

admired your product in the *Financial Times* that tended to be your view too, that actually it was easier to do things in periods of expansion than in periods of contraction. Have you retracted that view?

Mr de Jonquières: No, I have not; in fact I feel more firmly about that. It need not necessarily be recession, I think what is needed is fear. If I can go back a step, in a climate of benign economic growth when things are going well, when countries are liberalising unilaterally and when repeated predictions that this is going to cause a relapse into protectionism have not been borne out, it removes a lot of the political incentive to go into the business of what are, for political leaders, very painful and uncomfortable decisions. All trade policy ultimately is about domestic politics and it takes a lot of political capital to assemble coalitions and it takes a lot of political courage to face down producer lobbies who are opposed to removing protection and lowering bans. Therefore, that to me explains quite a lot of the rather weak political commitment that we see around the world to the WTO and the Doha round in particular. If you go back in time and look at how the Uruguay round got started, it was actually because of fear, it was not because of appetite for gain. You had almost every week a protectionist Christmas tree bill emerging from the US Congress, you had the Latin American debt crisis which had really raised questions about the solidity of the financial system, you had the aftermath of the two oil crises in the Seventies which were still being felt and America was going through a very introspective, difficult phase with massive fear of Japan, humiliation and all of that. The term globalisation had not been invented then but a number of countries felt that the global economic order was in serious danger, mostly in Asia, because it looked as though America, the architect of this system, the proponent and leader until that point, was starting to lose faith and therefore some collective effort was required to put things back on track. What actually went into the vehicle that was put on the track at the beginning was probably slightly less important than the sheer process of starting negotiations; that is my thesis and I have not seen very much happen to make me doubt that, and, indeed, the circumstances in which Doha started absolutely confirm it. I believe—and I think the other witnesses both agree—that had it not been for 9/11 the Doha round would never have begun. It was not something that was done in search of commercial advantage or commercial gain; it was done as a statement of political solidarity at a time when it looked as though everything might start to get very, very nasty.

Q4 Lord Moser: You used a rather dramatic sentence “all trade policy is ultimately about domestic policy”.

Mr de Jonquières: Politics.

Q5 Lord Moser: Is that how you think about it?

Mr de Jonquières: The longer I looked at what was going on in Geneva—or any trade negotiations that were worthwhile—the more it seemed to me that the real negotiations were between the negotiators and their constituencies back home than they were between the negotiators themselves. The really difficult problems are always the ones that have to be squared at home and I think that is one of the lessons that I learnt from my time following this area.

Q6 Chairman: I was wondering if we could ask Dr Stevens and Ms Page how they saw the Doha round developing.

Ms Page: I entirely agree with Guy that you should not try to predict things, particularly as you could be proved wrong in a couple of weeks, but the problem I have in seeing any outcome in the next few weeks or few months is that all of the factors which would be conducive to a positive outcome were equally in play in June and July 2006 and in June and July 2007 in that we were nearly there on agriculture, nearly there on NAMA, nothing happening on services but resigned to it and so on. If people were prepared to accept an agreement which did little more than bind existing changes in domestic policy since the Uruguay round, we could have had that two years ago. Maybe people are more willing to take that—and that is not negligible, to bind existing policy is useful—but the problem is that some countries do want more than that, in particular they want reform of agriculture in both the EU and the US. While I agree with Guy that it is about domestic policy, the negotiation that has to happen is between those economic sectors within a country that want access, that want something from the rest of the world, and those who do not want to give it up to the rest of the world. Because the Doha round started in a sense by accident, from a trade point of view, that negotiation had not happened, there was not enough build-up of pressure by basically the services industries in the EU who really wanted a settlement—and indeed the services industries in India who should have wanted a settlement—to counter the lobbying by agriculture and producers in the case of India. The two forces were never equal, no one sufficiently wanted something in the EU and the US to be willing to fight those who did not want something, and that remains true; there just is not the interest in the services sector. There should be the interest in the services sector in the EU, there is a lot to be gained in it, but there has not been and there is not really in some of the other countries. What you basically have, therefore, is that Brazil and a few other efficient agricultural producers do want a settlement, but there is not a bargain to be had because the other side does not.

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Dr Stevens: I would agree with everything that has been said already, but can I just pick up on two points? As the circumstances behind the successful launch of the Doha round indicate, the pressure leading to a fear which can be assuaged in some way through the WTO does not necessarily need to come from the economic sphere and certainly not necessarily from the trade sphere. It is something which happens in the world that persuades leaders that it would be a useful response to have a deal with the WTO. The second point is I agree absolutely with Sheila's explanation of the lack of an equal set of protagonists in the Doha Round; the question is whether, if we string it out, this will change, and there is a question mark over that. Clearly in the area of border measures on goods the WTO and the GATT before it was an extremely useful forum for getting the changes which were wanted put into place. When we have asked our colleagues, our board members in the City, why they are not pushing for the Doha round in the services area it is bilateral negotiations—if you want to be able to open more banks in China you do not go about it by lambasting China in Geneva about its restrictive policies on banks, so there is a question mark as to whether we will ever again have the circumstances in which there will be some clear pressure for a WTO deal which will be sufficiently substantial to overcome the obvious pressure against. Finally, in response to Lord Kerr's point, my plea for openness is in respect of the EU. The WTO is the epitome of transparency—perhaps that is the problem—and if you compare that to the EU situation where, for the past six years, neither the EU Member States nor the EU national legislatures, nor the European legislatures have been able to make any direct impact on the economic negotiations, you just see how far apart these two negotiating fora are in terms of the transparency.

Lord Kerr of Kinlochard: May I have a final comment on that last point, My Lord Chairman? I believe it rather doubtful if Pascal Lamy would have been able on agriculture to take up the position that he did take up, or that Leon Brittain in the Uruguay round would have been able to take up the positions he took up, had they been front page news in *Le Soir* and *Le Monde*. The fact is that the Council in the EU has to agree a mandate for a negotiation and you do not tell the other side what your mandate is: you prepare it in private. This was in fact very useful in both cases to liberals who wanted a reasonably big deal. Lamy's, and before him Leon Brittan's mandate would have been much smaller if it had been publicly debated.

Q7 Chairman: Is anybody going to answer that or shall we leave it lie?

Ms Page: In a sense that is true if you assume that the readers of *Le Soir* would have been more powerful and their government more interested in negotiations than the readers of the *Financial Times*.

Q8 Lord Kerr of Kinlochard: Maybe they knew anyway!

Ms Page: In other words, if you believe that the pressure groups—not necessarily the actual solely economic welfare interests but the pressure groups—in the EU are much stronger than the professional. I think that is true, but that is the problem. It is not the transparency or the lack of transparency, it is that there is not the pressure; that if you actually told the readers of the *FT* they would not get out and riot in the streets of Brussels whereas the readers of *Le Soir* might.

Q9 Chairman: Speaking of riots in the streets of Brussels, what occurs to me is what effect do we see from the huge increase in food prices and the general shortage of food? Is that going to affect Doha one way or the other?

Ms Page: It risks encouraging protection. We have already seen the proposals that the answer to all our problems is not just the CAP but a CAP for everyone, which is not a view I share. The alternative answer is that one of the problems with food prices in developed countries is the protection. Brazil could probably double its arable area in terms of actually taking it away from meat production, not in terms of taking it away from the Amazon jungle, and that would have quite a large effect on the supply of food in the world. There is a series of both natural and commercial reasons for the food price which will not disappear in the next couple of years—including things like the drought in Australia—but if we actually were able to move the food which exists and could exist if it were planted more efficiently, then that would certainly reduce the pressure; it would not remove it but it would reduce it. I am afraid that the reaction might well be to make things worse—in a sense it is the same problem that we have seen in garages over the last couple of weeks: if you are told not to panic, there is not a problem, the natural reaction is to panic. I am afraid that has been a bit the problem with food in that because there was a small shortage it immediately becomes worse because everybody tries to secure immediate supplies.

Q10 Chairman: I just wondered if it was one of those events like 9/11 but in a way more directly related to trade that would drive an agreement forward, but there seems to be no indication that that is so.

Mr de Jonquières: I do not know what my colleagues think as an alternative external stimulus if the current financial crisis moves into the productive sector and there is a fear of companies going bust and workers laid off. That is the sort of fear that could galvanise action at a multilateral level.

Ms Page: But that is not the sort of fear that is on the level of 9/11.

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Q11 Chairman: No, it is not.

Ms Page: One has still to come back to this simple, practical problem that once it reaches a headline agreement on agriculture there are still both the other major areas, non-agricultural goods and services, which are terribly detailed negotiations, they are not the sort of thing we can settle in an afternoon with a formula, and then beyond that there are all the details which are important to a few countries, ranging from the convention on biodiversity to geographical indications to the rules preventing dumping, and until all of these are settled we will not have a settlement. That is normally expected to take around six months after the headline agreement; six months from now puts one into the middle of the interregnum of the US, it puts a huge amount of pressure on trying to get something done through Congress in the first half of the first year of a new president when probably the trade officials are not even in post yet, and there will be Indian elections coming up after that. On a practical basis, therefore, it is less likely than it was a year ago that we could actually get a settlement through even if there were goodwill.

Dr Stevens: Can I just add a detail on that? Even in agriculture we, last autumn, analysed the potential implications for developing countries of the best estimate of the EU's real fallback position and until you know details of exactly which products will be excluded you do not know whether the implications for developing countries are massive or negligible and that sort of detail would not become known until some time after the headline agreement on the modalities and the percentage of lines which can be excluded, et cetera et cetera.

Chairman: Lord Kerr, would you like to finish your question since I have interrupted it?

Q12 Lord Kerr of Kinlochard: I very much agree with Ms Page that the objective conditions are no different from what they were in 2006 and 2007, but subjectively it has become much more difficult because fast track is a problem and we are in an election period in the States. I quite see what Guy de Jonquières says, that if you could see your way through do not write it down and publicise it just yet, because if it became a football to be kicked around in this presidential election it would become even more difficult for Congress not to take it apart, either this Congress or the next Congress—I agree with all that. Who objectively is to blame for the logjam and why did we get stuck? Why was it difficult to do in 2006? I would just like to probe a little bit about the new difficult players. We know in the past it has been the EU versus the US, particularly in agriculture, but the EU with the US versus India on services. That is a little bit out of date; why in 2006 did it not gel or did the BRICs overplay their hand? How could you unlock it now? If you three, our witnesses, were a

collective Lamy, what move would you make now, and who would you be trying particularly hard to shift?

Mr de Jonquières: I will try and answer the first part of your question. It seems to me first of all the short answer to who is to blame, I think everybody at a certain point during the life of this round, but beyond that it is a question of who has actually been deliberately obstructive and difficult and who actually has not just played a role at all very much? Of the BRICS the only one that really has taken the thing extremely seriously and sought an outcome—admittedly an outcome purely on its own terms, but this is a mercantilist organisation so it is not surprising—is of course Brazil. South Africa, as far as I am aware, has hardly been visible at all, China people say is helping or is not obstructing, but it is not actually involved. The reason commonly given—and it is the official Chinese reason as well—is that we did all these tremendous things to meet our accession and we have done our bit, but there is actually a deeper reason there which is why WTO entry mattered to China. For most developing countries an important reason is that WTO membership helps secure market access abroad; I actually do not think that was the primary reason in China, I think the primary reason in China was to cement its own reforms at home. That job has, to a large extent, been done and there were clear signs that the momentum that occurred under Zhu Rongji has slowed and that may or may not be a sinister sign, it is a little early to tell. I think that is the way the Chinese view it and one must remember that the problems that China has at home and the challenges are absolutely immense and they are very, very much concerned with that. When it comes to dealing with problems with trade partners they tend to deal with them bilaterally: they have talked to the Americans, they have talked to the Europeans, we have seen two cases against China in the dispute settlement—five years ago people would not have believed that that was possible. We have seen no use, as far as I am aware, of the selective safeguards against China—the general selective surge safeguards they have got—and they have done it by talking to people about it and of course in their own region China exerts a great deal of sway with just about everybody, including Japan, which leaves India. Trade has historically not been at all important to India and I have to say actually that trade is not that important to China either; it is a common misconception that it is an export-led economy but it is not and it has not been really since 1979 when it all began, except for a couple of years very recently, but that was for special reasons to do with the steel industry. I think the Government of India does not look outward that much. It, like China, has enormous domestic problems, its attention is elsewhere. It has not been an easy trade partner and

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I think quite a lot of people would blame India for being obstructive. It has got an incredibly narrow positive agenda which is mainly to do with Mode 4; it is not obvious—or not obvious to me anyway—that, with all the outsourcing going to India Mode 4, which is this business about the movement of people, is as important as it was. The flurry of protectionism about outsourcing that we saw in America four or five years ago certainly has not increased and it seems to have died down, so the final point there is that according to one estimate—and I cannot remember who it was, but you probably know better than I—if there is an agreement reached in the Doha round and on a reasonably plausible scenario of what it might produce, it would add three days' growth to China and 21 days to India.

Q13 Lord Kerr of Kinlochard: Not a bad answer!

Ms Page: Could I add two things on that, first on the narrow positive agenda; that does not just apply to India. That is an incentive problem we were discussing with you before and most countries have a fairly narrow positive agenda, so it is not that they have been obstructive, it is that they have not bothered, it has not been important to them. Also, I do not think one should let the US and the EU off the hook as responsible parties completely; one does have to remember that the most protected sector in the world does remain agriculture and these two countries, plus Japan of course, have extremely protectionist agriculture and simply sitting and saying we are not going to move is as obstructionist as anything that India has done. There is also the very particular problem in the run-up to Hong Kong in the autumn of 2005 when the EU tried deliberately to split the developing countries between the LDCs and the G20 by defining a development round in terms of what they could offer to LDCs, which did not include agriculture, and given that that was what quite a few developing countries wanted it was not terribly successful either in getting an agreement or in creating the right atmosphere for Hong Kong because it in a sense encouraged the developing countries to come together to show that they could not be divided from outside. They obviously did have different interests but they did not particularly want to be used as pawns by the EU.

Q14 Chairman: The next thing I would like to ask about is bilateral trade agreements. They seem to be springing up everywhere and I wondered what you all thought the implication and impact of these bilateral agreements were going to be on future multilateral agreements. Are they one of the ways of bypassing the process?

Mr de Jonquières: First of all the interesting thing is that there has been an enormous explosion of bilateral talks, emanating initially from Asia, pretty

much since the collapse of the Seattle ministerial. These were particularly noticeable because most Asian countries—Japan above all and Singapore also—were stalwart supporters of multilateralism at a time when the Community was going around the world—and it was Europe that invented this game—really stayed out of it. The question is are they a symptom or are they a potential cause of problem? And if they are a cause of problems, why? I think they are a bit of both, but they clearly show that the multilateral system is not delivering things that many of its members feel that they want. In many cases I do not think they can be characterised as commercial initiatives; these are political initiatives. When Robert Zoellick was USTR he made it absolutely clear that doing a bilateral deal with the US was a reward for having supported US foreign policy. It is equally true in Asia where you have a lot of countries that profoundly mistrust each other and have deep mutual antagonisms rooted at a popular level as well as a government level, and this is a region which because of the general trend of globalisation is having to find new ways to co-exist. It is popular at home to make these gestures, but it is also a way of saying to other countries who you do not quite trust let us try and talk a bit more. Process in Asia is terribly important, Asians put a huge amount of emphasis on it, far more so than we do in the West. If they are a cause of problems, why? A great deal is made of regulatory dissonance, rules of origin, although I think that is probably over-emphasised. If you look at many of these deals the rules of origin are so complicated that an awful lot of exporters just ignore them and continue to bring the stuff in at the most favoured nation rate, in other words there is no special preferential tariff. The greater concern for me is that this is a symptom of a loss of faith in the multilateral process and people have started taking things into their own hands. Will they do a lot of damage? I am not at all sure about that; an awful lot of these deals are very lacking in serious commercial content—indeed, the Japanese have now started calling them economic partnership agreements and even they realise that these things are commercially a joke. The ones that the Americans have done have had a lot of serious content, the Americans have gone into this in their usual hard-headed way and said we have got to have these deals. Since the Lamy embargo was lifted by Mandelson the EU—and I stand to be corrected—has not completed any deal, has it?

Dr Stevens: No.

Mr de Jonquières: And the ones that it is negotiating do not look very promising. One has to ask, where is the beef here, how much of this stuff is real? Negotiators like to talk and one of the factors, is that with no action happening in Geneva these ambitious trade ministers are looking for other things to do. They have all got significant numbers of trade

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negotiators whom they have to justify in budgetary terms so they have to have something for them to do. Therefore, in terms of the impact on markets it is relatively minor. By contrast, where there has been real progress outside the WTO has been in unilateral liberalisation. Even in India there has been really major liberalisation, but only on industrial products. China's WTO accession I see actually as being the world's biggest exercise in unilateral liberalisation. Zhu had decided to do that, he knew he had to do it, the WTO was simply the way of locking it in, and you would know better than I but I think that something like two-thirds of all liberalisation undertaken by developing countries has been unilateral.

Ms Page: Maybe more.

Mr de Jonquières: That is one of the very encouraging signs in the whole process and all the academic studies show that unilateral liberalisation is first best, multilateral second, bilateral/regional a distant third.

Ms Page: Where unilateral liberalisation happens in developed countries as well as developing countries, the WTO is for regulation, for providing certainty, for providing dispute settlement and that is something which it can do much more effectively than any region because it is 150 countries not just the two or three countries directly involved in the dispute who are in it. The only other point that I would raise on the regions is that there is a lot of trying to show that the WTO is not the only game in town, in other words it is to be demonstrated that you have alternatives, so a lot of the regions to some extent are there precisely to show that you do not have to make concessions in the WTO. I notice that one of the pieces of evidence that was given to you actually deflated the growth in the number of regions by the growth in the numbers in the WTO and the ratio did not go up that much; if you discount the ones that can be called trade free agreements rather than free trade agreements it is probably not nearly as bad as the pretty pictures show.

Dr Stevens: If you were hoping to get some savage controversy between the panellists today you are going to go away very upset. I agree with everything, but I would just add three things. First of all, historically—and this actually reinforces Sheila's point—the EU has always liberalised first through progressively expanding bilateral and regional agreements, starting with the least competitive suppliers first and then incrementally adding some others, and then when it has liberalised towards almost everybody except Brazil and India it grits its teeth and does so multilaterally, so I do not think that what we are seeing now is new. Secondly, the old debate as to whether regional agreements were building blocks or stumbling blocks has lost some of its power because in many cases, even in the case of trade in goods, it is private sector standards that are the primary determinant on whether the Kenyan

farmer can export to the UK or not. These are by definition all unilateral, all bilateral and the existence of some fairly high level regional agreements rather than multilateral ones does not alter this underlying fact, which is actually quite worrying for development prospects. Guy's point about whether this is a symptom or a cause is very important. We were chatting in the corridor before we came in and agreeing—once again—that regardless of whether there is a Doha round the WTO would continue to be a very important force through implementing and defining the current rules until such time as a major party decides that the political costs of actually accepting the WTO's verdict are too great and decide not to implement it. To the extent that alternative arrangements are seen to be increasingly acceptable as alternatives to the WTO, that is worrying.

Q15 Lord Kerr of Kinlochard: That is a version of the old bicycle theory that I remember the old Board of Trade in Victoria Street being very fond of, that you needed to keep advancing the multilateral trade negotiations because if the credibility of the GATT/WTO process became weakened, then the existing regime, and the existing disciplines, might fall apart. Do you think that is a real risk?

Dr Stevens: I think so, yes. I do not know if my colleagues would.

Ms Page: I think the bicycle now has a third wheel and that is in dispute settlement; as long as that retains credibility and is seen to be helpful by all sides, that can keep it going even when the rounds are not working terribly well. That is one of the things that have made developing countries much more accepting of the WTO in the last few years because they have made much more progress on things like sugar, bananas and cotton reform through that than they have in the negotiations. For them at least that increases the legitimacy of the WTO; the risk probably is from the US and the EU but it is not clear to me that either of them at the moment has an interest in pulling the house down.

Dr Stevens: I agree.

Ms Page: So far people have been fairly cautious about not taking very sensitive things, for example the US boycott on Cuba could have been taken and never has been, sanctions against South Africa could have been but never were so there has been a certain amount of self-restraint in not bringing the dispute settlement into disrepute if you like.

Mr de Jonquières: If I might just add there, the fact that probably every single WTO member is in breach of some rule of the WTO is quite a powerful restraining factor. Also, the sort of circumstances in which it might start to come under really severe strain would be if there were a very severe world economic downturn, rising unemployment and the predictable effect of producing more protectionism. However, it

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also depends a bit on the form that that phenomenon took because even in times of protectionism countries can remain quite aggressive as mercantilists and if you were to pull the thing down it would deprive you of really quite a useful weapon for opening other people's markets. Secondly, post-war history shows at least that America will continue to be enormously important in this system for quite a long time to come, and most American presidents, when they are put on the spot, actually see quite quickly the costs of serious and severe protectionism. There was a very interesting case with the lifting of US steel tariffs in 2003 when the EU said it was us putting pressure on them, it was the WTO, but the really important reason was the steel buyers in the US. They just stormed into the White House and said "You are making us uncompetitive, you are adding to our costs" and that is what finally got those things lifted. It is very convenient for presidents if they see—and they are usually able to see—the cost of doing things, to be able to put it into the WTO and there have even been occasions where presidents have almost sought to get things taken into the WTO in order not to have to deal with the problem at home.

Chairman: Thank you very much. We have now successfully dealt with regional trade areas and indeed the future of the WTO so I would like to concentrate my brain on the question of economic partnership agreements and developing countries and what the Europeans could do, because that is another serious bit of our inquiry. Lord Kerr.

Q16 Lord Kerr of Kinlochard: Why have the EPAs been delayed?

Dr Stevens: There are three closely inter-related answers. First of all, all trade agreements overrun; the difference between the EPAs and all the others is that the others recognise this fact and protagonists say that there is a final deadline but they always have some sort of fallback position which maintains the pressure but allows the deadline to pass. I have been looking into some of the recent WTO disputes on this just as an illustration of what normally happens in agreements and my ears pricked up with the biotech marketing dispute because the EU was supposed to have done something in January just after it said that the WTO position and deadline was so binding that it could not possibly be passed, and that is why the EPAs had to be delivered by the end of December. The EU first of all said it would implement the dispute settlement ruling on 21 November last year, then it reached agreement with the plaintiffs that that would be extended to 11 January, on 11 January it reached agreement with the plaintiffs that this would be extended to 11 February and on 11 February it reached agreement with the plaintiffs that it would be extended to 11 June; we wait to see what happens on 10 June. I would suggest that this is the way that

things normally happen in my experience, although possibly not in the much wider experience of the Committee. I was involved quite closely in the EU/South Africa free trade agreement negotiations on both sides, we were selling arms to both protagonists, and it was a much more open discussion. We knew some time in advance what South Africa was being asked to do and what the EU was offering to do, which was simply not the case with the EPAs. The second related reason is that it was a very funny sort of trade negotiation. Normally you have mercantilist interests on either side and it is what we have just discussed about those in favour of liberalisation of their markets out-manoeuvring those against liberalisation of the domestic market. The ACP had nothing really to gain from the negotiations, other than to hang on to what they already had, and that is always a difficult thing to sell and, of course, with the Least Developed Countries they did not even need to do that because they had Everything-But-Arms. Not surprisingly, a lot of effort was put into trying to fashion alternative ways of hanging on to what they had which would not involve signing the Economic Partnership Agreement.

Q17 Lord Kerr of Kinlochard: Could you remind us of why the whole process stopped, why they had to fight to hang onto what they already had?

Dr Stevens: During the mid-1990s as collateral damage from Latin American and later US disputes against the EU on its post-Single European Market banana regime, a GATT panel ruled that the Lomé Convention, which was the treaty under which the EU had been giving substantial trade preferences to African, Caribbean and Pacific countries since 1975, was contrary to GATT rules and a waiver was obtained for it to continue to the year 2000. During the last half of the 1990s there was a lot of discussion about how to remove this trade relationship from further censure in the now WTO and the agreement finally reached in the Cotonou Partnership Agreement was that alternative trade arrangements would be negotiated in the period up to 2007 and the preferred option was reciprocal Economic Partnership Agreements which could be justified under Article 24 of the WTO with some very vaguely specified alternative arrangements put in place for those countries which felt unable to agree EPAs. The third point was that this was always going to be a very hard deal to sell, not least because when it agreed the Cotonou Partnership Agreement the EU did not actually have in its back pocket any alternative trading arrangements which would satisfy countries unable to negotiate EPAs and for the next seven years it failed to even attempt to create them. There are many ways in which the EPA negotiations are unique, not least is that there are no other agreements that I am aware of which have been brought to a

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conclusion involving multiple countries negotiating at the same time with the EU and multiple countries with no formal trade negotiating machinery, so it was a very difficult process. It was a process that the ACP parties in the main tried to pretend was not going on and it was clear that it would require substantial political leadership from the EU if it was going to be completed anywhere near on time, and for long periods this was entirely absent. Let me give you one example which illustrates this. When the EU/South Africa free trade agreement was negotiated the Southern African Customs Union which linked South Africa to its four poor neighbours—Botswana, Lesotho, Namibia and Swaziland—was a very odd apartheid era arrangement under which although they belonged to a customs union South Africa could do pretty well anything it liked, so it signed a bilateral agreement with the EU and unilaterally in relation to its partners agreed to lower its tariffs. When the EPA negotiations began the same thing applied to Botswana, Lesotho, Namibia and Swaziland, so the EU began negotiating with them, but in 2004 the customs union finally became a post-apartheid institution and the new customs union made it illegal for any one member to change trade policy without the consent of all, so from this point on, which had been presaged from 2002, it became quite obvious that it would be impossible to negotiate anything with Botswana, Lesotho, Namibia and Swaziland unless South Africa was involved in it all. It took BLNS until March 2006 to seek formally to involve South Africa in the negotiations and the EU then spent ten months considering its position, so not until January of last year, 11 months before the end of the negotiations, did formal talks even begin with one of the parties and for a large part of the year the EU seemed to believe that South Africa would be happy to sit on its hands and ask for nothing in return for the changes that the BLNS would make. This was because officials were not in a position to alter Commission policy and those who were in a position did not take a sufficiently hands-on approach until the last ten months of negotiations.

Q18 Lord Trimble: I am wondering if this question is not redundant because I was going to ask you whether developing countries have benefited.

Dr Stevens: It is a very interesting question and I look forward to being able to answer it in due course but because no details of what was actually going to be done have still not formally been made available, we have just done a review of all the African EPAs using the good offices of one of the Member States who have acquired copies of the texts, but we learnt yesterday that the one from Ghana was completely rewritten in February and, as far as I know, none of the Member States has been sent copies of this. We

have done a superficial tour d'horizon which sets the foundations for further analysis and in due course we will give a verdict, but I have to say these agreements are really a mess. We have identified a huge number of products which are simply not listed in the version of the East African Community EPA which the Member States have been given; there are a group of products which account for about 48 per cent of Kenya's imports from the EU but the EPA does not say what is going to happen to them. We have had extensive discussions with the Commission on Mozambique; the Commission says that Mozambique will liberalise 80 per cent of its imports, but using all publicly available figures we cannot find more than 71 per cent. First of all, therefore, the final agreements have to be made public to Member States as well as to us, secondly, we have to analyse them and, thirdly, for your next inquiry on EPAs I hope to be able to answer the questions.

Q19 Lord Trimble: What steps should European trade policy take to help?

Ms Page: On EPAs or more generally?

Q20 Lord Trimble: More generally.

Ms Page: At a minimum—and this is probably completely unrealistic because it goes against the last 50 years of EU trade policy—stop a divide and rule. The divide and rule within the WTO, the divide and rule in terms of now trying to sign separate FTAs with basically anyone who will talk, the divide and rule—it is too late to say it now—with the ACP where the original Lomé Convention was with the ACP as a group and then these had to be divided up into separate regions and the final division did not really emerge until about September last year which is a little late for negotiations that happened in December. It needs to be clear that it should not act from outside in the way Europeans blame the US for acting when the EU was being formed and it should not expect that it can form regions among other countries simply by pointing out to them the advantages of it and maybe supplying a little bit of money—foreign policy does not work that way. The pressure put on the ACP regions and to some extent it is now putting on the Central American and the Andeans which it is negotiating with was to reach a point in terms of unity, of ability to negotiate as a group which the EU frankly had not reached by the time of the Uruguay round. It is expected that they do that within two or three years because if you try to negotiate with countries who act as a block and countries who are not ready to negotiate as a block, either you will end up with a mess as Chris has described or you will end up with a messy grouping which has been brought together too quickly. This is probably most noticeable in the Andean countries where it is not at all clear that Bolivia wants to sign a

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free trade agreement with anyone, yet the Andean pact can manoeuvre around this. But the Andean pact negotiating with the EU cannot manoeuvre around it. Therefore, do not interfere, do not divide, it is a series of negative things—and that is pertinent even today.

Q21 Lord Trimble: I believe in your report on EPAs you said that countries negotiating with the European Union have got a deal that reflects their negotiating skills.

Dr Stevens: Yes.

Q22 Lord Trimble: I thought that we were doing something to try and improve people's negotiating skills in this matter—I have a vague recollection that was an additional issue at one stage.

Ms Page: This is something that you have to be very careful about. For one negotiator to try to tell another country that is negotiating with it how to negotiate raises one or two problems of conflict of interest. In the case of the EU it actually tried to be present at the planning meetings of individual ACP regions when they were planning how to negotiate with the EU. I am pretty sure that DG Trade has a great many negotiating skills which it is worthwhile imparting; I am not sure that this was an entirely legitimate way of doing it. It probably would be best for it not to try to improve negotiating skills as such unless it tried to improve the negotiating skills of some country with which it is not negotiating, and as far as I know there are not any left. It could do much more in terms of some general training in how a Department of Trade should work, general training in terms of how industrial pressure groups should work from the CBI training through its counterparts and TUC training through its counterparts, that sort of thing can work and that thereby will release resources within the country to do its own training of negotiators. Indeed, what not only the EU but the UK as well directly, and the US, have been doing in terms of actually direct action with trade negotiators has been extremely dangerous and really is something which needs to be watched rather than encouraged.

Dr Stevens: There are a number of problems and the one to which Sheila has alluded is obviously a very clear one. At the other end of the spectrum some of the countries which clearly were most in need of support were unreceptive to receiving it because they were all hoping that this thing would go away and they would not have to do anything. The third problem is that we were involved quite significantly in running training sessions, independently funded by government, on what sort of interests might you have—the trouble in all cases was that the comments at the end were “This is very helpful, this is very useful but how do we know that the EU will accept a negotiating position framed in this way? Again, I

come back to our initial exchange; clearly, this is a very difficult area but to some degree there could have been an opportunity at various times to give broad guidelines—say the EU would have been willing to accept broad principles—which would have given the peg on which you could then hang the creation of a negotiating strategy. However, the EU gave almost nothing away and indeed I have been at various fora where it has been invited to offer a peg by European ministers and has steadfastly declined to do so. These are the three problems in this particular area and you can clearly see which countries did a good deal and which ones clearly did not.

Q23 Lord Kerr of Kinlochard: I see two lines of criticism here of the EU: one about modalities and one, an underlying one, about substance.

Dr Stevens: Yes.

Q24 Lord Kerr of Kinlochard: On the modalities one Dr Stevens has helpfully read into the record the origins of the exercise: the EU would not have torn up Cotonou unless it was obliged to do that by a WTO ruling, so against a charge you have not made they have a good defence, it was not their fault that we got into this mess. The most you are saying is that we did not navigate our way through the mess optimally.

Dr Stevens: Correct.

Q25 Lord Kerr of Kinlochard: I would suggest that it would have been quite difficult, even in an unenlarged European Union, to achieve a perpetuation of ACP-type arrangements given that, for example, the Spanish, concerned on behalf of Latin America, did not quite share the enthusiasm of the French and the British for Lomé and Cotonou—I simplify things, of course. We now have a very different EU with a whole lot of new Member States not many of whom have close organic links to the developing countries we are talking about and all of whom have their own economic development agendas. It is not quite like the situation over South Africa nine or ten years ago, when our EU negotiator was the brilliant Philip Lowe; he was not really much reined in by the Council, he had a lot of running room, and I thought he did a wonderful job. Isn't it much more difficult now, the Council is different, inside the Commission it is more difficult, for the guys you are criticising to get an absolutely clear line even from the Commission let alone in the Council? Do we perhaps need to bear that in mind when we think about your no doubt well-founded criticisms of modalities?

Dr Stevens: Can I just respond on that? Those are all very fair points and we probably cannot come to a conclusion, but let me make two points. First of all for many ACP countries the special system under GSP (Generalised System of Preferences) which we

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call GSP Plus, which was introduced in 2005, would have formed a perfectly acceptable alternative to Cotonou. They were deficient in not applying for it but when, finally, the two countries did, they were told that the books were closed and nothing would be done until 2009. The more proactive involvement I am suggesting would have been to encourage countries in 2005 to apply for GSP Plus and then at least you would have got it then, but that was not done. My second point is that the argument you have articulated that an EU of 27 is a very difficult place has been made widely and it is perhaps the most important lesson we have to prove. Lord Trimble's question of "are the EPAs good for developing countries" becomes one as to "can an EU27 still be considered a force for positive change in the area of development or are the interests of the members now so divisive that we have to think of the EU as being no longer a pro-development and perhaps an anti-development force?"

Q26 Lord Kerr of Kinlochard: That brings me to my second point, the point on substance, that there is an underlying criticism which you have just come back to, and which underlies some of the papers that we have seen. I am a very old-fashioned, Mancunian-type liberal, and I think that the faster a developing country liberalises the better. It seems to me that the rather, at first sight, random pattern of degrees of liberalisation which result from these EPAs is

probably to a large extent not the result of the malign efforts of wicked men in Brussels, but rather the result of views in developing country capitals about how rapidly they want to liberalise. It seems to me that the message that you are addressing to the Commission and the Council of the European Union is a message which perhaps ought to be principally directed to developing countries. It is in their interest to pull down barriers as fast as they possibly can; the effects on their domestic price inflation and on their ability to specialise—all the good results of liberalisation—should not be postponed for too long.

Dr Stevens: We are all in favour of that—not necessarily as fast as you can—but I think we would all say never ever do it in relation to one trade partner alone which is likely to have greater economic disadvantages than advantages, only do it with respect to the whole of the rest of world.

Ms Page: One of the most serious criticisms of EPAs is that in very small trade ministries—and many of these countries have very small trade ministries—to have to be carrying on a negotiation in Brussels, when probably it is literally the same ambassador who is responsible to the WTO as well, has been a serious hindrance in the WTO negotiations.

Chairman: It seems me that that is a very good place to end this session. I am conscious that Mr de Jonquières should have been gone a few minutes ago, so it remains for me to thank you all very much for coming and say we have found this all most interesting. Thank you.

Supplementary memorandum by Mr Guy de Jonquières, Senior Fellow, Chatham House

What is your assessment of the likelihood of completing the Doha Round?

Global crises can sometimes help advance multilateral trade negotiations. The Doha Round would probably not have been launched when it was—or even at all—without the shock of the 9/11 terrorist attacks. It is possible that the shock of the credit crisis and growing fears of a deep recession will jolt governments into completing it. However, the chances of that happening within the next few months do not appear very promising.

First, the political obstacles to a deal remain considerable. President Bush's chronic political weakness leaves him poorly placed to win backing from an unsympathetic Congress for further US trade "concessions", while neither of the candidates to succeed him has accorded a high priority to Doha. Peter Mandelson's early departure from Brussels leaves the European Union without an experienced top trade negotiator, while next May's deadline for Indian elections will further restrict New Delhi's willingness to compromise in the WTO. Like India, China currently appears too preoccupied at present with economic challenges at home to be ready to commit much time or effort to the round.

Second, government responses to the credit crisis in the US and Europe—large-scale bank nationalisation and state intervention in the sector—go against the grain of market liberalisation. In addition, some EU government leaders are now invoking the crisis to argue for heavy public subsidies to protect other European industries from international competition. Even if such proposals are not implemented, this suggests that in Europe, at least, supporters of liberal trade policies may face growing resistance.

In any case, the tangible benefits from completing the round would almost certainly be modest. Agreement could reduce the scope for protectionist backsliding by "binding" tariffs nearer to the lower levels at which they are applied in many, particularly developing countries. However, it seems unlikely that an agreement

would yield much more than the paltry welfare gains—estimated at 0.1–0.2 per cent of global GDP—offered by what is now on the table. Nor would anything in the current Doha agenda tackle two of the biggest problems recently besetting world trade: a drying-up of trade credit and the impact of sharp increases in transportation costs since 2000, due mainly to high oil prices.

Will further significant delay to, or a complete failure to complete, the Doha Round wound the WTO?

The troubled history of the Doha round to date is as much a symptom as a cause of the WTO's problems. The organisation is beset with challenges on two fronts. First, rapid enlargement of its membership and the growing weight of emerging economies such as China, India and Brazil have made decision-making much more unwieldy. The result is not a simple north-south split: there are clear divisions between the developing countries that dominate the WTO's membership numerically over the desirability of liberalising market access in agriculture, one of the central issues in the round. WTO members are also far from agreement on how far its mandate should extend into tackling "behind the border" barriers and regulation of domestic markets. Resolving such issues is increasingly vital to keeping existing market-opening commitments effective and to prospects for further multilateral liberalisation efforts, particularly in services.

Second, political commitment to the organisation and to the multilateral system appears to have weakened significantly. There has been a rush since 1999 into preferential trade agreements, many of which appear inconsistent with the spirit, if not indeed the letter, of non-discriminatory principles at the heart of global trade rules. Both industrialised and developing countries have exhibited only modest liberalisation ambitions in the round and many have adopted defensive positions aimed at preserving their existing barriers. Meanwhile, business interest in the round—an important force in pushing for agreements—has steadily dwindled.

A collapse of the round would clearly damage further the WTO's credibility. But completion, on the terms currently envisaged, might not do that much to restore it.

Can the rule making and dispute settlement functions of the WTO remain relevant and effective if the liberalising function fails?

Nobody knows for sure. So far, the disputes settlement procedures have operated effectively, despite often slow progress and fractious disagreements in the Doha negotiations. However, members' willingness to respect the system may be due to its not having not been seriously tested yet. The global economy and international trade have proven remarkably resilient during the past 15 years, repeatedly recovering from shocks and upheavals without suffering any serious outbreaks of protectionism. That might not remain the case if much of the world economy underwent a prolonged recession.

A collapse of the Doha round could lead some WTO members to seek through litigation what they could not obtain through negotiation. Brazil and others have already hinted that they may consider action against US and EU farm subsidies. A torrent of disputes cases would risk overloading the system and placing the WTO's quasi-judicial tribunals in the invidious—and ultimately, perhaps, unsustainable—position of being called on to adjudicate on highly-charged conflicts that have arisen because politics and diplomacy have failed.

What does the present situation in financial markets, and the possibility of a deep global recession, mean for the future of the WTO?

This is a difficult question to answer while the outlook for the global financial system and the world economy remain so unclear. If international efforts to restore order, stability and confidence to financial markets succeed—and are followed by effective measures to bolster domestic demand in major economies—the risks of serious disruption of international trade and a lurch into protectionism should be reduced.

However, it is far from clear that recovery from the current crisis would unleash a meaningful drive to reinvigorate the WTO. Indeed, it is possible that exhaustion induced by financial and economic fire-fighting would engender political complacency and indifference towards the organisation, provided that the progress of international trade faced no obvious serious threats.

On the other hand, continued financial instability, a plunge into deep recession or worse and widespread outbreaks of protectionism might, perversely, heighten political awareness of why multilateral rules matter and of what would be lost if they were undermined. The question then would be whether governments, while dealing with so many other problems, could muster the time and energy needed to strengthen the multilateral system and the WTO.

TUESDAY 13 MAY 2008

Present: Cohen of Pimlico, B (Chairman) Moser, L
 Kerr of Kinlochard, L Renton of Mount Harry, L
 MacLennan of Rogart, L Steinberg, L

Examination of Witnesses

Witnesses: PROFESSOR L ALAN WINTERS, DR MICHAEL GASIOREK and DR PETER HOLMES, Sussex University, examined.

Q27 Chairman: Good morning and thank you very much for coming. We are most grateful for your help. Those of you who have been here before know the form: everything is recorded, it is all being broadcast, but you do get a transcript of your evidence and are able to correct that which did not seem to have come out as you said it. How would you like to start? You have seen the list of questions but, if you would prefer to make an opening statement, any or all of you, we would be glad to have that too. What would you like to do?

Professor Winters: We thought that we would make a very brief opening statement just to say that we have been dealing with trade policy a long time and, although there is a considerable body of experience and expertise at the University of Sussex, we do not come with any institutional position to support. Indeed, with three of us, there are probably four or five opinions. That is all we thought we ought to say by way of comment.

Q28 Chairman: Against that background, I will begin by asking you how you now see the prospects for the Doha Round. Who or what has caused the logjam? Has it all taken so long that people have given up? What is the effect of increased oil and food costs? Would you take those in random order, please!

Professor Winters: We thought that I might start with this. I think that the prospects for a substantive and very useful outcome to Doha are not high at all. I think there is a question about whether we get a completion that we could even declare to be a victory now. I personally am rather pessimistic about the outcome. Who or what has caused the logjam? It is important to remember that Doha was born under pretty inauspicious circumstances. We had talked about having a new round for two years and had Seattle and a good deal of policy in between and, in a sense, the scramble to create Doha was a response to another very particular global diplomatic need after 11 September. Therefore, in some sense, the fractiousness that we have seen during the Doha Round should not be awfully surprising. What is behind that? There are clearly to some extent changing attitudes publicly. Certainly, elements of civil society have come to think of international trade

as hostile to the things they support rather than supportive. It is arguably the case that industry has been less interested in multilateral trade negotiations than previously; partly I think because they found other ways of achieving their goals; partly because they have begun to think that maybe the steam had gone out of the process. I think it is also the case that in a sense we had picked what we used to refer to in the World Bank as the low-hanging fruit. Reducing tariffs is very much easier than liberalising in other dimensions: non-tariff barriers or regulatory issues. Easy tariffs in a sense have come down. The tariffs that remained were very sensitive. So, in some sense, as the process of liberalisation proceeded, the job of pushing it further became more difficult. Having said that, I do think that we probably made a number of mistakes along the way and that careful thought perhaps would have allowed us to be having a more optimistic conversation at the moment. I do not think that the length of the talks per se has particularly damaged the participants' belief in the concept. I think it has perhaps damaged public faith in the concept. My guess is that most of the participants do understand what a complicated process they are taking part in and understand that it is going to be difficult. I think that the process has revealed itself to be difficult and that has caused people's expectations to no longer be very high, but I do not particularly put that down to the time as opposed to the gradual revelation of the very strong interests and very strong views that certain governments are subject to.

Dr Holmes: I agree with what Alan has said. I want to stress something that was implicit in what he said. My understanding is that among the member governments of the WTO, there is a very firm commitment to trying to deliver something, even if it is only a formality. One colleague recently pointed out that, at the Hong Kong meeting, if the Cubans had refused to sign the Final Declaration, the whole thing would have come crumbling down. I think that there is a determination to avoid a complete collapse of talks which might discredit the organisation. I think I would put what Alan said differently. The way it seems to me is that, at the time of the Uruguay Round, you could see that there were a number of countries and interests that really wanted something

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to be delivered: there were lobbies; there were interest groups; there were countries that had particular interests. It is much less easy to see exactly what particular countries need and want. If you take China, they desperately want the continuation of the existing system and there are a number of other countries that feel that. It is very hard to pin down the exact lobby that wants something enough to persuade its government to concede, in mercantilist terms, on something else. As Alan says, the general belief in the virtues of liberalisation is a lot less, so you are going to have to persuade the reluctant people rather more. Alan said that we could have done things differently. I personally do not think that the EU played its cards terribly well. I am thinking in particular of the Singapore issues. I was watching the Trade Competition Agenda quite closely and I felt that the EU did not handle that terribly well. I would agree with Alan that belief in the concept of the talks has not by any means collapsed, but there is a danger that people are keeping their cards close to their chests and negotiating tactics might lead to some rather adverse outcome. My general belief is that everybody needs some kind of success on paper too much for there to be a complete breakdown of the talks of the organisation.

Dr Gasiorek: By and large, I very much agree with what Peter and Alan have said. I am not sure that I am quite as optimistic as Peter in thinking that there will actually be a resolution because everybody needs something on paper. I think that is entirely possible. Equally, I think that time has dragged on so long that the lack of those obvious interests for a deal which Peter mentioned, and which in another context Alan mentioned in terms of we have already picked off the low-hanging fruit which I think is a reflection of the same issue, means that I am less optimistic that we will actually achieve an agreement and a deal. I think that we also need to bear in mind that even if notionally there is some agreement, it still has to then be ratified and agreed by the countries and in particular by the United States and clearly that takes us into almost certainly the next presidency and it is far from obvious in which direction that will then go. There is obviously at the moment a great deal of protectionist rhetoric and I guess that is normal at this time of the election cycle, but it is far from obvious that an agreement will actually then be ratified and there are the worries that Congress may then perhaps start to try and amend the deal which in the past they did not do under fast track but then, with the Peru Agreement and so on, they did start to try and throw in additional clauses and I think that that is a worry in the system.

Q29 Chairman: We have all seen media reports which suggest that the cost of oil and food products is causing unrest. Does the fact that food costs are

going up and it would be more sensible for the countries which can grow it to grow it help or hinder trade talks?

Professor Winters: That is a very difficult question. It seems to me fairly extraordinary that the reaction of some of our European partners to the soaring food prices has been to argue for higher protection which will raise them even further internally. In some sense, the economists' toolkit of rationality does not seem to be applying very much at the moment. I am rather of the view that the World Trade Organisation is a great deal more useful than is popularly perceived and, if one thinks back, for instance, to the East Asian financial crisis in 1997/98, one of the remarkable things about that crisis was that it did not lead to an unravelling of trade agreements and increase in protection, despite shocks that were substantially bigger than the ones we are facing at the moment. It may be that as people grizzle and complain and talk about protectionism, actually the WTO might be able to assert itself and its leadership position and show that indeed it is more useful than we had remembered and it would actually help the process. I can certainly see that as being conceivable. But I would hate to make it an unconditional prediction.

Q30 Chairman: That does rather tie in with the other thing I am trying to elicit which is, do you think that the WTO still has a role which perhaps some of your colleagues can address along with the question about what is happening with oil, food and protectionism.

Dr Gasiorek: Let me perhaps address the second part of that question first. I guess historically we tend to associate more protectionism with economic downturns and hence that is perhaps where the spirit behind that question lies. So, if growth declines, will that raise protectionist sentiment? Clearly, I think that there will be some pressures in that direction and there certainly will be rhetoric in that direction. I am not convinced that it will lead to higher levels of protection. I think that the nature of world trade has changed considerably over the last ten or 15 years where there are vested interests both with regard to imports and exports such that it is far less obvious that exporters will wish to see a rise in protectionist sentiment. I think that the political economy has changed somewhat and, while there may be rhetoric in public about protectionism, I would hope that policy makers would not go down that route and I think that there will be strong political economy pressures for them not to do so.

Q31 Lord Steinberg: All three of you have said in differing ways that you are not overly optimistic about Doha. Is this view prevalent amongst your colleagues and is this view prevalent amongst the nations concerned?

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Professor Winters: I think that the view of the profession is fairly similar on average to our view. As regards the views of the countries, it is very difficult from the outside to work out exactly what they do think. Of course, they have to continue as if they believe. As Mr Lamy reminds us every two months, victory is just around the corner, but do they really, really believe it? I would find that very difficult to judge. I think that the participants have to be aware that this is an extremely difficult area. My own view so far as the outcome is concerned is that I very much hope that we do at least get a nominal closure to this because I would not want to see it remaining open as an open sore. I do not expect us to see much out of it. I would like to draw a line, take a breath and think how we will do it better next time. I would like to think that this is the Government's thinking, but I do not have much evidence that that is the case.

Q32 Lord Kerr of Kinlochard: If you can draw a line, take a breath and think about how we can do it better. There used to be, certainly in Victoria Street, the theory about bicycles which said that if we stopped going forward with further liberalising rounds, the existing system, the discipline of now the WTO, would deteriorate or be damaged. Is that theory no longer held?

Professor Winters: My view is that the bicycle theory always had a large element of truth but was rather simplistic. My own view for thinking about why we need to have some conclusion is in a sense a bit like the bicycle theory: if the issue remains unresolved and no process looks as if it is starting to resolve it, I think that we will gradually see ourselves slipping back into these somewhat petty and beggar my neighbour sort of policies that we are seeing at the moment over food prices. Because the institution does not gain very much if the process has stalled, and precisely because it has stalled, nobody seems to be willing to contribute towards its further progress, I think that something like the bicycle theory is applying at the moment and that there is a serious danger if we let this thing fester. The promulgator of the idea of the bicycle theory was Fred Bergsten in Washington and Fred to quite a large extent used it as a suggestion that it was perfectly fine to be going on doing a deal every six months with some partner or the other, bilaterals and so on; I do not have much sympathy with that.

Q33 Lord Kerr of Kinlochard: I would like to push you a little further on Doha. Let me begin where you began, Professor Winters. You gave as a reason, perhaps a principal reason, why Doha has become stuck that industry no longer seems to have success in the further liberalising round high in its priorities. Why is that? Is it because Mr Mittal does not need a WTO to take over companies because the balance of

the world has changed? The manufacturing industry in America and Europe either tends to outsource a bit and/or is a bit defensive. Was the mistake perhaps separating out the Singapore issues? Industry in the developed world did see advantages in things like investment protection which was shelved. Is that what Dr Holmes meant in saying that the EU did not handle the Singapore issues very well?

Dr Holmes: May I respond to the bicycle question first because I would like to offer you the tricycle theory.

Dr Gasiorek: I was going to suggest stabilisers.

Dr Holmes: I will leave you stabilisers! I would see the tricycle as a concept. I once asked an Indian trade official how he felt about the negotiations and he replied, "Actually, we are getting a lot of what we want through the dispute settlement mechanism". I think it is a real paradox here that, at one level, if I were Stalin, I would say, referring back to his article in 1930, that we are "dizzy with success". The problem is that liberalisation is proceeding; it is proceeding through the dispute settlement mechanism and a lot of countries are getting what they want through that. However, if you have one wheel at the back moving much faster than the other, it is skewing the direction. It may well be that some people would be happy for the system to go on as it is because it is in some sense delivering. Even on agriculture, things are beginning to move in dispute settlement, on subsidies and on anti-dumping. Things are happening there which are not happening outside dispute settlement. I think that that raises a fundamental political economy legitimacy issue. I think that it provides additional explanation as to why some countries feel that they do not need to proceed with negotiations. Clearly, the system does matter to everybody. Again, some of the multinationals, with all their outsourcing, need the system to go on. They have the tariffs down and they do not want them to go back up again. They want the existing game to be played. Again, it might even be paradoxically that the system is working too well. Applied tariffs have been brought down very low. Michael may want to say a little more about this but some people suggest that people are not very interested in an agreement that would merely ratify the existing level of bound tariffs. People may be taking for granted that they will stay low. It seems to me that business has an overwhelming interest in keeping the achievements that they have. So far, they are managing to keep that and even improve on it a little through dispute settlement and it may even be that if the dispute settlement system were more cautious, people would return to the need for more negotiation. Specifically on investment, I think that the MAI was probably what killed any sort of investor protection. It really looked as if you were seeing a takeover by multinationals and so "trade and investment" became a sort of bugbear and "trade

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and competition” was tainted with that, even though actually if the EU had offered something a little bit more by way of multilateral assistance against international anti-competitive practices, they might conceivably have got the Indians on board on that.

Professor Winters: I would like to talk a little about why industry might not be so enthusiastic. I think that there are a whole variety of causes behind this as Peter has already mentioned. Applied tariffs are pretty low, so in a sense the simple and obvious job that the WTO could do for them does not exist to the same extent. Where tariffs are high, they are well entrenched and well protected with special interests, so it is much harder work to cut them; they are not there by accident. I also believe that there is somewhat of an attitude that says that you can pick and mix through bilaterals. After all, the major powers are out there talking to dozens of different parties, you can target and you do not have to give very much up; this idea that one can address really critical issues bilaterally I think has undermined their multilateralism in that respect. I suspect that the technological improvements that allow things like outsourcing, improvements in customs procedures and so on have, in a sense, addressed some of the difficulties that companies face when they trade internationally and management attention is focused on how to exploit those more than how to worry about regulations. The third thing is that manufacturing is not as confident in Europe or the US as it was, say, 15 or 20 years ago. The service sectors perhaps ought to be more confident but liberalisation of services is very, very difficult and that also tends to take a bit of the momentum off the round as a whole.

Dr Gasiorek: Alan and Peter have very much made the points that I wanted to, but I would like to add one paradoxical point which is that the relative success that we have seen in reductions in applied tariffs, vis-à-vis bound tariffs, have in some sense potentially made agreement in the Doha Round more difficult because, in order for manufacturers, for example, to get real cuts in applied tariffs, that suggests in the negotiation demanding very, very large reductions in bound tariffs which the developing countries have been less keen to agree to.

Q34 *Lord Kerr of Kinlochard:* I am grateful for that point which was absolutely new to me. Professor Winters, you implied in your last answer that bilateral agreements were one of the contributory causes to Doha getting stuck. Do I infer that you see a conflict between bilateral and multilateral, that you wish it were multilateral but you think that the world is moving towards bilateral?

Professor Winters: There are two elements to that. I have been pretty unenthusiastic about bilateral trade deals for a very long time. My colleagues do not

necessarily share this view. It is very clear that the existence of bilateralism has not caused the multilateral system to completely unravel, so one must not get hysterical about it. I do believe that one of the ways in which bilateralism has insidiously cut away at multilateralism is precisely that it offers other ways of getting the job done. It allows a different way of addressing the most immediate symptoms, so in a sense you do not bother to try and address the basic cure. One said exactly the same in the 1980s about the US trade policy with its so-called aggressive unilateralism where section 301 of their Trade Act essentially authorised the administration to beat up anybody who upset them in one way or another. In a sense, it offered a much more direct way for US firms to address the really biting issues that they felt they faced in other countries than going through a big negotiation at the WTO. I do think that bilateralism does not help multilateralism in that respect and I worry that this process, this chipping away, has gone on without us realising very much. Do I think that bilateralism is the future? It is clearly going on but I hope that we actually can restore the multilateral system before deciding to go bilateral.

Lord Kerr of Kinlochard: Chairman, I do not want to hog this session, but may I ask a question about the Sussex Framework?

Chairman: Yes, of course.

Lord Kerr of Kinlochard: I want to think of an extremely clever way of making the Sussex Framework answer the question I have just asked about bilateral versus multinational. I think it is there but it is just too difficult for me to capture. As I read your paper on the Sussex Framework, I think that it would be very good if you would, in layman’s language which I will follow, give us a very brief excursus of the concept. As I read it, you are saying, for example, that the Indians would do very well to go for the deepest sort of integration they could get whereas the Jamaicans should settle for something very shallow because trade diversion would be very strong in the case of small West Indian economies linked to the US economy. That is a very interesting conclusion if I have it correct. You are saying a number of other very interesting things and I am drawing this personal conclusion out of your paper, but is it correct?

Q35 *Chairman:* In this context, I would like to remind you that, since you did not produce written evidence, you will have to tell us about it or we cannot get it into the report. So, the brief excursus of how it works is very important.

Dr Gasiorek: Let me try and give a first pass at the answer. Let me go back to some of what Alan just said because it is obviously very closely related. In what Alan just said, he used the term, “Let people see bilaterals as another way of getting the job done”. I

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share many of the concerns that Alan raised about bilateralism or regionalism but not to the same extent as Alan. The reason for that is that the job you can get done might be different in a bilateral/regional framework than that which might be achievable multilaterally and that takes me then into the Sussex Framework. Let me try and give a brief synopsis of the Sussex Framework. Economists have some very sophisticated technology-intensive tools for analysing changes in trade policy, for analysing free trade agreements or multilateral changes in trade policy. They require highly-skilled people to run those models and powerful computers to do the work. The Sussex Framework was developed by a team of us at Sussex originally on a project for DFID and is based on using existing data based very clearly on economic theory. You use that data to generate summary statistics, what we call diagnostic indicators, and if you then apply those diagnostic indicators intelligently to the theory, you can draw conclusions as to the likely possible impacts and benefits of changes in trade policy, notably pre-trade agreements. So, you can try and draw conclusions, for example, as to whether it is more likely that there will be trade diversion and trade creation. If I go back to Lord Kerr's example of Jamaica—and this is generally true of many of the Caribbean economies—a very large proportion of their imports come from the United States and that is the sort of thing we can think about in more detail using the Sussex Framework or can identify the products and so on. Given that we can see that this is happening, if the Caribbeans liberalise their tariffs just with regard to the EU and not the United States, then the conclusion that one can quite unambiguously draw is that there is a strong danger of trade diversion in that case and therefore less likely to be a net welfare gain. We have now applied the Sussex Framework in a number of circumstances and cases. A very common conclusion—and this is where I suspect much of I guess Alan's concern about bilateralism or regionalism comes from—is that the welfare gains from a number of the RTAs, regional trade agreements, at which we have looked are likely to be very, very small, possibly even negative, because of issues such as in particular trade diversion versus trade creation. That therefore raises the issue of, why should countries sign such a bilateral agreement if, on the face of it, it looks like the welfare gains are going to be small? I guess that an answer to that question lies in the fact that direct, if you like, immediate effects may be small but there may be longer term, longer run economic benefits from signing certain types of agreements, types of agreements that might deal with more than just tariffs but deal with behind the border issues, what is commonly referred to as deeper integration. If you can achieve deeper integration, then the welfare gains for the countries

concerned may be considerably higher. I think that there is then reason to believe that it might be easier to achieve those elements of deep integration bilaterally or regionally more easily than multilaterally. In the recent EPA agreement initialled between the EU and the Caribbean, the Caribbean economies have substantial liberalisation of access and services into the EU market. Those are elements of deeper integration which the agreement has achieved which would have been difficult for the EU to offer multilaterally. So, for the Caribbeans, that is probably a good thing. The EU has managed to achieve—and the Caribbeans wanted this—quite strong clauses with regard to guarding intellectual property rights. Again, those are the sorts of issues that you can try and get more progress on possibly regionally than multilaterally and that can yield higher welfare gains.

Q36 Lord Moser: I would like to ask something on the Framework. I have longstanding connections with Sussex and I was delighted to see something called the Sussex Framework which I have tried to understand and thank you for what you have just said. In other discussions on this topic, we have been very much reminded of the links between trade policies and domestic economic matters. I have not understood how your framework—and I am interested in the statistical side/economic side—relates to the domestic economic framework. It is certainly quite well advanced in Sussex thinking. Are there relationships between the economies and the trade figures and so on?

Dr Gasiorek: Yes, indeed, there are. It partly depends on available data. At most obvious level, one wants to link the data on production that you have for the economy at a detailed level of disaggregation and levels of production and levels of trade and then relate it to levels of production. Then are macro-economic variables that one might want to take into account. What has been happening to economic growth, to inflation and to unemployment in the national economy over time in particular sectors. Which are the sectors that appear to be growing, which are the sectors that appear to be in decline and linking that to trade performance.

Q37 Lord Moser: Conversely, do the findings from the trade framework fit into effects on domestic economies? I was thinking of it that way round. We should not spend time on this really.

Dr Gasiorek: Yes. That will depend on the circumstances, but it is entirely possible that the framework will suggest that, in a particular trade agreement, it is quite likely that a given economy is more likely to specialise in a particular sector as opposed to another sector because to date that sector has been highly protected. If you can see that a given

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sector has been highly protected in the economy and, as part of the agreement, the tariffs and non-tariff barriers in that sector go down, then that suggests that that is a sector that might subsequently—

Lord Moser: That is the kind of thing. Thank you.

Q38 Chairman: Before we leave bilateral agreements, Dr Holmes, you have been slightly missed out in this and I am sure that you have things to say.

Dr Holmes: I have just a couple of little things on that. To follow up on this notion of the deeper side of integration, I agree with a lot of what Alan has said but, like Michael, I am slightly less anxious than he is about the potential damage to the multilateral system from the newer forms of bilateral agreement. To the extent that we have succeeded in lowering tariffs, the risks of trade diversion is slightly less and, to the extent that these new trade agreements really are about, shall we say, approximation if not harmonisation of regulations across borders, my feeling is that it is harder to have adverse discriminatory effects in that sort of area than it is in just tariffs. Negotiating service liberalisation in the context of a bilateral agreement does tend to mean that the agreement is more open in general. So, where the EU is urging countries to adopt its standards, in fact, in most cases, the standards will be international standards that countries are being urged to adopt. I think that the danger is more perhaps in the area of what Lord Moser was talking about, but again that is not necessarily a danger, that if you press countries to adopt EU or internationally-orientated standards when they are not yet capable of applying them across the board, that might have serious costs for some firms that are not yet able to cope but benefits for those that can and can upgrade. If we look at the experience of Central and Eastern Europe, and their adoption of EU Regulations, the experience seems to be that, even in countries that were formerly parts of the Soviet Union, their ability to respond to the challenges has been really quite positive and one of the statistical indicators that we look at in our framework is the notion of intra-industry trade, where we are looking at the extent to which firms are either taking part in the vertical division of production supplying components to other firms or specialising in fine niche markets. Where they are doing that, one can argue that there is a scope for positive advantage in getting the standards aligned, getting certification procedures and trust in compatibility and quality. In our statistics, we look for little signs that developing countries are in a position to engage in the kinds of trade that take place between developed countries and then we try to ask the question in a qualitative way: are there regulatory and institutional arrangements that could help this develop? I think that is less likely to be a

danger than some of the effects of tariffs. There has not yet been a case of which I am aware where you have regional trade agreements obliging a country to adopt some standard which will then cut them out of some third markets. It is a risk that might happen in the future but there has not been a lot of it yet.

Q39 Lord Moser: It goes back again to bilateral versus multilateral. I must confess that the more I listen to these discussions, the better I understand the differences between bilateral and multilateral but the less clear I am on how to think about the pros and cons of a very wide-ranging system of bilateral agreement as opposed to multilateral, but perhaps I will become better educated as discussions go on, but is there anything you can say to tell me what to think about the pros and cons? It seems that the world is going fairly unavoidably towards bilateralism. Anyway, specifically on services, we get sent press cuttings with our papers from the Clerk, and this one says that considerable progress is being made on agricultural trade, less on services and non-agriculture, but it also says that there is progress on trading of services partly because developing countries are pushing harder. From the point of view of services which are obviously very important, is bilateralism good news?

Professor Winters: I think that your confusion about whether all this bilateralism is a good thing or a bad thing besets us all. None of us can assert with confidence that we really know. We feel deeply about it sometimes. I think that the story about services is the following. Service liberalisation clearly is more complex than goods liberalisation because services are just about never controlled by simple things like tariffs. Rather we use regulations, which often are technical and arcane. The question really is, can we imagine a set of circumstances where circumstances are simple enough that a multilateral agreement can actually be forged or are the necessary bits of liberalisation so complex and so specific to particular countries and their circumstances that they really have to be negotiated one by one around a very small table? We do have some service agreements. The financial services agreement has clearly been of some use and there was the international telecoms agreement. So, we are able in some cases to make some progress on services liberalisation. When it comes to agreeing other standards however, I think that the evidence at the moment is that progress such that has occurred has been at a bilateral level and then I think that the really critical issue is exactly the one that Peter Holmes highlighted and that is the extent to which agreements formed bilaterally de facto or de jure lead to the exclusion of third parties. Whether or not a bilateral agreement precludes or even makes it more difficult for non-parties to that bilateral agreement to trade with the partners or for

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the partners to trade outwards to the other countries. There are dozens and dozens of services and dozens and dozens of regulations and, in a sense, we should not realistically expect a very simple black and white answer that applies in all cases. I think that there are cases where we might look to multilateral arrangements to make progress in services even if it does not necessarily liberalise every dimension and give us a perfectly open trading system but which lay down norms and requirements and then possibly leave room for more local fine tuning of that to particular circumstances. I certainly do worry that if, for instance, we got into a situation where the only progress on a service issue were bilateral, we could end up fragmenting serious parts of the world economy. If one thinks about financial services, all our experience suggests that the more global is the regulation, the more harmonised are the regulations, the better off we will be.

Q40 Lord Moser: Presumably, the importance of services varies from a very small percentage to a very high percentage in countries. Do you have a figure in your head?

Professor Winters: In terms of production, it varies from a fairly large percentage to a very large percentage. China is the least service-orientated country that you could more or less think of and services count for 40 per cent, maybe a smidgeon under, their GDP. Services are difficult to trade, so there are certainly some countries which trade relatively little services or certainly which export relatively little services. For many countries, the rich countries in particular where 75/80 per cent of production is service orientated and India is a case where 50 per cent of production is service orientated, one has to believe that there is very substantial scope. There is some trade now but there is scope for substantially more trade. It seems to me that when you start to think about services, you should bear in mind that you are thinking about the bulk of economic activity.

Q41 Lord Steinberg: When we talk about developing countries—and you have just used the word “rich” countries—would you agree with me that every country likes to think of itself as developing because they always have further ambitions of industries and things that they want to become involved in? I presume that when you use the word “developing”, you would prefer to use the word “poorer” countries. Speaking of tariffs, the less developed countries seem to be protected more and they are entitled to be protected, are they not? Should their tariffs, imports particularly, be removed quickly or slowly taking into account what the individual circumstances of each country are? I do know that the bigger the economy, the less effect there is and the smaller the

economy, the smaller the country and whether it has any mining assets which a number of these smaller countries have. Should those tariffs be removed more quickly or more slowly?

Dr Gasiorek: Let me perhaps quickly try to answer the first question about developing countries. Typically when, as economists, we use the term “developing countries”, we do mean the poor countries and I guess that there are different ways in which one could define poor in that sense. In terms of tariff removal and how quickly tariffs should be removed, “quickly” and “slowly” are relative terms. It seems to me that one can think of circumstances of poor, developing countries where requiring them to remove all their tariffs, let us say in a short period such as three or five years, is too short a period of time. I firmly believe that developing countries should liberalise their tariffs. In addition to what I was saying earlier about potential benefits from bilateral or regional integration, the fundamental principle which very much holds to is that reducing your tariffs on imports from all partners is always preferable. So, liberalising tariffs is something which developing countries should be seeking to do. How quickly they should do that will depend a little bit on individual circumstances. If you liberalise tariffs very, very quickly in the hope of engaging more in world trade yet you do not have the supply capacity, the infrastructure, the core facilities and the legal and financial infrastructures in order to take advantage of those opportunities, then perhaps that is liberalising too quickly. Conversely, a time period of, for example, 25 years, as is the case with the EPA agreement initialled between the EU and the Caribbean, seems to me extraordinarily long; it is almost saying “never”.

Professor Winters: I would like to add to that. I agree with Michael but would actually be rather stronger on this. I believe that developing countries would benefit substantially from reducing their own tariffs, not immediately but over some quite clearly finite period.

Q42 Lord Steinberg: On a graduated basis?

Professor Winters: Usually a graduated basis as long as that was credible. Sometimes, graduation is an excuse for taking a small step and hoping that the large steps later will get overtaken by some other events, but a credible liberalisation phased over a period is not a problem for me. I have done research with Thomas Hertel at Purdue University fairly recently which suggests that one of the reasons why the Doha Development Round is not going to give us very much reduction in poverty in the world is precisely because we have allowed the developing countries to make no concessions for it, the least developed countries making no concessions and the developing countries, the next level up, to make

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smaller concessions than industrial countries, actually sufficiently small that very few of their applied tariffs change. We find that in fact poverty is reduced in developing countries if they reduce their own tariffs. I believe that one of the major mistakes that we made in the Doha Round was the so-called round for free. It has been a cancer, to be honest. It has completely changed the attitude as to what trade can do for an economy. The people who have encouraged developing countries and the least developed countries to think that the real victory in trade negotiations is to get somebody else to reduce their tariffs while you keep yours or even raise yours have just got it upside down.

Q43 Lord Steinberg: What do you think European trade policy should be to help the less developed countries for the benefits of global trade?

Dr Holmes: I think that we all have particular issues or individual hobbyhorses here, so I will just mention my two. I think that we should be more serious about the reform of anti-dumping. I think that the Commission is aware of the fact that this is getting in the way of European firms' outsourcing activities as well as being a nuisance for the exporting countries though I think that, in all cases, the poorest countries are not the ones that are being targeted. The ones that are really poor are not being held back by the inequities of anti-dumping. The other matter that I would like to mention is that I think we need to think about—and this is where I think it comes back to the deeper integration issue—technical barriers to trade, food safety and so on. These are very, very hard issues to deal with. It is no good saying that Europe should abolish restrictions on unsafe food products coming from developing countries—we cannot do that—or even to say that we will accept testing certificates issued by labs anywhere in the world that say that the food is safe and will not bother to check again. I think that there is a very important set of steps that need to be done to encourage developing, as in a country that really is developing, countries to give them a reward in that if they upgrade their standards infrastructure, health and safety standards, quality control and so on, then we will make it easier for their goods to come in. That will not help the ones that are not able to live up to these standards, but it would help those that can.

Q44 Lord Steinberg: You think that those two things, better infrastructure and better grading of products, would make a big difference?

Dr Holmes: A support for what is usually known as quality assurance and thinking carefully about what our real interests are in anti-dumping. Those are my two hobbyhorses. That is not to say that they are the most important, they are just the ones that I have.

Dr Gasiorek: I think that the first of those comes under perhaps a broader umbrella of trade related development assistance and I think that that is an important area in which the EU could be helping developing countries. That is not specifically to do with EU trade policy, that is to do with development assistance which is not exactly the same field but I think closely related. I think that there is some scope for appropriate regional tradings or bilateral agreements for developing countries. As was discussed earlier this morning, I think that there are potential gains for developing countries from those processes which are potentially important. Then, what might seem like a fairly technical hobbyhorse—and this is my hobbyhorse—is that I think that the EU could do a lot more to make the rules of origin significantly easier for developing countries.

Q45 Lord Steinberg: That is a good hobbyhorse to have. I agree with you.

Professor Winters: May I add two hobbyhorses. The first, given my answer to your previous question, is: get the rhetoric right. Europe's rhetoric has been unhelpful in the last half-a-dozen years. The second is the Common Agricultural Policy. It does not impose misery on every single developing country, but it certainly is a cause of some economic problems in some places.

Q46 Lord Renton of Mount Harry: I am sorry that I was late in arriving and I hope that anything I ask is not a repetition of matters that have already been discussed, but I was actually on a train three miles from Sussex University this morning and I should declare that I had the privilege of being on the Council of Sussex University for a number of years until the end of the last academic year and I know very well the high reputation for international research at the University. Clearly from reading the papers that you sent to us on the Sussex Framework, I think it is fair to say that you collectively are very disappointed that economic partnership agreements have not worked better or more have not yet been formulated. Would it be true to say, really picking up on the last remarks made, that some of the reason for this might simply be seen as the interference of the EU and the wish to establish principles of organisation and so forth before the partnership agreement really comes into effect? I note that in the last of your papers you write, "These policies need to be specified in terms of the constraints identified with respect to each of these issues (e.g., minimum levels of infrastructure, minimum standard of domestic institutions and regulations, institutions to support trade facilitation) . . ." Is there not a moment when you might say that the average developing African country might run away from that very quickly saying, "We do not want all this degree of

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interference”? Is there not perhaps a view of some that the EU is there to change and almost on their terms to conquer? If an African State is at the moment very busy negotiating with China to sell them all their copper or to allow China to buy the copper mines, this sort of discussion does not fit in. Am I being too pessimistic or is some of this what is happening at the moment?

Dr Gasiorek: You have raised a very large number of issues here and let me try and make my way through them as best I can. Towards the very beginning, you raised the question about disappointment with regard to EPAs and that perhaps more had not been signed. I would say disappointment with the EPAs, not disappointment that more had not been signed. I think that the EPA process was in many ways flawed from the very beginning. I think that the EU made a very major error in determining and deciding which of the groupings and the configuration of countries it was prepared to negotiate with as opposed to allowing the countries to work out amongst themselves whether they wished to form regional groupings and what type of regional groupings and whether they were consistent with existing arrangements in those regions of the world and so on. I think that the EU also made a mistake in refusing to link some trade aspects of the agreement to trade related development assistance. Yes, there is disappointment about the EPAs. I think that the one EPA which seemed more or less coherent, logical and consistent is the only one that has been signed which is the Caribbean EPA, and I think that both parties to that agreement at least at present seem very happy that they have each got, they feel, something very positive out of that agreement. In terms of the part of the document you read out, the spirit behind that was not that we feel that the EU should be saying, “You must achieve certain minimum standards”. That very much was not the spirit behind that document. The spirit was much more that I believe it is important for developing countries to take control/ownership of what their constraints are and their priorities are and then, in agreement with the EU, decide on where to move forward, not for the EU to tell them where they must change. It was very much the reverse of that that I think was intended by that document.

Professor Winters: I feel rather strongly about EPAs. First of all, again, we got the rhetoric wrong. It has been a most remarkable negotiation where it appears that the sole objective of most of the developing countries is to do as little liberalisation as possible and to do that as far as possible into the future. I agree entirely with Michael that it is not for us to say, “You have to do this”. We just got into a complex game which absorbed a lot of capacity and essentially designed it with completely the wrong thought processes. I am not particularly disappointed in one sense that we have not signed more EPAs. I am more

disappointed actually that we continue to pour resources into trying to get them done and have developing countries pour resources into getting them done too. For myself, I would have done two things: First, I would try to make the EPAs very, very much more simple so that negotiations take up much, much less of the scarcest resource which developing countries have, skilled labour. Second, I would encourage the developing countries to understand that, if they maintain tariffs at 20/30 per cent against the rest of the world and zero against the EU, they are almost certainly going to incur economic costs and what the EU could usefully do is encourage and support and maybe even finance the reduction of their tariffs on other people.

Dr Holmes: Very briefly, I would like to add something just going back to our talk about the connection with domestic activity. To the extent that countries are exporting agricultural products and that agricultural products are increasingly taking on some of the characteristics of industrial goods with supply chains, value chains, certification procedures and so on, it is actually quite difficult trying to think of some of the support for trade that does not involve reaching back into the domestic supply chains and food safety regulations. The EU is not going to be able to say, “We will import coffee from Ethiopia regardless of how much ochratoxin there is in there”. If you are going to facilitate exports of spices, coffee or anything from Ethiopia, you are going to have to do something which actually talks about the trade facilitation dimension which is not just about trade, it is also about production. If we are talking about supporting the supply side, we are going to get into some rather messy things about how they regulate their economies, whether it is services or agriculture.

Q47 Lord Renton of Mount Harry: This may have already been covered but very much in answer to very interesting comments we have just heard, to what extent do you think that the EU are prepared to change and are changing? Professor Winters, you said that you were very disappointed in the EU’s attitude and the rhetoric and making it too complicated and so forth. Is it changing?

Professor Winters: It is not changing very much, to be honest, partly because the crisis has passed. I did begin to wonder towards the end of last year whether, with the impending deadline and apparent zero progress, we actually might have a serious rethink. Ever since EPAs were mooted, I have bombarded the profession and sometimes the Commission with bits of advice and I had hoped that they might have listened, but in fact I think what happened was that we really patched something up with these interim agreements. The Caribbean agreement might offer something, but I think that the others are pretty disappointing. I do not honestly see too much sign

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that we are getting a coherent story and certainly we are not moving in the direction that I would particularly have advocated.

Dr Gasiorek: May I respond to that as well and I entirely agree with Alan there. The current position of the European Commission on EPAs is, leaving aside the Caribbean one, that the others are interim agreements and that they will be renegotiated and there will be full EPA signings in the course of this year. I think that is exceedingly unlikely. I really do not see that happening. The other example I would give is going back to my early hobbyhorse, if I may, briefly, which is that one of the ways in which I do believe that the EU could help developing countries is

in simplifying its rules of origin. Approximately two-and-a-half or three years ago, the EU formally announced that it was undertaking a review of its rules of origin in order to make them more development friendly and it was going to come up with proposals for more development friendly rules of origin. Manifestly, that is not happening and those proposals have been shelved.

Chairman: Thank you very much. It remains for me to thank you very much for coming. It has been a most useful session and indeed has started one or two hares running certainly in my mind about further questions we might at some future stage ask. Thank you very much indeed for coming.

TUESDAY 3 JUNE 2008

Present: Cohen of Pimlico, B (Chairman) Trimble, L
Haskins, L Watson of Richmond, L
Moser, L Woolmer of Leeds, L

Examination of Witnesses

Witnesses: PROFESSOR RICHARD HIGGOTT, University of Warwick, and PROFESSOR SIMON EVENETT, University of St Gallen, Switzerland, examined.

Q48 Chairman: Welcome to you both and thank you very much for coming. The whole of this session is being recorded for broadcast on to the parliamentary system. We also record it manually, and you will be offered a transcript so that you can perhaps correct some of the less fortunate things one tends to say in a hurry. You may take it that we have all had a look at the Warwick Commission report. We do, however, need to get some of it on the record because our rules do not allow us just to take evidence which was not written for the purpose, as this was not. Perhaps I could ask you to start by outlining what you see as the challenges facing the multilateral trade regime that the Warwick Commission identified.

Professor Higgott: Thank you very much, My Lord Chairman, and thank you for inviting us. It is a pleasure for us to have this opportunity to be here. Let me start by saying that we were concerned with what we have called the systemic challenges for the global trade system. Even though our discussions deliberated quite extensively around the issue of how, for example, one would bring to closure the current Doha Development Agenda, we were concerned about those challenges that would exist for the world trade system above and beyond the not-so-simple conclusion of a round. We were also sensitive to the fact that there is a wide range of systemic challenges in other bits of the global economy too, like global finance, but we focused on five key issues for the multilateral trade system. The first was to see how to stem the growing opposition to further multilateral trade liberalisation that was seen to be developing in industrialised countries. We were also sensitive to the fact that there was an increasing wane in public support for the further opening of economies evident in many industrialising countries that we felt threatened trade agreements, future trade agreements, and a rules-based system. The second thing we were particularly concerned about was to ensure that the shift from a bipolar to an evolving multipolar trade regime did not lapse into stalemate or, worse still, disengagement by the major actors. It was not simply a case of how to keep the United States and the European Union, the two traditional major actors, and, to a lesser extent, Japan engaged, but also how to facilitate and encouraged a role

commensurate to their economic size for the new players, particularly India, China and Brazil, in the development and continuation of the trade regime. The third thing we were particularly keen to think about was the challenge of what I suppose we would call ensuring or forging a broad-based agreement amongst members of the WTO on their objectives and the functions that defined the activities and boundaries of the WTO. Our judgment here was that quite clearly there was not a settled definition on what should form the core elements of the agenda of the WTO beyond the traditional activities of trade liberalisation, the creation of rules and norms for the trade regime, and the degree to which the WTO may or may not get sidetracked by what we might call "trade and . . ." issues (trade and environment, trade and labour, and these kinds of things). The fourth challenge that we identified was to ensure that the WTO's agreements and decision-making procedures resulted in benefits for its weakest members. To this extent, we were concerned with what at one level may have seemed like academic issues, questions of fairness and justice, but nevertheless issues that cast what we considered to be long policy shadows. The issue here was how to ensure the buy-in of weaker developing countries and so our agenda tackled that issue. The final challenge we identified was to ensure that the proliferation of preferential trading initiatives advanced rather than retarded the longstanding principles of non-discrimination and transparency in international commerce. We took the judgment that it was not sufficient, as you find in a lot of what we might call classical trade literature, simply to condemn the rise of preferential trading arrangements. Recognising that they are sub-optimal is not a sufficient reason for saying they will go away, so the question was: "How do you live with these arrangements? How do you manage these arrangements?" Our key agenda here was that we finished up thinking about how best to multilateralise regionalism and regional trade arrangements and how to mitigate the downside of these particular activities. On the basis of these five challenges, we came up with a series of recommendations that presumably you would like us to discuss in this session. I will stop there now if I may.

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Q49 Chairman: Do you have anything to add on this question?

Professor Evenett: Although our report was drafted very much with the multilateral trade regime in mind, I think the five challenges that my colleague has laid out all have direct implications for EU trade policy as well as for the structure and the operation of the WTO system. We may want to explore the EU dimension of this a little more but I would certainly like to get that on the table straight away.

Chairman: Thank you very much.

Q50 Lord Trimble: Your introduction leaves me with the impression that you think most people, or at least the major players, have lost their appetite for multilateral trade negotiations.

Professor Higgott: Our judgment was that there is a growing fatigue with the difficulty of negotiating the liberalisation of trade. But I do not think there is a fatigue with the benefits of the rules and the norms that the system provides. Basically it is difficult negotiating trade liberalisation. Historically we know it has got increasingly difficult as trade rounds have progressed, from the early GATT rounds through to the contemporary period. The other thing that is quite apparent is that there is more than one way to negotiate trade liberalisation. We, the Warwick Commission, are a pluralist Commission, with people from countries that were actively negotiating bilateral and regional trade arrangements, but the one thing we all had in common was that, in principle, we were multilateralists but recognised that there was this increasing tendency to look to other ways to liberalise trade: bilaterally, unilaterally. Our judgment is that there is a fundamental commitment to the norms and principles of the global trade system but a recognition that the multilateral way of liberalising trade is becoming increasingly difficult.

Q51 Lord Trimble: When you say there is a fatigue about the multilateral approach, is this something that goes further than the electoral cycle in the US and the Commission cycle here in Europe?

Professor Higgott: We see it clearly in the electoral cycle in the US at the moment, but it is something that you could also argue has found its way into the academic literature too. I do not know whether you have been following the blog in the *Financial Times*, but people like Larry Summers, Joe Stiglitz, Alan Blinder, (eminent economists all) coming into this discussion in a way that I think it is fair to say we would not have expected a decade ago. Conversely, in some ways there is a growing enthusiasm for the liberalisation of trade in many developing countries, or at least amongst the political and economic elites of the major developing countries, so it is not a one-way street. In the introduction to our Report by the

Honourable Pierre Pettigrew, the Chair of our Commission, he flagged up very much what he called the political fatigue and, quite frankly, the absence of political leadership, in major OECD countries.

Q52 Lord Trimble: Your primary conclusion at the end is that there should be a period of reflection for the trading system to look at these matters. We are supposed to be still in the Doha Round, where everyone is still expressing the hope that Doha still might succeed in producing something but calling for a period of reflection almost as a signal, saying “We think Doha is not going anywhere. We will just leave these people here, pretending that Doha could go somewhere, while we concentrate on reflecting.”

Professor Higgott: I am delighted to be able to answer that question because we may have left that too ambiguous. It was not our assumption that there would be a period of reflection during the DDA. Many of us are academics but I would like to think we are quite policy-focused academics. Our assumption was that once the DDA was out the way, notwithstanding the outcome of that round, it would be time then to think about the major systemic issues, particularly the issue of agenda setting, particularly how you make more effective and more efficient the decision-making processes of the WTO in this wider context. That was where we thought the utility of the reflection exercise would come, and also to deal with those wider issues that are off the agenda in this round. The other thing I should say on that—and then I will leave it—is that we were not naïve. This has happened before in the past. It is important that there are these periods of reflection, but we were certainly not naïve enough to assume that this would have any traction and nor should it have any traction during the process of a round of negotiations.

Q53 Lord Trimble: The reflection is not a signal of a view that Doha is failing; it is not a signal that you think WTO is failing.

Professor Higgott: I would substitute “having problems” for the word “failing”. The DDA has taken a long time to get to where we are—and my colleague may want to say something more about the state of the round in that sense—but we all recognise that there are serious problems. Our assumption was that there would be a resolution at some stage, but if you think about the future of the WTO and the role it has to play—and I know that is one of your questions and we will come to it—there is a role but we think that role is attendant on there being some substantial rethink about the structure of decision making in the global trade system going forward.

Professor Evenett: Perhaps I could make two sets of comments. First, the Doha Round has revealed that there is a lot of interest in the WTO as a system of rules. No country is leaving this organisation,

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countries are tenacious in defending their rights, but their willingness to engage in the liberalisation function of the WTO seems very limited, their willingness to give up much in return for making what are often very large demands. I think the Doha Round has revealed that there is something wrong with how one of these functions is working. I think the Doha Round has also revealed a lot of dissatisfaction from many of the developing country members about what they see as a lack of even-handedness in the system. Often what that problem is is not clearly articulated but there is a sense in which the Doha Round has revealed a number of deficiencies. The question is how one begins to address those deficiencies. People start by saying, "We must finish the Doha Round first." There is the old American expression: "We cannot walk and chew gum at the same time; we have to do one or the other" and I think many people would rather finish the Doha Round and then begin to reflect on what has gone wrong. Second, when we drafted the recommendations for this report, which of course was almost nine months ago, there were two potential expectations you might have had: that there would be a Doha Round breakthrough by now, in which case moving on to a period of reflection would seem quite sensible, or that people would have accepted that the Doha Round was not going to be concluded and unlikely to be concluded for two or three more years, in which case a period of reflection would have made sense. That is perhaps why this proposal has received some prominence on our side. Now we find ourselves in the situation where people are still trying to conclude the Doha Round—and this will probably be a critical month in determining whether or not that will happen this side of the US election—and so this recommendation of ours for a reflective process seems a little odd, given the timing. But, hopefully, I have begun to explain why we thought of it in the terms we did.

Q54 Lord Trimble: You are quite confident there is a role for the WTO going into the future, particularly on the rules-based side and on this question of getting the even-handedness.

Professor Evenett: That is right. There is clearly a strong interest by WTO members in the rules. The rules really are rules for non-discrimination, where we limit the capacity of one country to pick on another, and there is a very strong constituency it seems for supporting those rules, especially amongst poorer countries. Where there is a concern is very much in the liberalisation function. It seems that countries like India are much more willing to unilaterally liberalise their trade regime than to engage in reciprocal trade deals, whether it is through trade agreements with the European Union or the Doha Round, and the Indians are not alone in this

regard. There is a very curious political economy there of which we need to understand a bit more if we are going to do business with the Indians.

Q55 Lord Trimble: I cannot remember now which expert gave us this evidence but I remember someone saying to us earlier that previous liberalisations have really been driven by the countries that wanted to liberalise because they saw the benefits of it. This almost unilateral liberalisation seems to be something that is a real prospect.

Professor Evenett: Curiously, if you talk to the senior officials in some of the leading developing countries, they want to reform their economies, but they find it easier to explain to their own people reform on their own terms. The moment it becomes a reciprocal deal, a negotiating deal, often the trade minister is accused of not getting enough. Whatever they get is never enough compared to the perceived losses. In countries where this dynamic is at play, you can understand them going down the unilateral route. Many developing countries have. When you think on what this means for the WTO, it would seem that using the WTO as a mechanism for liberalising reciprocally or simultaneously is something which perhaps should be downplayed and we should think much more about building the rules. When countries feel comfortable about locking in and binding their unilateral reforms, of course the WTO should be there to facilitate that as well. Perhaps that is the future.

Q56 Lord Watson of Richmond: Before we leave that interesting description of fatigue in terms of multilateral negotiation, do you feel that it goes wider than trade liberalisation? Is there, in a sense, a cultural fatigue about multilateralism? This may be influenced by the frustration that people feel about the relative failure of multilateral agreement on climate change. Are these things linked in a way? People just get the sense that it is all taking too long, it cannot be done, and maybe the heart of it is to go for bilateral deals.

Professor Higgott: To use that old expression: Where you stand depends on where you sit. We have taken this report to half a dozen different countries now and you clearly see different perspectives on multilateralism in different countries. If we take the history of the US over the last decade, then I think it is quite clear that the US has had an aversion to multilateral diplomacy.

Q57 Lord Watson of Richmond: A strong word, but yes.

Professor Higgott: Empirically justifiable too. It is an allusion in some ways to what we might call the move towards network and conference style diplomacy, as opposed to more traditional hierarchical attitudes

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towards diplomacy preferred by the USA. But I see a rolling back in some ways there. Conversely, if you go somewhere like Australia or Canada, where there is a traditional understanding of the role of the small and medium players in international public policy and the degree to which you get your messages across, then at the level of the officials they are as strongly committed multilaterally as they have ever been. At the level of the officials, if you like the global public policy makers, in the UK too there is still a strong commitment. If you go to what we might call the private sector of the global policy-making elite, the corporate sector gets increasingly irritated with the slow pace of this process—and this is where our discussion of electoral cycles was important—so I do not think you can make a blanket recommendation or a blanket judgment there. The other thing we were particularly concerned about was that we felt there was a danger of the “unlearning” of the importance of institutions. There is not much that we can say that we know solemnly in the social sciences but one of the things we do know is the degree to which institutions foster cooperation, enhance trust, transparency and credibility, and the degree to which these have come under challenge over the last decade or so. That is the kind of signal that we were trying to give here.

Professor Evenett: I would like to stress, if I may, the diversity across the countries in their attitudes towards certainly the multilateral trade negotiations. My reading of the discussions in Washington at the time the Doha Round was launched—and I was there following it very closely—was that the Americans were particularly nonplussed about whether this happened or not: they would do it if they thought they could get something out of it but this was very much what the Europeans wanted. Then, when you come to Brussels, you find that Brussels is perfectly happy to have a trade round, “As long as when it comes to agriculture we are merely going to lock in what we have agreed to do unilaterally anyway,” and the rest of the world says, “Why should we pay you for what you are going to do anyway?” When you go to India, I have described the dynamics. Then, when you go to Beijing, they are much more concerned about scaring the horses: they know that the moment they make any demands of any other countries people will ask many things back from them. When you consider all the big players, I think you have different explanations as to why this round has been a bit of an orphan.

Lord Watson of Richmond: I am sure you are right to flag corporate impatience as a growingly important factor.

Q58 Lord Haskins: With the alternative objective of examining the WTO being used for wider purposes, social and environmental purposes, is it not all getting a bit too complicated? I remember Peter

Sutherland being asked that very question just after the last settlement, “Why does the WTO not take up those issues?” and he said, “It’s too ruddy hard.” He said, “I would never have ever got a deal had I had to take into account these valid issues such as social injustice.” His argument was, “You make it too complicated by going down that route and you will not get a deal. You must deal with those issues on another arena.” Is that right?

Professor Higgott: With respect, that is not what we advocated. We said in that section of the report was that we needed to think about what were genuinely trade issues that were an appropriate remit for the WTO and what should be conducted in other forums. In our discussion of the decision-making process and the idea that you should relax the single undertaking, we were thinking of those kinds of trade-related issues that would have been put under the rubric of “Singapore issues” two or three years ago, things like procurement policy, competitiveness and those kinds of things. I do not think we had a judgment—and it certainly would not be a personal judgment of mine—that the WTO should take on board the “trade and” issues (trade and environment, for example). We were quite specific that that was not what we were advocating. We were concerned that there were some important trade issues that were not being advanced because of the nature of the single undertaking. Those states that wanted to negotiate liberalisation on these issues should be allowed to take them forward on their own, without unpacking, if you like, the norms, especially the Most Favoured Nation status, of the WTO, and in such a way as to allow those states that wanted to take those things forward to do so but still offering the opportunity to others to be involved at a later stage should they wish to be in a way that did not drive actors away from the WTO.

Q59 Chairman: Do you have anything to add, Professor Evenett?

Professor Evenett: In addition to the recommendation for critical mass, which is what Richard is describing, we also need to recognise that there will be some of these “trade and” issues which are so controversial that many of the targets of them will not sign up. Let us take trade and labour: India will never sign something like this. Having a critical mass mechanism in place is useful for tackling some issues but not all issues. One of the things which is particularly useful in this report is that for those critical mass items—these are items which only a subset of the WTO membership go ahead on—we have articulated seven or eight principles or requirements for an issue to go forward on that basis. We have put together those principles on the basis of what we had understood about the operation of the world trading system, as well as what is known in

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both legal and other scholarly writing on the WTO. In terms of operationalising critical mass, I would like to stress that we have not just said, "This is a good idea," but we have also articulated when we think it would be good. We went that route, rather than specifying that trade and labour should be in or trade and environment should be in. The question is whether or not an issue meets those criteria. That is how we approached it.

Q60 Lord Watson of Richmond: I was struck by another phrase you used at the beginning, "long policy shadows", really stemming from issues like fairness for justice and involving the problem of winning the co-operation and motivation of weaker members. If you were deploying what you would consider historically to be the best evidence for the benefit that developing countries have received from multilateral trade agreements what would it be? If you had five minutes in the lift, what are the key arguments you would use?

Professor Higgott: Not surprisingly one of the biggest discussions we had in our deliberations was about the relationship between trade and development. The position we came to was that trade liberalisation is categorically a necessary but not a sufficient condition for development. The way that we focused on this—and you will have seen the debates by William Easterly recently about the nature of development—was to ask, "What is it about trade liberalisation that facilitates development and what can be done by the trade system to enhance and support this liberalisation process?" and not, "How do we take on all the other aspects of the developmental process?" We started from the assumption that if you look empirically, historically, those states that have developed best, let us say since the Second World War, are those that have eventually practised export oriented industrialisation as opposed to import substitution industrialisation. We would argue that the empirical evidence says that trade liberalisation assists development. In the chapter that we had on trade and development, we identified what we thought was the need to disaggregate the understanding of Special and Differential Treatment, because it is used too often as a blunt instrument and often as a moral instrument and it is politically overcharged. We felt there was a need to deal with that and also to think about the importance of Aid for Trade. It may be that Simon could comment on that.

Professor Evenett: The question was also a bit about the evidence as well. You will remember that we said earlier we thought there were two functions to the WTO: the liberalisation side and the rules side. On the liberalisation side, there are some studies which claim to show that developing country exports have been bolstered by WTO membership, by joining the

WTO. You can question whether or not that is right. Since up until the Uruguay Round many developing countries did not do much liberalisation in the context of the multilateral trading system, there cannot be many benefits on that side, because they did not do anything, but the question then becomes: Is that the fault of the system or the choice of those policy-makers? Again, there is a problem there in interpreting some mixed results. When you turn to the impact of the rules, almost all of the WTO rules help reduce uncertainty and increase transparency often of national business regulation. There is a large literature which argues that private sector development is conducive to growth and, again, it may be that if you look at that second literature it is the rules side of the WTO which has been perhaps more beneficial.

Q61 Lord Watson of Richmond: The rules side is of course very important to multilateral companies, the whole commercial sector.

Professor Evenett: Absolutely.

Q62 Lord Watson of Richmond: That is where you get that. In your judgment how rapidly do you think less developed countries, and particularly the weakest, should be persuaded to remove important tariffs? I have heard it argued both ways. You can get a real cry of desperation from some of the smallest and the poorest: "We simply can't do this because it will wipe us out."

Professor Evenett: There I would say a number of things. First, we should remember that a large number of the smallest and the weakest developing countries have liberalised tariffs on trade on their own. The question often then, with respect to the WTO, is whether or not they agree to lock in those reforms. It is often a question more about commitment than it is about the willingness to reform. Then, if the countries are reluctant to commit, they often say, "We need to have policy space." I do not know what policy space really means. It is a nice NGO expression, and I do not know of anybody who knows how to practically operationalise this concept.

Q63 Lord Watson of Richmond: Is it just breathing time?

Professor Evenett: Partly it is a call for transition periods, but I think there is an issue that they would like to be able to roll back any reforms that they have done, and that raises the question why. If you fear a shock to your economy or some big price change in a commodity that you export, the question then is why the labour markets and the industries are not adjusting: Why can they not adjust in your country? If you ask that question, it brings you back to one of the recommendations in the report which we very

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strongly advocate and that is having a comprehensive approach to Aid for Trade and having aid funds which are made available to help countries develop their supply-side capacities and to be able to withstand and adjust to changes in the world economy. When one pushes back and asks, “Why do people want this flexibility? Why are they reluctant to commit?” it is often because they fear the adjustment process. We have heard similar things in industrialised countries as well. In the case of developing countries, we can assist them, I think, with dedicated Aid for Trade funds along the lines which have been explored at the WTO for the last few years.

Q64 Lord Watson of Richmond: That is a very fruitful line of inquiry, I think. Finally, under this heading from my side, you mentioned earlier the importance of the EU dimension of all of this, so let us be quite specific about that in terms of EU trade policy, positives and negatives. What do you feel now should be the priorities for EU trade policy going forward as it affects developing countries and making available to developing countries the benefits of globalisation?

Professor Evenett: There are a number of things the EC could do. I should say here that I am going to describe what I think is perhaps more appropriate because the report did not touch specifically on the EC, although I do think there are clear implications for it. The first issue would be to support wholeheartedly this Aid for Trade initiative and to put in substantial funds, not just the one-plus-one formula we have at the moment, which is €1 billion of Commission funding plus, hopefully, €1 billion from the Member States—so a substantial expansion in the support for that. It is worth remembering here that Japan has promised to put in \$10 billion, so the European contribution pales by comparison. The second matter would be to start thinking about whether or not the duty-free/quota-free market access which we offer mainly to former colonies could indeed, that very generous package, be extended to all developing countries by and large. I think that is worth doing. There is some new and quite disturbing evidence that the benefits that the European Commission gives to our former colonies comes directly out of the pockets of other developing countries which did not have a European heritage or link. The third area would be agriculture. We would have to think about how the CAP reform plays out and how that could be used to reduce the distortion of world markets. The fourth thing—and, again, this is very much my own opinion but it does link back to some of the things in the report—is that the EC should be an important builder of trust and relations with the rising emerging powers. They must not see the WTO as the “Western Trade Organisation” as

some of them do. That is going to require us giving way on some issues for the sake of keeping these larger new players inside the camp. Otherwise, they may just sit on their hands, exercise their current rights, and the WTO would stagnate.

Lord Watson of Richmond: Thank you.

Q65 Lord Woolmer of Leeds: One player outside the camp is Russia. Increasingly that will be an anachronism. Why is Russia still outside? Does it matter for the future? It is a big, big player in the future.

Professor Evenett: Again, this is not in the report, but I do follow the WTO accession issues rather closely. I am in charge of an informal group for looking at these matters for a Swiss initiative, so I try to speak to some of these matters. We do need Russia inside. We also need Iran inside and as many countries that want to join. One change which this will require is the countries that are existing WTO members should not block the accession of countries, or at least the initial establishment of a working group which facilitates the accession process. Where foreign policy intrudes should enter much, much later in the process. Then, on the specifics of Russia again, so much of the negotiation is over certain critical sectors, service sectors as well as energy, and we do have to resolve those. The Russians are particularly tenacious negotiators, and so are some of the others who are inside the camp, but we do need to resolve that and get Russia inside the WTO as quickly as is feasible.

Q66 Lord Woolmer of Leeds: What is your judgment about how quickly is feasible? Do Russia care, in their current mood?

Professor Evenett: That is a very good question. When you asked your first question on how quickly, I was about to say, “We will probably get Russia into the WTO before we complete the Doha Round” but that may not be saying very much. There are signs that we could get Russia in this year or early next year.

Q67 Chairman: Do you regard them as critical for the completion of the Doha Round?

Professor Evenett: The accessions?

Q68 Chairman: Yes, the accession of Russia.

Professor Evenett: No.

Q69 Chairman: It is a useful extra but not critical.

Professor Evenett: It is a useful extra. If the World Trade Organisation is going to be about “for the world” then one should have the major economies all inside, I believe.

Professor Higgott: The classic counterfactual way to argue this is to look at, if you like, the socialisation effects of joining the WTO. The classic example is China coming in to the WTO.

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Q70 Lord Woolmer of Leeds: In an interesting section of your report you say that the dispute settlement mechanism is an area which has been a success but which still has room for improvement. For the record, what kind of measures do you propose to amend the current functioning of the dispute settlement mechanism that would be an improvement?

Professor Higgott: For the record—that is an ominous expression for us. I have three points to make on this. The dispute settlement mechanism is clearly what we would call the jewel in the crown of the WTO in some ways: a remarkable settlement scheme in the history of international law—perhaps one of the most—with notable successes. But developing countries are complainants in just one third of the cases—and mostly it is the large ones: Argentina, Brazil, India, Korea, Mexico, Chile—so it needs to improve access for smaller and poorer members litigating effectively and obtaining satisfaction. The key issues are the asymmetrical power of the rich, developed states; the highly technical nature of the cases; the limited retaliatory capacity of smaller states in the face of non compliance; and the prospect of reprisal against smaller state litigants. The extent to which we can enhance the capacity of the smaller developing countries to participate here is important. It is important for two reasons, one of which is the very critical, rhetorical one about justice and fairness not only as outcome but as procedure. We on the Commission are all, basically, WTO boosters and WTO supporters. One of the badly used expressions, like “policy space”, which is thrown around and not used properly is the issue of legitimacy. We are of the judgment that the WTO is a legitimate international organisation but, as we know, legitimacy is very often one of these rhetorical concepts that is fudged and used politically, so the degree and the extent to which we can enhance the role of the smaller states in this process, the better. Having said that, the recommendations we came up with—and I think I am happy to have this on record—were what we might call the fuzziest recommendations in our report, the ones that we recognise are open to differences of interpretation, that are not likely to meet with approval in all circumstances. Some would say that it is not going to make much difference but we suggested that members should be given some right to what we might call a dispute ombudsman, to mediate prior to formal complaint. Second—and this is one of those recommendations that it is very difficult to disagree with: “Well, we can all sign up to this, can’t we?”—we felt it was important to strengthen transparency via more open hearings. We also suggested the submission of *amicus curiae* briefs before panels and appellate bodies. That may not necessarily appeal to everyone’s taste. Some states may feel that NGOs have too much involvement in

this process anyway, but we were thinking about how you might be able to provide extra technical support to the smaller developing countries. The one that is probably controversial is that, in the absence of compliance, or where compensatory trade policy is not forthcoming, WTO members might be able to consider an obligation to provide cash compensation to aggrieved parties. We already know, on the basis of the report having been around for seven or eight months, that some things find favour in some quarters. On some things people say, “This is very interesting,” and on others people say, “We’re not having a bar of this.” I suspect that that last recommendation falls into that category. They are on the record now, as you have asked, but I do not think any of us would die in a ditch defending these, if I may put it that way.

Professor Evenett: I agree.

Q71 Lord Woolmer of Leeds: Just to give a concrete feel to the countries involved, taking what you call the small countries, the countries that find it difficult to take on the big countries in these matters, could you give us one or two examples of the countries you have in mind? Which of the developing countries are sufficiently large not to face that kind of problem? Which countries are we talking about and which are we not talking about?

Professor Higgott: Clearly some countries are now developing what we would call their own substantive technical capacity in WTO issues: the ability to speak “GATT-speak”, for example. It is an exclutory language, just as the language of medicine is. The law is available to very few people to totally comprehend. If you look at the size of delegations and the technical capacity of various countries at the WTO there are some countries that simply do not have that kind of technical capacity. Countries maybe with very low GDPs, very small populations, very small public services are the kinds of countries that could profit from that kind of support that we are talking about.

Q72 Lord Woolmer of Leeds: Could you give me an example of a developing country that is no longer in that position?

Professor Higgott: I think Brazil would be a classic example. You might not even want to consider Brazil a developing country any more. The irony is that there is this paradox about what constitutes a developing country. Places like India and Brazil would argue that in terms of GNP per capita they are developing countries; but if we look in terms of the politics of these actors in international relations, they are clearly the world’s major players. One of the problems that we face nowadays, particularly with issues of special and differential treatment, is that it is quite clear that the United States, for example, is not going to consider Brazil or India to be a developing

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country in that context. If you look at the capacity of their public services, their trade policy communities, they are not.

Professor Evenett: I believe you may find that the small Caribbean states have now come together. They have their own regional negotiating mechanism and, associated with that, have developed expertise not only in WTO law but also in bringing disputes. That is a very useful example of how small countries can pool resources, often with support from industrialised countries. But one should accept that there are still a number of developing countries that may not feel they have the capacity to exercise their rights as effectively as they could. Another part of this is that, as we have seen with the Antigua and Barbuda decision on gambling with the United States, if large industrialised countries decide that they will not honour the WTO's decisions and the decisions of the Appellate Body, then there is not much the small countries can do in terms of retaliatory capacity, unless they wish to threaten the intellectual property rights of an industrialised country. That seems to wake people up in Washington. We have precedent for that. But, in general, there is almost an obligation on the part of larger powers to comply with these adverse judgments, because, if they do not, then developing countries will feel that they cannot defend the rights that they have within the WTO and that important function that we discussed earlier in the rules part begins to lose its value. I think this is tied in together very much with the question of the governance of the WTO and how we facilitate and encourage the support of small states.

Q73 Lord Woolmer of Leeds: Some witnesses before us have said that some countries may get a better deal/get more tariff reductions via the dispute settlement mechanism than if they simply pursued a traditional multilateral trade agreement. Do you agree with that?

Professor Higgott: No.

Professor Evenett: We did not specifically address that matter in the report but I do have a view on this. Technically those witnesses are right: one could bring some very sensitive cases to the dispute settlement understanding, especially against the US and the EC in agriculture, and win. Then the question would arise whether or not the EC or the US would comply. The question would also arise—and this is where the doubts begin to creep in—whether or not there would be a backlash from legislators on both sides of the Atlantic as this process unfolded. The question you ask is a particularly good one because, as you may well know, there is one US law firm which has prepared ten such cases and is fishing for clients, so this use of the DSU as a way of seeking liberalisation, whilst it may be technically possible, I think would be extremely unwise and potentially very damaging.

Professor Higgott: The biggest argument in our discussions that we had against the recommendations was the danger of creating, I suppose, the trade equivalent of what in the United States is known as ambulance chasing. We were sensitive to that.

Q74 Lord Haskins: I would like to move on to preferential trade agreements which have escalated in the last 15 years. I see in the report that the only country that did not sign up was Mongolia, so everybody is in this. I would like a little bit to understand why people have moved in that way. In what sense do these sorts of agreements conflict with multilateral agreement, in the sense that, for example, some of the American preferential trade agreements with the Middle East are clearly politically driven? Is this approach not in conflict with what multilateral agreements should be about? Is there a divide and rule pressure from the big countries, the EU, the US, in pressing this forward?

Professor Higgott: The first point I would make here is to support your view. Many of these regional trading arrangements are in fact of recent vintage. They certainly are asymmetrical. They are very often hub-and-spoke agreements, of more benefit to the larger hub than the smaller states. They can be non contiguous in nature. They are very often of mixed motive. There are strategic and political elements to the development of these bilateral arrangements as much as there are economic and trade liberalising ones. The concerns we had about RTAs was that they can lead to trade distortion and market segmentation; they can engender unfairness towards smaller players; they can lead to the erosion of preference margins; and very often the rules of origins component of a PTA are wasteful and incur costs and reduce trading opportunities. This goes to the nub of your last point, Lord Haskins: they make multilateral trade negotiations more difficult; they pick off the easiest liberalisation opportunities, they leave the tougher issues for the multilateral fora; they divert attention from MTNs; and they create governmental preferences for softer bilateral and regional options. These were, if you like, our principal objections to them. It is in that context that we made our recommendations on PTAs that we can maybe come to later on.

Professor Evenett: Richard has articulated the important part of the critique. Of course the core of that critique is that the principle of non discrimination (that is, we will treat all of our trading partners equally) is undermined the moment you sign a free trade agreement and privilege one party over another. That is a traditional critique; however, in our reflections we also felt that that is not all the story. We also have found in a number of free trade agreements measures which have either limited or eliminated discrimination on a worldwide basis. In a

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number of free trade agreements you will find that countries have agreed not to use performance requirements on foreign investment, and not to use them against any trading partner, not just the party they have signed the FTA with. That is one example of about four or five different ones which have been identified in the literature where RTAs are vehicles for limiting discrimination, so one of the interesting things we have going forward, given that RTAs are here to stay, is to ask what elements of RTAs are less corrosive or, indeed, supportive of the principles of a multilateral trading system, and encourage individual countries to use these clauses in their FTAs that they sign. This recommendation goes under this ghastly phrase “multilateralising regionalism”. That is what people mean by that. That is something new that we have learned in the last couple of years which is directly operational and something which trade policy-makers can take on board. In addition, of course, there is one other development and one potential developing which are important. The development which has happened, which I think is really worth following, is this new transparency mechanism at the WTO for studying newly signed free trade agreements. A number of analyses have been done by the WTO secretariat of free trade agreements. This is said to be adding substantially to the information base about what works and what does not and I think that could be useful.

Professor Higgott: Since we are reading things into the record, one of the things we do recommend here is that this process should be strengthened and made permanent as part of the WTO activity.

Professor Evenett: The transparency mechanism at the WTO, as I am sure you are aware, is only provisional. It is not permanent. One question is whether it should be made permanent and we certainly take a view on that. The last area where work needs to be done—but people have been saying this for decades and it has not been done—is to revisit the WTO rules on free trade agreements. It is much easier to say but whether there is any taste or willingness to do it is another matter. That is where I started off, by saying, “Are there elements of free trade agreements which countries can individually, on their own, without a WTO initiative, begin to start implementing in a way which is supportive of non discrimination principles.” That, perhaps, is the more useful, more likely trajectory to follow.

Q75 Lord Haskins: The development of these free trade agreements could, if not kept under control, undermine the whole WTO set up. Are there any rules within the WTO which control or establish principles for countries to enter into preferential trade agreements with each other, which can make

sure that these agreements are compatible with the broader agreement?

Professor Evenett: There are three sets of rules. It would be appropriate to say that they are more honoured in the breach than followed and complied with. This is an area where the mismatch between what is on paper and what happens is very wide and probably needs to be narrowed. As I indicated earlier, people have been saying this for years and there has been no taste to reform. It seems the countries signing free trade agreements do not wish to be constrained in what they do.

Chairman: That would figure.

Q76 Lord Moser: Professor Higgott, you referred in your introduction to weaker members. That is chapter 3 of the Warwick Commission report, which I was very interested in. Incidentally, may I congratulate you on this report, not just the content but I think Warwick has invented a marvellous process for linking academics—and I am a social scientist myself—and the policy world. So much social science work goes on in universities and it never gets near the policy world. This is a marvellous model, and you had the WTO on your Commission.

Professor Higgott: Thank you.

Q77 Lord Haskins: I hope this is followed. This is the first.

Professor Higgott: This is the first.

Q78 Lord Haskins: I think it is terrific.

Professor Higgott: Thank you.

Q79 Lord Haskins: On chapter 3, where you are dealing with the weaker members, you have two topics: special and differential treatments on the one hand and what is called aid for trade on the other. One the first, I get the impression from reading this that this is not uncontroversial.

Professor Higgott: That is correct.

Q80 Lord Haskins: There are lots of people who are against it, critics who think it is irrelevant and so on. You come out rather strongly and say that you want this to be, if anything, pushed further and a priority. That is the impression I get. I think we would like to hear a bit more about that. On Aid for Trade, this is encouraging as a sort of background to multi-trade policies, with countries being given help with infrastructure developments (human, physical, et cetera) to back trade, if I have understood it correctly. Your main issue there seems to be, “Is this a job for the WTO to do?” It sounds to me like making it into another World Bank. How on earth does one bring that about? A bit more on both those things would be helpful.

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Professor Higgott: You are quite right to identify the political nature of this. One of the things that we were adamant to do was to make sure that it was understood that special and differential treatment needed to be disaggregated and made country-specific. It was not some blanket policy that could be applied across the board to “all categories of developing countries”. There is a very highly charged political debate about this. It is a right, some would argue. It is an expectation that has emerged because, in signing on to the WTO, many developing countries took on a set of obligations that they may not have understood the full implications of at the time, it is argued. Our judgment here is that it should be treated quite explicitly on a case-for-case basis. The challenge of the 21st century, though, is not to protect the poorest developing countries from trade competition—and this is where we contrast with some earlier theory and practice—but to make developing countries more able to compete. Globalisation is not something about which you have a choice, we would argue, in many ways. It is how you assist and enhance the ability of developing countries to participate in the emerging international division of labour on more equal terms. The purpose of Aid for Trade would be to ease the burden of adjustment and implementation, not to provide an alternative source of support. I think that was the way we took it. We had two approaches: one was to improve S&DT and one was to enhance Aid for Trade. Simon, I have to say is the expert on Aid for Trade and not me.

Professor Evenett: First, perhaps I could start with special and differential treatment. As has been indicated, this has been treated in a very political manner. To say that you do not approve of special and differential treatment would immediately antagonise at least 100 WTO members. The critics who come forward and say that S&DT has no purpose and the like on technical grounds could well be right, but as a way of arguing something at the WTO it is a non-starter. You will not get anywhere. Instead, I think the approach we took on the Commission, and which several of us have written about, is to ask the question: “What are we trying to accomplish with Aid for Trade, as with special and differential treatment?” If the idea is to help us design WTO rules and obligations which help developing countries progress and develop their industries and the like, fair enough, but then that is a very technocratic question, and the answer to that technocratic question will probably vary across different types of WTO agreements and across different types of countries, in which case the special and differential treatment should not be of the blanket type, with one set of rules for developing countries and one set of rules for the rest, but much more tailored to the specific matter at hand. It is

hoped that by elevating this matter from the political perhaps to the technocratic, one might be able to make a little more progress. That is the logic underlying that particular recommendation. With respect to Aid for Trade, you mentioned the role of the WTO here. This has to be handled, as we have suggested in the report, very carefully. On the one hand the WTO and its members have a clear interest in seeing Aid for Trade being supported, especially if they are keen to demonstrate to developing countries that they can get something out of trade reform and integrating into the world economy, yet, at the same time, the cheques for Aid for Trade are written by aid ministries and/or the international development agencies and the WTO is not responsible for how forthcoming that money is and how it is used, so the WTO there is left with a convening role and perhaps an important monitoring role but not an implementation role. The risk that we flag in the report is that, as the opposition to Aid for Trade, which is often very quietly expressed by some aid ministries and by some international organisations, has grown, they have literally tried to abandon this issue and walk away from this issue and hang it around the necks of the WTO, and so the WTO would be blamed for something which is essentially not their decision. The fear we have is that, unless the responsibility for the failure of any Aid for Trade initiative is clearly and correctly identified, the WTO will be blamed for this. It will be seen as another example where expectations of developing countries were raised and then dashed and the WTO is to blame, whereas in fact it is a lack of commitment in other quarters to this initiative which is the problem.

Q81 Lord Moser: This, in a way, goes back to your answer to Lord Woolmer a little while ago. You keep on talking about developing countries, but you say that India is not really and China is not really and Brazil is not really. It begins to seem to me that we should stop talking about developing countries. What is the category? It relates both to preferential treatment and Aid for Trade. Do you have in mind what to say to WTO, that what you are taking about with both these initiatives is the following category? It is not developing countries, because half of them you would exclude if I have listened to you correctly.

Professor Evenett: It would be fair to say that in the report we do not have an explicit definition of who we would include for being potential beneficiaries for Aid for Trade but a practical response to that question—and this would be my view: as I said, we do not take a view on this in the report—is that we would start with the least developed countries.

Q82 Lord Moser: The least developed countries. What does that mean?

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Professor Evenett: That is a United Nations category of about 50 jurisdictions which are especially poor and face particular challenges. One might then expand from that list but I think that would be a practical place to start.

Lord Moser: That is very interesting.

Lord Watson of Richmond: I thought the distinction that you drew when we were talking earlier about countries like Brazil or India was also important because those countries can be rather insistent of their developing status when one part of the agenda is being discussed and equally insistent of their world power status when another item is being discussed. I think we are going to meet that paradox with a vengeance when Russia becomes a full member of the WTO.

Q83 Chairman: Perhaps I could try to pull this together. I would like colleagues to ask anything they have not managed to ask. I have a kind of wind-up question on an issue which is not one you addressed in your report. Do we think, against this background, that the Doha Round is going to go ahead and be successful—whatever we mean by successful—and whether any agreement is going to be reached.

Professor Evenett: Shall I?

Professor Higgott: Rather you than me.

Q84 Chairman: This is against the background that, for instance, the “word” in Brussels is that it probably is going to go ahead and achieve something. I would just like some more views from people who have looked perhaps wider than the European interest.

Professor Evenett: To answer that question, I would separate what and when. I think it is quite possible that during the next month or two one could come to some agreement whose contents would be particularly fuzzy. They would have to be fuzzy in order for it to sit well in various national capitals, but various people could declare victory and go home. President Bush would have something for his legacy and Mr Mandelson would have something for his legacy. After the US election and when we have a new Commission in place, what one would do with this putative agreement or whatever it constitutes would be a completely different matter. It is quite possible

that we could have a nice crescendo over the next six to eight weeks and then wonder what we have produced. That is one scenario. Perhaps for me that would be the most optimistic. If you ask me what I think would be the most likely to happen, I think the signals from New Delhi and Washington in the last week could not have been clearer. On the US side, they do not see enough concessions made by other countries to merit taking on the strong commercial interests at home that will be affected by Doha, especially in the agricultural area. New Delhi is having enormous trouble contemplating tariff reductions of the type which are conceived of in the Doha Round. I think there are two important poles of opposition. The difference is that the US can only do a deal, in my view, where they can take on these important agricultural interests—which will lose the potential for subsidies—if there is a substantial amount of additional market access on the other side, especially in the emerging markets. But there is little desire to offer that additional market access by the emerging market countries, and the US has asked for tariff cuts in these countries, not just reductions in their bindings which do not involve actual tariff cuts, and that will lead to such high percentage cuts in tariffs in emerging markets that it would be inconsistent with one of the major negotiating principles in the Doha Round, which is less than full reciprocity; that is, that the tariff cuts in the industrialised countries would exceed those in the developing countries. In order to get the Americans to play ball, we need a huge amount of ambition and liberalisation, but the rest of the world, quite frankly, does not seem to have much of a taste for it. Just going back to my earlier comment: the Americans were prepared to go along with the Doha Round as long as it was very much on their terms and with a very ambitious outcome; the rest of the world does not have the stomach for that level of ambition. That is why we have been deadlocked really for the last two years. It is a realisation of this series of internal political constraints projected up to the WTO level.

Chairman: Thank you. It remains for me to thank you both very much for coming. It has been an extremely good session, very illuminating, and may I join in Lord Moser’s congratulations on the format of what you have done. It seems to be very clever and a real way of moving forward.

Supplementary memorandum by Professor Simon J Evenett, University of St Gallen, Switzerland

What is your assessment of the likelihood of completing the Doha Round?

In the coming 12 months the probability of completing the Doha Round is close to nil. Fundamental political constraints have not been relaxed in recent months, such as the run-up to the Indian elections, the entrenched US Congressional lobbies in favour of farm subsidies, and the majority of the EU member states reluctant to take on cuts in agriculture beyond agreed CAP reforms etc. These are unlikely to change much before the middle of the next year. An optimist could hope that fresh ministerial “eyes” next year will look at what was

tabled in July 2008, that the associated gains while positive are seen to be too small to fight much over, and that the perceived political costs of failing to conclude this round are even greater. In this scenario, ministers may conclude a deal just to get it done (and wonder why their predecessors spent so much time fighting over something that was likely to yield so little). Such clearing of the decks might take until mid-2010, especially given the time it takes to do the necessary legal drafting.

The current financial turmoil is unlikely to alter the calculations of senior officials and political leaders much. Some will argue that the Doha Round was born in exceptional geopolitical circumstances (the September 2001 attacks on the United States) and that a similar impulse may help conclude the negotiations. It is unclear how such arguments would persuade Indian politicians and Chinese leaders to fundamentally change their positions on safeguards for their very large agricultural populations, especially when those countries appear to perceive the financial crisis as having Western origins (conveniently overlooking the home-grown collapses of their respective stockmarkets!).

Another, more compelling argument is that a global slowdown in the growth of international trade may redouble policymakers' interests in opening up foreign markets and accepting more own liberalisation in return. Since the Round was launched in 2001 most WTO members (including the EU but with the exceptions of Japan and the United States) have seen faster export growth than during the period between the Uruguay Round's conclusion and the Doha Round and during the Uruguay Round negotiation. If exporters no longer take robust export growth for granted they may adopt a higher profile in the Doha Round than hitherto.

To the extent that the current turmoil induces governments, particularly those in emerging markets, to raise their tariffs up to the maximum rates permitted in WTO agreements then OECD nation exporters will no longer take for granted the generous market access terms that they have enjoyed in recent years. Exporters may then rediscover the value of WTO accords that lock-in previous foreign tariff cuts (which have often been substantial), rather than demanding more tariff cuts as a pre-requisite for concluding the Doha Round. It should be said, however, that the trade growth slow down and tariff hikes necessary to induce substantial exporter re-engagement has yet to occur, but that may change over the next six to 12 months.

There will undoubtedly be calls to complete the Doha Round in the run up to the 15 November 2008 G20 summit in the USA, not least from the Prime Minister and Lord Mandelson. While this is a laudable goal, for the reasons I have outlined above it is unlikely to come to pass. In contrast, a commitment to a standstill on tariffs, unfair trade actions, and measures against import surges may gain some traction. Rather than try to bring trade and the WTO into the 15 November 2008 summit, one could argue to keep trade out of it—and a commitment to a standstill could be a tangible counterpart to this line of argument. G20 countries could commit to address the current financial turmoil and its consequences with national fiscal and monetary policies and refrain from resorting to commercial policy.

Will further significant delay to, or a complete failure to complete, the Doha Round wound the WTO? Can the rule making and dispute settlement functions of the WTO remain relevant and effective if the liberalising function fails?

Any significant delay in the Doha Round could result in several far-reaching dispute settlement cases between WTO members, most likely in the fields of agriculture and taxation. Some countries will try to obtain through litigation what they could not get through negotiation. Certain potential disputes involve such national sensitivities that this will put enormous pressure on the WTO's juridical bodies. Many analysts regard the Boeing-Airbus disputes as "too hot" for the WTO to handle; after a delayed Doha Round the same lack of restraint that resulted in the aircraft cases being brought to the WTO may spill over to other equally provocative policy domains.

Too much emphasis is put on the WTO's liberalisation function—as a matter of history it's contribution has been oversold and now unfortunately some do not see the point of WTO negotiations without liberalisation. However, for all but the largest countries (that erroneously feel they can fend for themselves), the core rules remain the principle reason for WTO membership. (Even the largest countries benefit from the reductions in uncertainty generated by WTO accords.) This point, plus consideration of the potential costs and benefits of additional multilateral trade rules, should receive greater attention from the trade policymakers. From time-to-time Mr Lamy has referred to redressing the WTO's "missing middle" of deliberative functions, without spelling out precisely what that might involve. In a recent paper, I described four types of deliberative initiative that WTO members could pursue. In addition to reinforcing the WTO's negotiating and dispute settlement functions, such deliberative initiatives would have systemic value in their own right.

What does the present situation in financial markets, and the possibility of a deep global recession, mean for the future of the WTO?

I have given much of my answer here when answering the first question. There is a real risk that some governments will resort to beggar-thy-neighbour policies in response to a deep global recession and the WTO rules will be tested in two respects. First, governments may resort to the numerous loopholes in the WTO's rules that allow for temporary increases in protection. Second, governments may go further and set tariffs about maximum agreed levels and impose quotas, where they have been previously banned. Fortunately, the latter has yet to come to pass, as it would represent a substantial rejection of some of the core principles of the WTO. Here policymakers should be encouraged to fight nationwide recessions with economy-wide tools such as fiscal and monetary policy, and not single out the tradable sectors for differential treatment.

In the short to medium term, attention will shift away from the WTO as one of central places where economic governance is determined in the world economy. Without the financial crisis this was inevitable. Even if the Doha Round were concluded in 2009 or 2010, it would take five to ten years to implement its obligations. If history is anything to go by, the WTO membership would not launch another trade round for a five to seven years. Add another five to ten years to complete such a negotiation, then with its current mantras and operating procedures, the WTO will not have another opportunity to substantially influence the rules of the global economy until 2020 at the earliest and more likely 2030. These observations highlight what a failure the Doha Round has been: a missed opportunity to shape the rules of the world economy of monumental scale (at a time when China and India are reintegrating into world commerce). The current financial crisis must not be allowed to obscure this failure on the part of business, trade negotiators, and ultimately their political leaders.

2 November 2008

TUESDAY 17 JUNE 2008

Present: Cohen of Pimlico, B (Chairman) Moser, L
Haskins, L Renton of Mount Harry, L
Maclennan of Rogart, L Woolmer of Leeds, L

Examination of Witnesses

Witnesses: MR EDWIN LAURENT and DR MOHAMMAD RAZZAQUE, Commonwealth Secretariat, examined.

Q85 Chairman: Good morning, Mr Laurent and Dr Razzaque. Welcome to you both. You have our list of questions. If you would like to make an opening statement, please do. If not, we will go straight to questions. It is entirely up to you.

Mr Laurent: I would like to make some brief opening remarks and then we can proceed to questions. My Lord Chairman, my Lords, I wish to place this whole matter in context, first of all, and give a bit of a background on the Commonwealth. Of course you all know the Commonwealth very well but its role in trade and economic matters is probably less well-known. We are a grouping of 53 states, with two billion citizens, and responsible for one-fifth of world trade with one-quarter of the world's governments; therefore the Commonwealth has the legitimacy to be heard and to make a difference. We are best known, of course, for our role in promoting democracy, good governance, human rights and the rule of law, gender equality, and sustainable economic and social development, but these goals really can only be achieved in an environment in which poverty, under-development, and gross inequities among and within nations can be dispensed with. Therefore, we consider that we have an important role in promoting economic development. Recent developments in the world economy of course have overshadowed a lot of what has been going on; particularly the problems with petroleum prices, the credit squeeze, and the general economic slowdown. This is something which has been of great concern to us. The larger economies, the developed economies, might be able to withstand this pressure as well as some of the major developing countries (China, Brazil, et cetera) but many of the others, that do not export those commodities (particularly minerals and petroleum products) that are on the up, might be really facing some serious difficulties. It is those countries that we are particularly worried about because of the threats that they currently face. But of course the situation is not all bleak. The last decade was one of really spectacular growth in the global economy. We saw something like a 20% overall increase in global incomes during that decade and things were looking good. The problem, though, is that that bonanza was not being evenly shared. Some countries, particularly in sub-Saharan Africa, rather than keeping up were

generally falling backwards. Towards the end of the last century or maybe at the start of this century, there probably was a growing sensitivity among world leaders, and maybe in the world generally, of a shared responsibility for tackling those sorts of problems which stemmed from poverty and inequity. Indications of that new awareness were initiatives like the Doha Development Agenda, as well as the Monterrey Consensus, and, most particularly, the Millennium Development Goals. We know, unfortunately, that these very well-meaning objectives and goals that were set to be met by the year 2015 are really no way close to being achieved, and that is something which is exceedingly serious, not just for those leaders who committed themselves to these goals way back in September of 2000 but also to the billions of people whose lives might really be affected and improved if there is progress in the Millennium Development Goals. Earlier this year there was a review of the Millennium Development Goals by the UN and it is clear that the world is not on target. What can be done? There is no point moaning over spilt milk. The world has not performed well so far, what can be done between now and the future to really make a difference, to raise those millions out of poverty? According to the UN, it is projected, despite what is going on, that by the year 2015 one-sixth of the world's population will still be living on less than one dollar a day. That is their projection. There will be little improvement with respect to maternal health in sub-Saharan Africa and the situation in some of the major diseases (HIV/AIDS, malaria, et cetera) will not necessarily be any more favourable than it does seem now. But change is possible. We believe that what is needed is to increase incomes in countries. Increased incomes and improved governance, so that there would be an improvement in the distribution of income but attention could also be paid to addressing the social issues in countries and to ensuring that there is empowerment of women, because we think that for certain of the Millennium Development Goals the empowerment of women, of mothers, is essential. How do you get income into countries? Of course aid is important, but aid will not be enough. We consider, as far as aid is concerned, that there should be an attempt to move towards these promises that have

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already been made by the G8 and others, and the delivery of aid should probably be in keeping with the principles of the Paris Declaration on Aid Effectiveness. But that is not all. Countries need to earn for themselves as well and this is where trade comes in. It is through trading and generating income from export that countries will be able to get the necessary funding to address their domestic needs. Many countries considered that the structure of world trade was not favourable to them. They hoped that the Doha Development Agenda would review the rules, the basis on which they trade, and maybe ensure that some of those governmental actions that impede free trade would be addressed, and that there would be a greater opportunity for rebalancing and permitting opportunities to those countries that are currently less competitive. This of course would have been the Doha Development Agenda. The final principal area where additional income can come from and which is essential is that of investment. Aid provides support via the public sector, but if one is to bring about real change and the ability of countries to produce, one needs to ensure that the private sector in developing countries is strengthened. There is the need for investment and there is the need for appropriate technology. The Commonwealth considers itself, given some of the features that I alluded to earlier, to be well placed as a partner to work with other countries, with governments, in seeking to ensure that the Millennium Development Goals get back on track. I do know that this is not the specific focus of the inquiry, but I thought that this would be important as a background and as a backdrop. Thank you, My Lord Chairman.

Q86 Chairman: Thank you. I think we all understand the extreme importance of trade for countries' income. It extremely important to enable countries to earn money and raise the income of their citizens. One of the things that has puzzled us when looking at what is going on is that many developing countries have taken steps towards unilateral trade liberalisation and some have taken steps towards bilateral agreements with trading partners. Everybody is trying to move in different directions. At the same time, there is a reluctance to give any concessions during the Doha Round talks. What do you think is causing these contradictory positions?

Mr Laurent: That is a clear and apparent contradiction, My Lord Chairman. However, in reality, if one digs a little deeper one will find that many of those unilateral concessions which have been made by developing countries were not really done voluntarily. That is one sense. Many of those tariff reductions, et cetera, were undertaken during the 1980s and 1990s under IMF/World Bank conditionality, attached to loans which were required by these countries, so they did not have much choice.

Of course, there were some other reductions that were undertaken within the context of bilateral and regional trading arrangements. In these cases, the countries were able to clearly see a benefit from giving these concessions. By giving these concessions they were doing two things: first, they were of course lowering the cost of imports into their markets, but more significantly, they were securing opportunities for their own exporters to be able to enter more competitively the markets of their trading partners. There was a very obvious benefit, therefore, and, as you would appreciate of course, when there is visible benefit it is much easier politically to sell a concession to one's domestic audience. That is as far as the reductions both unilaterally and within a bilateral context were concerned. Within the multilateral context, why is it that they have been unwilling to provide those concessions? One reason is because many of them consider that they have already made very substantial reductions in tariffs and they are worried about further reductions that would even reduce their scope for policy flexibility later on, and the other is that some consider that they might not necessarily be obtaining the reciprocal benefits from further reductions at the multilateral level.

Q87 Lord MacLennan of Rogart: Mr Laurent, could I amplify your answer and try to draw out of it the message which we might want to reflect on. You said that there were two opposing sets of circumstances almost in dealing with the bilateral liberalisation, where developing countries are doing things on the one hand involuntarily or subject to some sort of pressure and on the other where it is obvious to them there is an advantage, but I have no clarity in my mind from that what are the differences that lead to those two sets of circumstances. Can you describe more particularly the sectoral examples, perhaps, even if you do not feel willing to mention the names of particular countries falling into the two camps? I am not sure what lesson we have to draw from this analysis really. That is the problem.

Mr Laurent: With your permission, My Lord Chairman, I would like for this particular question and maybe for some subsequent ones, to ask my colleague Dr Razzaque to assist with the answer. I think my Lord is referring to those countries which were obliged to reduce tariffs by the Bretton Woods Institutions. These countries, of course, were under structural adjustment programmes of the Bretton Woods Institutions, and this was a requirement for them to do so, to reduce tariffs, which generally went way below the bound rates. At the moment, several developing countries, particularly in Africa and in South Asia, have tariff levels that operate way below their WTO bound rates.

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Q88 Lord Maclellan of Rogart: Do you accept that these changes were a design fault or do you think that there were some problems?

Mr Laurent: I was not expressing an opinion at all as to the desirability or otherwise but merely indicating that this was the factual situation and therefore it explains the apparent contradiction. They reduced, as it were, involuntarily, whether it was good or bad. Many countries, particularly in Latin America, would say that this enforced openness had very positive, pro-development results, whilst in some other countries they might be of a different view. So I am not at all getting into that discussion.

Q89 Lord Maclellan of Rogart: In a sense this Committee might want to take a view about some of these issues. We do not just want to describe the situation; we want to look at charting the way ahead, so, if you have a view, it would be very interesting to hear it.

Mr Laurent: I am not sure that I would be permitted the liberty of a view on this, but I would ask my colleague Dr Razzaque to give his personal view, as opposed to the view of the Commonwealth Secretariat which is quite neutral on this particular matter.

Dr Razzaque: Thank you, My Lord Chairman, my Lords. The issue is very involved. It is quite perplexing. On the one hand we say that multilateral liberalisation commitments are there, and I understand that currently almost all countries are members of bilateral arrangements or regional trading arrangements. The issue is that, for some of the low-income developing countries, the way the WTO arrangements are framed they are not expected to undertake new commitments. That is a binding constraint for these policy makers, because here the issue is what you call the political economy factors. With, for instance, countries in the group of LDCs are not expected to undertake new commitments but that does not help the policy makers because their exporters are not in a position to access markets. I can give you one clear example: the duty-free/quota-free access to LDCs. Although all views support that LDCs should get duty-free/quota-free access to developed countries, still some of the Asian LDCs are not in a position to access duty-free/quota-free access to the US. What are the choices for them? These countries can unilaterally take commitments under multilateral arrangements, or they can go into bilateral arrangements and make sure that their exports get duty-free access to these markets. That is what those partners and trading blocs are trying to arrange every time. My view—and it is not necessarily the Commonwealth Secretariat's official position—is that right now the issue is that many

countries are trying to ensure that their exporters have ready access to their neighbouring countries or large developed countries and that is why these bilateral interests are emerging, because politically it is more tenable to assure the people at home that the export market has been ensured through these bilateral interests. Although economists in general have this understanding that when countries liberalise or open up unilaterally it is in the interests of the consumers and that is welfare enhancing; for the policy makers it is very difficult to sell this idea only to open up, not ensuring their exporters' access to other countries. That is where I see these contradictory developments taking place.

Q90 Chairman: Dr Razzaque, I thought I caught you saying that it is more interesting for a country to conduct an agreement with its neighbours because those are the people it can export to. If you were a country in sub-Saharan Africa, it might be of great concern to you that the South African market is open and not very interesting as to whether bits of the American market are open. Is that what you were suggesting?

Dr Razzaque: My Lord Chairman, as you know there is a problem with the export structure of developing countries. Developing countries, especially in the regions, basically compete for similar kinds of export goods in the global market. Also, because of the fact that the consumers in these countries tend to concentrate on similar kinds of products, and especially when countries are relatively less developed they tend to focus on the primary commodities, their market is not well diversified. On the other hand, when they trade with developed countries, then as partners they can take advantage of the nature of their already existing resource endowments. For example, if a low income country is trading with high income countries, the low income country can take advantage of exporting labour intensive goods. If they are forming regional integration, only within the region, then the problem is that they cannot take advantage of this particular thing, because in terms of the production and resource structures probably those countries in the region are more or less similar. Of course there is a point of co-operation amongst the regional countries so that they can take advantage of what is known as economies of scale. That can definitely be enhanced through regional co-operation, that is not an issue, but the main problem for them is that if their trade is to expand at a satisfactory rate then they will have to trade with more developed countries or relatively advanced developing countries.

Q91 Lord Woolmer: Is the concern amongst the developing countries principally to secure more open export markets or are they more concerned about

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protecting their domestic market? In other words, do politicians in developing countries see these as two sides of the same coin, or are they really only interested fundamentally in seeing the benefits of getting export markets opened up, but really they would rather like to do that but protect their domestic market at the same time? What is the impetus? Is it protecting their domestic market? Is that the political goal before they go multilateral? Or is it that they really see a lot of benefit in opening up export markets? What is the driver in the politician's mind in the Commonwealth, for example?

Mr Laurent: Thank you very much, my Lord. I would say, first of all, that even within the Commonwealth, developing countries are not homogeneous, and beyond the Commonwealth the diversity is even greater. Both of these factors exist in the minds of policy makers of developing countries, but the circumstances of the countries have a lot to do with which of those two would be much more significant. For instance, in countries with a large internal market, the protection could be more important, but for countries that are exceedingly small, for instance, that is much less significant. It is really a mix of motivations.

Q92 Lord Woolmer: Some members of the Commonwealth have raised concerns about the loss of preferential trading terms in any WTO agreement. Is this a roadblock to a successful conclusion of the current round? If so, how can it be avoided?

Mr Laurent: It would seem that this was a possibility sometime ago. Several countries—small countries/LDCs—are dependent on preferences. They felt that if they did not enjoy those preferences, they would lose the ability to trade, and if they were not able to trade, then what would the point in having a new agreement if that agreement was going to deny them the ability to participate in the global economy in a meaningful way? So there was that threat. However, in the negotiations now there is a proposal which seems to have general acceptance amongst most of the membership. Our understanding is that there are just a couple of countries that still are not happy, but the likelihood is that it will be agreed by all when a final package is ready. That proposal is that products that rely on preferential access arrangements (bananas, sugar, et cetera) would be given more favourable treatment; in other words, there would be a longer period for the reduction of tariffs particularly in the developed country markets. For instance, if bananas were to enjoy such an arrangement—the tariff for Europe is currently €176 per tonne—instead of the reduction being over a period of, say, six years at, say, ten% per annum—and I am just using an arbitrary figure—it would be over a much longer period at a lower reduction rate. That is the way in which the WTO is looking at

dealing with this, but there are more fundamental approaches which we at the Commonwealth think could also be used by the international community to facilitate the development of these preference-dependent countries. Because, in a sense, merely retaining or permitting preferences to continue for a longer period of time, whilst this might be desirable, in the long-term is not really the best long term developmental approach. We think that what is needed is to find means to ensure that there is an increased competitiveness of those countries. The reason why they need the protection in the first place is that they are not competitive with other countries: their costs of production are too high. We need to find some means to make them more competitive. Another thing which needs to be done is to support their economic diversification, because countries cannot develop if they are going to be reliant just on one or two commodities. We think that this is an area in which Aid for Trade could have a particular benefit, but it is not Aid for Trade in the way that has often been spoken about but in a much more creative way, and certainly not Aid for Trade which is merely a repackaging of existing foreign aid to those countries.

Q93 Lord Moser: In your introduction, which I found very helpful, you made very clear the state of developing countries: hunger, poverty, disease, et cetera, and you made very clear the importance of increasing income not just through aid but also through trade. That is the background, and you referred to the Doha Round. I just wonder whether, given the present state of the Doha Round—which, I suppose, to put it kindly, is confusing—some countries are just fed up, impatient, and have lost the appetite for multilateral approaches generally. When you talk about that, I personally would find it very helpful for all our discussions and thinking, to have your thoughts and your colleague's thoughts about the categories of countries we are talking about. We are all talking about developing countries, but that cannot be the right term we should be focusing on. Is India in your thoughts as you talk? Your colleague talked about "low-income developing countries" and that is another category. The "least developed countries" is a category in some UN documentation. It would help me at any rate and probably my colleagues too if we could begin to focus on categories of major concern, whatever they are.

Mr Laurent: I would ask my colleague to go first.

Dr Razzaque: This is a very interesting question. There is a general consensus among developing countries on the whole about the importance of multilateral trading systems and the multilateral element. That is the general consensus that we can fill in on the list, per se, in the discussion. That is very much there. But then the issue is how different groups

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of countries within the developing countries, as rightly pointed out, are there even waiting the way forward from this particular Doha Round. Here I would like to emphasise, first, the LDCs (that is, the group of least developed countries—that is the UN definition) and then I would like to shed some light on the perspectives from the relatively advanced developing countries like India, China, and Brazil. First of all, the Doha Round was dubbed as a development round and it was considered that the interests of LDCs and small, vulnerable economies would be taken into consideration by all other countries. After seven years of these negotiations in Doha, we find that the LDCs have not been given unconditional duty-free/quota-free market access. That is one issue. Also, the fact is that, in the course of the Doha Round, there is also a discussion on providing preferential treatment with regard to services trade—and this is called in WTO's language, LDCs modalities on services—but still no progress has been made with regard to what kind of preferences LDCs are going to get out of this. One issue that we discussed earlier was that many of the LDCs have already undertaken unilateral liberalisation at the behest of the World Bank, IMF, and other international donor organisations. These LDCs now realise that although they have taken unilateral liberalisation the export response to liberalisation has been very low, because of the fact that they have got serious export constraints in developed countries' markets and also relatively advanced developing countries' markets. That is why developing country policy makers are more concerned to ensure that that they have got duty-free access in other countries which is currently absent, and this whole thing makes LDCs frustrated at this moment. For relatively advanced developing countries, for instance India, Brazil, and China, the issue is quite different. Here, again, I would like to emphasise the fact that this is not an official opinion of the Commonwealth but more our personal views. Here the issue is that these countries, the developed and developing countries, consider the Doha Round as not very ambitious for them. I can give you some figures. If what is on the table realistically, and if there is going to be a deal to conclude Doha, then the total gains for India, Brazil, and China will be something like only three to 80 days' economic growth; that is, these countries are growing so fast that even if there is a successful conclusion of the Doha Round from the current situation on the table then, basically, gains to China would be just about three days' economic growth. For these countries, therefore, this round is not very ambitious. That is the problem. We are talking here about difficulties with regard to expectation of different sets of countries, but certainly the LDCs, in terms of the market access, have received nothing additional out of this Doha Round. That is frustrating for them.

Q94 Lord Moser: For those three fast-developing developing countries, it is not so much that they have lost appetite; they do not think there is much in it for them. It is not impatience; it is that they feel they are not going to get much out of it.

Dr Razzaque: Yes.

Q95 Lord Moser: That is what you are saying. Going right to the other extreme, do you call them now the "least developed"? Is that the category?

Dr Razzaque: Indeed. Yes.

Q96 Lord Moser: The least developed countries. Have they lost appetite or are they still praying that the Doha Round will ultimately help them? You are going to the other extreme with under-development.

Mr Laurent: It is not certain that they have lost their appetite—maybe not for the multilateral approach, but there is growing cynicism in the negotiations. The developing countries, for instance, put up something like 88 proposals on special and preferential treatment, but these have really not made any progress whatsoever in the negotiations. Speaking with representatives in Geneva, the chorus one tends to hear quite often is that there is attention being paid to liberalisation, market opening, and regulation, but not to their developmental concerns. They consider that the Doha Round is very much a traditional Round of the old GATT format. They had hoped for something different, with focus on their needs, but this has not materialised.

Q97 Lord Moser: That is a very interesting answer. Thank you very much.

Dr Razzaque: My Lord Chairman, with permission perhaps I can add to what Mr Laurent has just said. With regard to this particular issue, before the beginning of this Doha Round, actually there was no multilateral agreement on providing duty-free/quota-free access to LDCs although the bulk of European Union was already providing duty-free/quota-free access to most of the LDCs anyway. But under the Doha Round a provision was created under which developed countries are now bound to provide duty-free/quota-free access to LDCs for 97% of their tariff lines—and LDCs do recognise it as a positive development. Also, before the beginning of this particular round there was no mention about preferential treatment in services, but under the Doha Round there is now this discussion going on as regards how to provide LDCs preferential treatment in services trade. From those perspectives LDCs do recognise that some positive developments are taking place, but they are perhaps not being materialised as fast as they were expecting that this round was going to deliver to them.

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Q98 Lord Maclennan of Rogart: Mr Laurent, you may feel that you have said what needs to be said in answer to the question I want to put, but, to try to make it a little more concrete for me I wonder if you could give any indication whether historically you feel that developing countries have drawn benefit from multilateral trade agreements. If so, could you exemplify? If not, would you say what has been the problem?

Mr Laurent: Again with your permission, My Lord Chairman, I would ask Dr Razzaque to comment. My view is certainly that developing countries have benefited. I would reiterate what I said earlier, that the group of developing countries is very diverse. One has had countries that have benefited tremendously, and there have been some developing countries, particularly those on the margins, that have not benefited at all. The total picture is certainly a positive one for developing countries if we go back to the end of the Uruguay Round. That would be my view, but it is a subject in which we have a lot of internal discussion and I would like to ask Dr Razzaque to give his perspectives on this.

Dr Razzaque: My Lord Chairman, my Lords, this is an interesting question once again. Here the issue is, if we think in terms of the relative significance of countries, first I would give you the figures for developing countries. The Uruguay Round began in 1988. Then the share of developing countries in world trade—and I am talking about merchandise exports, their share of global exports—was about 27%. Now it has increased to about 40%, and side-by-side the share of developed countries has fallen from about 73% to 60%. If we are considering these figures, then some would draw the conclusion that multilateral arrangements or have benefited developing countries. But actually it is very difficult to link tariff liberalisation or trade liberalisation, as such, with the performance of the developing countries. Now let me focus on the poorest of the developing countries, the group of the least developed countries. Their share has also increased from 0.5% to 0.74% in the past ten or 12 years. But compared to their share with that of the early 1970s, which was 1.5% of global export, the current share is much lower despite the recent increase. That is my view. The main issue is that even in the academic and empirical literature it is very difficult to establish a clear-cut relationship between liberalisation at the global level and the country's performance. Even if we are putting aside this issue of how one can link those two trends, there is a general consensus that by setting clear-cut rules and multilateral disciplines, the whole trade environment has benefited the developing countries, and particularly the low-income developing countries or the least developed countries. In general, this has been perceived as beneficial to them.

Q99 Lord Maclennan of Rogart: In answer to my colleague Lord Moser you have very helpfully distinguished between the predicament of the least developed countries and India, Brazil, et cetera. Institutionally, are you saying that in these multilateral discussions prioritisation should be given to one or other group, or that there should be parallel consideration given to the interests of these different categories of developing countries? In particular, can you say anything about how rapidly the least developed countries should be invited to remove their import tariffs? That is the very specific question.

Mr Laurent: Maybe I could address the first, general question. The Doha Round was set up essentially to address the problems of development. There were several countries, as I indicated in my opening, that had been really falling back. The Doha Round was about helping those which had serious problems. It was not to be business as usual. The previous rounds were about market opening, liberalisation, just the removal of trade barriers for the purpose of trade expansion. Then it was recognised that that model had not served everyone, but that model works quite well for the more advanced developing countries, so I would not think that the purpose or the focus of the Doha Round was in fact to have been on those more advanced countries but really those at the bottom; those that were, as it were, dropping off the end of the table. There was a second, specific question, and Dr Razzaque will answer this.

Dr Razzaque: The particular portion I would like to answer to is what we can expect from LDCs in terms of further tariff cuts and liberalisation. Sometimes the LDCs, are still considered to be countries with high tariffs and all the protection measures imposed on their economy, but, actually, over time these countries have opened up significantly. One critical issue here is the way that tariffs are defined in the WTO and negotiated. They use what are known as "bound rates" in order for negotiations to take place, but on the ground it is more important to consider the applied rate of tariffs: the actual rate that is being applied. I can give you some figures to illustrate this particular issue. For example, Bangladesh: in the beginning of the 1990s its average applied tariff rate was 94%, which has now come down to only 17%. If we consider another sub-Saharan African country, Kenya: it used to have an average tariff rate of something like 44% and it has now come down to only 15%. If we are looking at these average applied tariff rates that these LDCs currently have, then we will find that they are not far from average developing country experiences. That is, they are more or less similar to, any other developing country. Let us think about the case of Vietnam: Vietnam has more or less a similar tariff structure as Kenya,

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Tanzania or Bangladesh, but still it has managed to raise its export growth rate/GDP growth rate at a very high level compared to other LDCs. Therefore the issue is not about how much to liberalise the tariff regime further. From an LDC point of view, the issue is how they can ensure that, with this liberalisation, they can also achieve high export and GDP growth rates. The other problem that the LDCs have—which is sometimes not very well recognised in the academic literature or in the policy discussion—is the fact that these countries critically rely on tariffs for revenues. For government revenues, tariffs are a very important source for them. When most of the revenues are coming from import tariffs, the issue is that, if they are going to liberalise further, there is a clear implication for public expenditure, and if the public expenditure is going to benefit the poor then certainly it would also have other poverty and welfare consequences. The basic point the LDCs and their policy makers highlight is the fact that, despite the liberalisation measure that they have already undertaken under the World Bank or IMF prescriptions, export response or growth response in those economies has been very low. That is why they are not in a position to diversify the economy and, also, not flexible enough to rely on other taxes to generate revenues.

Q100 Lord Maclellan of Rogart: Thank you very much. Mr Laurent, this Committee, of course, is focusing principally on European trade policy. What steps do you think the European Union should take to help less developed countries reap the benefits of global trade?

Mr Laurent: The European Union approach has largely been through its preferential negotiated arrangements. In the case of the African, Caribbean and Pacific, it is the EPAs; in Latin America it is in a number of association agreements and so on. That approach is probably a sensible one in general, given what is happening at the multilateral level, but maybe what Europe can ensure is that these agreements are genuinely pro-developmental and do not impose on their partners conditions that go unduly beyond the requirements of current multilateral rules. I give one particular example: in the negotiations with the African, Caribbean and Pacific group, the EU has been quite aggressive on the so-called Singapore issues, such as investment, competition policy, government procurement. Its requirements go way beyond what is being envisaged in the debate in the WTO. Maybe this might be one of the areas in which it could step back. Some of the other approaches of Europe, for instance with respect to aid, are very positive, very constructive. These are just two of the areas that I want to mention.

Q101 Lord Renton of Mount Harry: Mr Laurent, you say that some of the ideas put forward by the EU are “very constructive”. Could we talk for a moment about two particular types of agreement that the EU is putting forward at the moment, and let us talk about economic partnership agreements first. They are being negotiated to replace the 1990s Cotonou Agreement. I think they are designed to give special trade conditions to the poorest countries. We are an EU Committee, so we are particularly interested in what the EU is doing. Do you feel that they are working, that they are fair? Or do you think in general terms that the EU is asking for too much?

Mr Laurent: Thank you very much, my Lord. I would certainly not, as a member of the Commonwealth Secretariat, be so presumptuous as to explicitly answer this. But maybe I could look at the position of the governments. We have 18 countries in Africa. Two in the Pacific and the Caribbean group that have considered that what the EU has proposed to them is generally acceptable. That is a minority, so the position of the governments of the ACP countries would be that what is proposed is not acceptable, and even, of those that have indicated their support for these economic partnership agreements, some of them are a bit ambivalent. Of those that have not agreed, some of them are strenuously opposed to the EPAs, and they cite a number of reasons. They say that the arrangements are not in their economic interest; that they are likely to retard rather than promote their attempts at industrialisation and agricultural development because the proposed opening up of their markets would be too quick, i.e. before their domestic production has been strong enough. Some also claim that it is not in their interests to grant concessions in a bilateral framework and it would be more appropriate to do so multilaterally. The reason they cite for this is that doing so just to Europe imposes on them significant trade diversion costs, since they might currently have been importing a particular product from the most competitive suppliers internationally (Japan, Canada, the US) but now, because of this deal, they divert to the EU. I believe Dr Razzaque referred to the issue of the loss of tariff revenue, and that is a serious concern as well for several of those countries which are very heavily dependent on tariff revenue. This would be my response to this.

Q102 Lord Renton of Mount Harry: You raise a very interesting point there because there are, of course, also the EU preferential trade agreements as well as these partnership agreements. You mentioned in your opening remarks to us that the Commonwealth represented two billion citizens. The EU represents now close to 500 million citizens, and therefore I would think that there would be every advantage for the poorer Commonwealth countries to try to work

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with the EU. Can they use a bilateral trade agreement in your experience? Are they doing so? Are they fair?

Mr Laurent: I would say that there definitely is interest—and maybe more than an interest, a determination—amongst the African, Caribbean and Pacific countries to work with the EU. A few years ago, all of them committed to concluding these EPAs by the end of last year. The problem is that many of them had concerns over the content of the EPA. It is not the principle but the content.

Q103 Lord Renton of Mount Harry: The principle does not mean much if the content is not right, does it?

Mr Laurent: With due respect, my Lord, I would say that maybe it was a little bit even more than principle. For instance, for the countries that are not least developed, they are determined to have an arrangement with Europe, because, unless they have that arrangement, the products that they currently export would lose their duty-free entry, which for many of them would be an economic disaster. Some persons would consider that in fact this is probably the reason why the majority of those that committed to EPAs did so: not because they were happy, but because they realised that they had no choice. Many of the countries consider that their economies are very closely linked—at least within the short- to medium-term to Europe, and they have no intention or option but to stick with Europe.

Q104 Lord Renton of Mount Harry: That is very interesting. Do you think that large developing countries should negotiate preferential trade agreements with each other? Does it make good sense?

Mr Laurent: I do not want to commit to a personal view on this but I would say that we certainly believe that the preferred arrangement is multilateral. As a general principal multilateralism is superior to regionalism/bilateralism. But we live in the real world and large developing countries do embark on those arrangements. This, we consider, though, can be damaging to other developing countries, since there could be the diversion of the exports of LDCs and other developing countries from the markets of these advanced developing countries. So there is a real cost. There are ways in which that cost could be alleviated. Maybe if two or more major developing countries embark upon a tariff reduction arrangement amongst themselves, maybe they could multilateralise this, extend this concession to LDCs, and maybe even some other developing countries, to reduce the negative impact.

Lord Renton of Mount Harry: That is a very interesting answer.

Q105 Lord Haskins: The issue of food has dominated trade negotiations for the last 40 years. For most of the last 30 years, at any rate, the problem has been oversupply of food, cheap food, surpluses, being dumped from countries in surplus into markets and creating chaos there, and those same countries having tariff barriers to protect their farmers. In the last two years the rules of the game have changed very dramatically, with food prices changing and moving up as rapidly, and turning the issue almost on its head. I have two questions: first, do you think this is a long-term issue? Second, is it going to change people's attitudes radically towards the present arrangements, including European food policies? Where do you think all that is going to be developing?

Mr Laurent: I will make a quick introductory remark and then, as I know we are moving on in time, I will ask Dr Razzaque to make a quick comment. UNCTAD recently seemed to suggest that this was not necessarily a long-term phenomenon. It considered that the current problem came out of certain conditions—and Dr Razzaque will elaborate on that—but there is adequate scope for ensuring that those problems do not persist into the future, so there is no reason why this needs to be a long-term feature of world trade. I will pass this on to Dr Razzaque because he has done quite a lot of research into this area.

Dr Razzaque: My Lord Chairman, my Lords, this issue is on the food price hike of recent times. When the Uruguay Round was being concluded there was some concern from some of the net food importing, least developed countries (LDCs), that the implementation of the Uruguay Round Agreement on agriculture was going to raise the food price in the world economy. Actually, in agricultural liberalisation there are two important elements: one was the tariff reduction; the other was the cuts in subsidies, particularly in the western developed countries. We all know that tariff reduction is to have a depressing effect on prices; on the other hand, costs and subsidies in the western developed world, who are also very large producers of many of the food products, will have some effects on rising prices. There was a kind of disagreement: Which effect is going to dominate? Is it the tariff cuts or the cuts in subsidies? At the Commonwealth Secretariat we have done research on this particular issue. Even before this food crisis, our results were published, and we found that if under the Uruguay Round agreement on agriculture and, beyond, if there are 100% tariff cuts in agriculture along with significant amounts of subsidy cuts in the western developed markets, in general the effect on prices is going to be positive. That is, the liberalisation in agriculture will tend to raise food prices. We did some simulation work particularly in the context of rice, because we considered rice was very important for some of the

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South Asian countries, where the livelihood and food security issues clearly depend on the production of one single commodity. In our study, we found that the liberalisation could lead to something like a 10 to 15% rise in rice prices—but actually, because of other factors, the price rise has been much more. We also studied the implications of this rice price rise for many of the poor developing countries, particularly in South Asia. We found, for instance, that in the case of Bangladesh, just a ten% rise in the rice price could lead to an additional 400,000 households slipping back into poverty. That was to increase the poverty incidence in the net food importing countries quite significantly. That we have been able to establish, using a very large amount of data and good methodology. Here the issue is that there is another important feature that is related to many of the food commodities, which is known as the “thinness” of the market. For example, in the case of rice, if we look at the global supply, the global supply that is coming to the world market is only 6% of the total global production. This is because of the fact that the rice producing countries are also largely rice consuming countries, so there is not much available in the global market. That is why during the crisis, many of the countries looked for an international market, the market never existed. That was one factor. The other factor is that some countries, for example, India and Pakistan, who are traditional rice exporters, given that the food crisis was being experienced by many other countries, also decided to put some restrictions on their exports. Basically, therefore, those countries being dependent on food imports could not avail themselves of those supplies from the world market and that was a serious problem for them. Since the question is all about attitude, it is a fact that food

dependent countries, the net food importing countries, do realise that for their food security, especially when they rely on one or two particular cereal crops and given the experience from the crisis, now think that for them probably the best possible issue is to refocus on their agriculture. It is to consider the fact that, in order to attain food security, they will have to readdress, if possible, their agricultural policies. Some countries are already thinking of doing some tariff adjustments while some others have already proposed providing additional incentives to the agriculture. For net food importing countries, the attitude is that, because of this crisis, they will try to achieve food self-sufficiency or at least be well placed to survive food security. With regard to the net exporters of food, suddenly they have gained from this windfall, but still in these countries a lot depends on the situation in the world market. If the prices are going to be this high, certainly the surplus from the net exporting countries will also increase. I would also agree with Mr Laurent that this food price hike might not be a very long phenomenon. On previous occasions the price hikes were short-lived episodes—it never existed for more than five to six years—but maybe this time that can be slightly longer than the previous experiences.

Q106 Chairman: Thank you very much indeed. We have already kept you rather longer than we said we were going to, but it has been most helpful and most interesting. Thank you very much indeed for coming. It has been a real pleasure.

Mr Laurent: Thank you very much, My Lord Chairman, my Lords.

Dr Razzaque: Thank you very much, My Lord Chairman.

MONDAY 23 JUNE 2008

Present	Cohen of Pimlico, B (Chairman)	Maclennan of Rogart, L
	Kerr of Kinlochard, L	Woolmer of Leeds, L

Memorandum by Directorate General for Trade, European Commission

1. *What are the future prospects for multilateral trade negotiations? What effect will the rising number of bilateral agreements have on the existence and further development of multilateral agreements?*

All WTO partners are engaged in intense discussions to move forward the Doha Development Agenda, and the common ambition is to conclude negotiations in the course of 2008. Discussions have notably focused on the following areas: agricultural market access and subsidies; non agricultural market access (tariffs and non-tariff barriers for industrial goods); services; rules governing anti-dumping; subsidies; geographical indications; trade facilitation and environmental goods. Substantive issues remain open in all these areas and technical teams are exchanging views in order to seek common ground. Gradual progress is being made in most areas, though very substantial work is still needed on services, geographical indications and trade and environment in particular. It will notably be important to secure an Agreement which differentiates equitably between the interests and concerns of least developed, developing and developed economies. It will also be important to secure greater openness of South-South markets, which offer the greatest prospects for development, economic growth and welfare gains.

While it is difficult to assess the prospects going forward, it is clearly the view of the European Commission that scope for an agreement exists this year. In this regard, it is our view that bilateral negotiations underway on behalf of the European Union can contribute to this process. Appropriately framed, reciprocal obligations and concessions made in bilateral agreements prepare the ground both politically and economically for more generalised concessions in a multilateral agreement at the WTO and stronger multilateral rules. Any such multilateral agreement then ensures greater distribution of benefits to least developed partner countries, and provides business generally with a far more transparent trading environment. It is for this reason that the EU has argued for improved wording of the GATT rules covering bilateral or regional trade agreements (Article XXIV of GATT).

2. *What role can European trade policy play to stimulate growth and create jobs in Europe?*

Openness to trade is essential for growth and jobs. It boosts productivity by enabling more efficient allocation of resources, by providing greater opportunities to exploit economies of scale, by exposing the domestic economy to greater competitive pressures, by rewarding innovation and providing access to new technologies, and by increasing incentives for investment. Our openness to others is good not only for the rest of the world, including developing countries, but is also vital in maintaining our leading role in the global economy.

Europe's prosperity is intrinsically linked to that of other regions of the world, and increasingly to that of emerging economies. This is why Europe must reject the temptations of protectionism. Moreover, any obstacle to global supply chains could be damaging to EU industry since raising the cost of intermediary goods and raw materials would make it less competitive.

In order to keep the EU at the forefront of international competitiveness, EU trade policy takes a dynamic approach that looks at the position of EU firms in a globalising economy. For the EU, this is not about trying to compete where we cannot, but making sure we succeed as a provider of top quality, often highly specialised goods and services in a knowledge based economy.

Trade policy supports excellence and innovation in Europe by promoting the better recognition and enforcement of intellectual property rights (IPR) especially in major emerging markets. Addressing barriers, and in particular non-traditional "behind-the-border" barriers such as standards, discriminatory taxes or licensing requirements, in third countries accounts for the bulk of the potential to improve the competitive position of EU industry. The EU is one of the most open markets in the world. Our leading trading partners are less open, sometimes significantly so. The EU stands to gain from the further opening of markets worldwide consistent with the sustainable development of its partners. The EU takes a robust approach to ensuring that markets are genuinely open and that international rules are applied fairly and transparently.

This is crucial in the services sector, which is of growing importance for the European economy but which faces higher trade barriers than goods.

The first priority of the trade policy strategy set out in the Commission's Global Europe communication of October 2006 remains further multilateral liberalisation and rule-making (through a broad and balanced agreement in the WTO). Even an ambitious multilateral outcome would solve only part of the competitiveness equation. Beyond the multilateral dimension, EU trade policy's contribution to growth and jobs is focussed in particular on new market-access driven Free Trade Agreements with India, South-Korea and ASEAN countries, a renewed Market Access Strategy to sweep away trade barriers in third countries, and a new Partnership and Trade Agreement with China.

3. *What should be the relationship between European trade policy and policies on development, climate change and depletion of natural resources?*

As trade is one of the most important ways in which the EU interacts with the rest of the world, EU trade policy has a significant contribution to make in supporting global efforts in each of these inter-related areas. Indeed, one of the key over-arching aims of EU trade policy is to promote sustainable development—in all its dimensions (economic, social and environmental) not just in Europe but worldwide.

The implications of international trade for policy objectives in these areas, along with the potential contribution to be made by EU trade policy, have been and remain a recurring theme in Europe. Two important recent statements of EU policy have been (i) the *Renewed EU Sustainable Development Strategy*, adopted by the European Council in 2006,¹ which provides an overarching strategy for all EU policies addressing how to meet the needs of present generations without compromising the ability of future generations to meet their needs, and (ii) the *European Consensus for Development*, jointly agreed by the Council, Commission and Parliament in 2006,² which provides a common vision of the importance of addressing the “development challenge” facing Developing Countries and ensuring policy coherence for development among relevant EU policies.

There are two main ways for EU trade policy to address these issues. One is by configuration of partners: *multilateral* in the WTO; *bilateral* in agreements with individual countries or regions, such as in the Economic Partnership Agreements (EPAs) being negotiated with ACP countries; or *autonomous* such as in the Generalised System of Preferences which includes duty-free, quota-free access for the Least Developed Countries (the so-called Everything But Arms—EBA—regime) and GSP + , the specific incentive arrangement rewarding Developing Countries for sustainable development and good governance with better market access conditions.

The other is by mode of action: (state to state agreements, or in interaction with private interests, stakeholders, representative bodies, the public in general). At all these levels, EU trade policy promotes sustainable development in different ways:

- the use of trade agreements to achieve better implementation of social and environmental standards, and to create mechanisms for wider stakeholder dialogue and involvement.
- efforts to liberalise trade in environmental goods and services, both in the multilateral negotiations under Doha and in our bilateral negotiations (which will help both climate change and natural resource protection).
- trade Sustainable Impact Assessments (SIAs), which examine potential consequences from trade agreements and can alert negotiators to economic, social or environmental risks to be avoided.

The EU (Commission and Member States together) is also the most significant provider world-wide of Aid for Trade development assistance to support Developing Countries' own efforts to maximise the benefits they can draw from trade. The EU has committed itself to provide €2 billion of trade-related assistance, one of the key components of Aid for Trade, each year by 2010.

4. *Have developing countries benefited from multilateral trade agreements? What steps should European trade policy take to help less developed countries reap the benefits of global trade?*

We consider the answer to the first question to be essentially positive. While it is difficult to calculate the precise contribution of the multilateral trading system founded on the GATT/WTO, given other factors also in play, it has provided the framework for progressive market opening and liberalisation and underpinned the development of a predictable, rules-based system for the conduct of international trade. The global share of

¹ (<http://register.consilium.europa.eu/pdf/en/06/st10/st10917.en06.pdf>).

² (http://ec.europa.eu/development/icenter/repository/european_consensus_2005_en.pdf).

Developing Countries in world trade in goods and services has increased along with some diversification of their exports, rising levels of global economic welfare and a considerable expansion in international trade flows. In 2006, Developing Countries accounted for 36% of merchandise trade and 26% of services trade worldwide. World trade in goods has increased 27-fold in volume terms since 1950, three times faster than world output growth.

At the same time, it is clear that Developing Countries have not all been able to take full advantage of the possibilities for trade to act as a driver for growth and development. While there have been numerous success stories, notably in Asia and Latin America, other Developing Countries, notably in Africa, have lagged behind. In the WTO context, this reinforces the case for bringing the current DDA negotiations to a successful, pro-development conclusion as quickly as possible, taking into account the needs and interests of Developing Countries and in particular the Least-Developed and weaker and more vulnerable ones among them.

In parallel to further multilateral market opening and rule-making, reinforced efforts are called for on Aid for Trade to support Developing Countries in building an effective supply-side capacity to compete on global markets. This aid can address constraints affecting their trade potential and development prospects and help them cope with adjusting to the global market place. As far as the EU is concerned, the EU Aid for Trade Strategy, agreed in October 2007, provides a strong basis for taking these efforts forward in the development assistance activities of both the Commission and the EU Member States.

EU trade policy is multi-dimensional (multilateral, regional/bilateral and autonomous) and at each of these levels includes elements intended to respond to the particular needs of Developing Countries and to support their further development and beneficial integration into the global trading system. Moreover, trade policy is not static: although the basic orientations and instruments of EU trade policy are well established, individual instruments and measures will continue to evolve, as will the EU's relations with Developing Countries, whether in a multilateral or bilateral/regional context. In all these areas, the objective of using trade policy to support sustainable development worldwide will remain one of the guiding principles.

As regards the poorest countries in the world (the countries of Africa, the Caribbean and the Pacific—ACP) the Commission is negotiating Economic Partnership Agreements (EPAs) to replace the Cotonou Agreements with the ACP countries. These negotiations are a means of fostering the gradual integration of the ACP countries into the global economy. EPA negotiations are supported through trade-related assistance providing support for the negotiation process, ACP supply and trade capacity. The EPAs provide the best access to the EU market of any trade regime (no EU duties or quotas for any products). They will encourage processed exports with simpler and improved "rules of origin" and help attract much-needed investment. They will help the ACP countries engage in the global economy on their own terms and will include measures to build the ACP countries' capacity to trade.

The EU believes that regional integration offers the best potential to boost local trade and create larger markets to attract trade and investment and, as a matter of fact, regional integration is at the heart of the ACP's own development strategies. Therefore, the EPAs are centred around regional integration (ie the final objective is to have region-to-region agreements between the EU and groupings of ACP countries. End 2007, a full EPA was initialled with the Caribbean region (its ratification process is now under way), while interim agreements, covering trade in goods, were initialled with a number sub-Saharan African countries or groupings of countries and Pacific countries. The Commission will use 2008 to transform these interim EPAs into full trade and development agreements.

5. Is there still need for Trade Defence Instruments, and if so how can these be designed to ensure that their effects are targeted and proportionate?

In the absence of international competition rules the need for trade defence instruments will remain. This has been confirmed by the outcome of the wide-ranging public consultation that the European Commission conducted in early 2007 in the context of the ongoing review of the functioning of our trade defence instruments. Although there were significant differences amongst stakeholders about the nature of the rules that should be applied they all agreed that they saw no alternative to the application of these instruments to counter anti-competitive practices in international trade.

The current European system is considered by most commentators to be effective and measured by international standards. However the public consultation did highlight some areas where improvement could be considered both to make the system more effective and sufficiently flexible to make them more responsive to the changing global trading environment.

There is no consensus at present among EU Member States as to how to improve the system in order to address these concerns. The Commission will continue to consult and draw on the experience of cases before it so that proposals can be brought forward in due course.

6. What is the best approach for ensuring that Intellectual Property Rights are protected? Do these rights hinder developments goals—and, if so, how can an appropriate balance be struck?

Intellectual property rights are instrumental in promoting creativity and innovation as well as the dissemination and application of their results, and in encouraging fair trade. Proper protection for innovation and creativity are conditions for sustainable and significant economic development. There are basically two approaches to ensure that intellectual property rights are protected in third countries. The first is through co-operation and dialogue. The second is through firmer means, for example through the dispute settlement mechanism of the WTO. The European Commission has so far favoured the first approach with a number of its trade partners such as for example China, Russia and Ukraine, but it does not exclude the use of other tools in case co-operation and dialogue do not bear fruit.

Intellectual property rights are and should be supportive of development. They are effective tools for economic, social and cultural development. Developing countries are often more exposed than developed countries to counterfeiting of medicines and piracy of cultural goods. Intellectual property rights must also take into account specific needs of developing countries, such as for example the protection of public health and nutrition, the reduction of poverty, the protection of traditional knowledge as well as the fair and equitable sharing of benefits arising from access to their genetic resources. The European Commission attaches great importance to the development dimension of intellectual property rights.

Developing countries without sufficient technological capacity are often not able to benefit fully from intellectual property rights and need to assimilate technology from developed countries and to build their own sound and viable technological base. At the same time, no technology transfer can take place without companies feeling secure about the level of protection of their intellectual property. In this respect, intellectual property rights contribute to the promotion of technology transfer and need to be complemented by accompanying measures such as for example transitional arrangements for their implementation, technical co-operation and assistance in the definition of appropriate strategies. The European Commission is supportive of such measures.

7. Services represent 77% of European GDP and employment. What are the best mechanisms to remove barriers to trade in services? Is the GATS still fit for purpose?

There are various trade policy instruments at our disposal to remove barriers to trade in services. In the context of its renewed Market Access Strategy, the European Commission is proposing a closer and more systematic partnership with Member States and business in Brussels as well as in third countries to make the best possible use of the available tools.

Bilaterally, the instruments at our disposal include Free Trade Agreements that are currently under negotiation with a number of countries or regions. Regulatory dialogues and co-operation among regulators in a number of sectors with some trading partners also help address some regulatory barriers. In addition, services trade irritants are regularly raised through consultations mechanisms with our trading partners as well as diplomatic contacts.

At the multilateral level, the General Agreement on Trade in Services (GATS) is the first multilateral trade agreement to cover trade in services and one of the major achievements of the Uruguay Round. The GATS negotiation process differs from that of the other market access areas (agriculture, market access for non-agricultural products): instead of numerical targets and formulas to cut customs tariffs, it involves a requests/offers system and significant flexibility for Members to decide what commitments they take in their schedules. Arguably the GATS has so far proven more successful in providing legal certainty and preventing new barriers from being erected (the WTO dispute settlement mechanism acts as a deterrent), than in removing actual barriers to trade and offering new liberalisation. Discussions in the context of the GATS DDA negotiations have however helped reformers in certain Members to undertake liberalisation in certain sectors, although this may yet not be reflected in service liberalisation offers made by Members. It is also worth noting that services commitments taken in WTO accessions have generally led to the removal of a numbers of barriers to trade in services. In addition to the tools available in the context of bilateral trade relations, the EU will continue to work towards ambitious multilateral results on services.

8. *Is there still a role for the WTO in the 21st Century?*

Today's world is more than ever facing global issues which need to be addressed by global responses. In this respect, the WTO is leading the way as the most advanced global institution, notably because of its effective enforcement mechanism and broad constituency. Since the creation of the WTO following the Uruguay Round of Negotiations, the benefits of this institution have been very clearly demonstrated. Stronger dispute settlement disciplines have contributed to building a more transparent trading environment, and ensured compliance with WTO obligations. The multilateral trading system has provided small, often least developed countries with a strong platform to voice their concerns and ambitions—and indeed, the WTO remains an institution where decision making is consensus based, providing all countries with an equal voice. The benefits accruing in terms of global economic growth and poverty eradication have been very significant, and no doubt explain the continued strong interest in non Member countries in joining the WTO.

Looking ahead, there are nevertheless challenges to be faced if the WTO is to retain its pertinence and secure public support into the 21st Century. For instance, the EU will continue to argue in the DDA about the importance of building links with other multilateral organisations, including in terms of interpreting WTO provisions in connection with other multilateral agreements, notably in the environmental field. Likewise, as membership continues to expand, consensus-based decision-making needs also to deliver effective action. In this regard, an enhanced role of the WTO Secretariat could be studied. In addition, plurilateral agreements which will be negotiated by all the membership in the legal framework of the WTO but, at least initially, only binding on a critical mass of members could be further explored.

The WTO is a relatively young organization, but it has already delivered very significant benefits. The EU will continue to support it strongly, in order to further develop its capacity to provide trading openness, security, transparency and equity into the 21st century.

27 February 2008

Examination of Witnesses

Witnesses: DR PÉTER BALAS, Deputy Director-General, and MR JEAN CHARLES VAN EECKHAUTE, Deputy Head of Unit, Policy Coordination, Directorate-General for Trade, European Commission, examined.

Q107 Chairman: Good afternoon. We are most grateful to you for seeing us today.

Dr Balas: Good afternoon. Let me welcome you to the European Commission. I have to start with an apology on behalf of my Director-General, David O'Sullivan. He said this might happen and he had to leave for Geneva on Doha business this morning. My name is Péter Balas, I am Deputy Director-General, one of his deputies, looking after multilateral trade policies especially but also a number of other aspects. We will try to give you views from DG Trade on the issues that are of interest to you.

Q108 Chairman: Thank you very much, Dr Balas. I believe you have seen the sort of questions we want to ask. I am going to start off by asking you what you now think about the prospects for a successful completion of the Doha Round. "Successful" is probably a matter of definition. What do you believe would be the consequences of a failure to produce an agreement? What would happen and where would we be?

Dr Balas: This a good place to start because compared to the summary we gave you earlier this year in January about the situation, there have been some important developments that have taken place with respect to the Doha Round. Let me sum up where we are now and what are the prospects. In

the last five or six months since the start of the year good progress has been made especially in the agriculture dossier. As you might be aware, agriculture is traditionally the lynchpin of multilateral negotiations and Doha is no different. As a result of hard work among the participants and, more specifically, among a smaller group of countries which are the most interested, in the last few months we have succeeded in clarifying the outline of a possible agricultural agreement. I would not say we are already there, a number of issues are still open. What would be a deal in each of the three pillars of the agriculture dossier is more or less visible, meaning market access, agricultural subsidisation and export subsidies. These are the three major issues in agriculture. If you listen to the recent views of developing countries who are especially agriculture demandeurs who would like to see an ambitious outcome in agriculture, there is a list of complaints and this is normal, one could say it is part of the game, even tactical, not to be happy until the very last moment of negotiations. In the more restricted meetings which are based on recent revision of the chairman of agriculture's negotiations it is clear where we can go. Very briefly, in summary, cutting agricultural tariffs overall by over half, 54 per cent is the average target reduction. There are differences within this and there will be products which are considered more sensitive and

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the tariff reduction will be less and compensated by so-called tariff quotas, what you could consider as guaranteed import possibilities in practice. It is also clear what the developed countries could do who are the major subsidisers in cutting agriculture subsidies, domestic subsidies. Here, however, I would note that there is a recent not very welcome development in the form of the Farm Bill that has been recently adopted in the United States which is not a reforming Farm Bill at all and would need major revisions based on the expected Doha outcome. Last, but not least, the details of how export subsidies and all forms of export support could be phased out by the target date of 2013 are clear. The major question mark is now over industrial products market access and services market access. These are the two aspects, but especially industrial products, that are the present focus of the negotiations. I would say this is still a major question mark over the possibilities and chances of a Doha deal. It is hoped that in the next few days we will get clarity about the chances of having a clearer picture on industrial market access. Negotiations will also continue on services. Based on these outcomes there is a good chance that a ministerial meeting could be called sometime in the middle or second half of July. This would adopt those basic parameters of the Doha Round which would be the basis for the final stage of the negotiations on the basis of which members of the WTO could give their national offers in agriculture, industrial products and services, plus in a number of rule-making areas certain guidelines will be needed. We are not there yet but the chances are better than 50 per cent. It is difficult to put figures on it, but it is certainly much better than it looked at the start of the year to have a successful Round. In July the basic parameters will be decided and that starts the last phase of the negotiations, the detailed national offers, the legal text for the rules which will take a number of months. It is still the hope of the EU that all the details can be elaborated by the end of this year. That means under the Bush Presidency and President Bush, who remains committed to see a successful completion of this Round, could at least sign the deal even if the legal authorisation from the US Congress comes only after the new President and new Congress.

Q109 Chairman: Thank you very much. We all feel, and I am sure you must too, that the Doha Round has been going on forever. We wondered if you thought people just think multilateral arrangements are too difficult, or do you see no sign of that?

Dr Balas: Multilateral arrangements are certainly difficult, not least due to the fact that the WTO has 152 members now and, as you know, the WTO works on the basis of consensus meaning any single

country, a member of the WTO, can block a decision. If one looks at it in the perspective and history of the recent multilateral round, the Uruguay Round, which took eight years, if we could get over Doha in six years more or less, or something more than six years, that would not be a bad achievement. The number of members of the organisation has substantially increased in-between, major countries like China have joined the WTO, so by definition this is difficult, but there is no question among trade policy experts and economists that, when it comes to trade liberalisation, multilateral liberalisation is by far the optimum.

Q110 Chairman: I think I asked you at the beginning what happens if we fail because it is obviously quite delicately balanced and not an easy time. Have you thought as far ahead as what happens if we fail? What are the consequences for the WTO if agreement cannot be concluded sometime this side of Christmas?

Dr Balas: Certainly it would have a negative impact looking at the economic content, but especially in the present turmoil in the financial markets. In the current world economy it would be unwelcome news psychologically. It would not help to have much optimism. It would certainly be a major blow for a number of developing countries who rely very much on the expected trade liberalisation in Doha. It would certainly be a setback for the EU's agriculture policies. The EU has undertaken major autonomous liberalisation of the Common Agricultural Policy since 2003 and it was thought and expected that other major subsidisers, starting with the US, should do likewise. This chance would be lost if Doha failed. On the other hand, should it happen, as negative as it is, it also would be an exaggeration if, as some people say, it was said to be the end of the multilateral system and of the WTO. The WTO would continue to function based on the present rules which are less than perfect. There would be one of the important elements of the WTO system, the dispute settlement system, that would continue to function and, I am sorry to say, would probably be used much more than was the case before because countries would be tempted to go for dispute settlement to make up for the loss of what they could not get through negotiation. This would not be a welcome development but it would not mean the demise of the multilateral system as such. Last, but not least, they would turn in a big way to bilateral regional agreements. They would be sought especially by a number of countries and business where this difficult and complicated multilateral approach cannot deliver. They will go for bilateral liberalisation, for preferential agreements which are certainly sub-optimal compared to multilateral arrangements.

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Q111 Lord Kerr of Kinlochard: Can I stick with the question you have been pursuing, my Lord Chairman, for a second. I am very struck and encouraged by the statement made to us about progress in the last five or six months, technical progress, eg the defining of the outlines of a deal on agriculture. But at the political level surely it is all going the other way, with the Farm Bill you mentioned, the rhetoric of the election campaign, the likely composition of the next Congress, the rhetoric in Europe, the criticism of the Commission—of you guys—by what looks like an increasing number of Member States at a political level, and the identity of the Presidency from 1 July. It does not look to me like ideal circumstances for a deal in the autumn. Can you add a political dimension to what you said? Am I wrong?

Dr Balas: No, I think you are absolutely right. Let me give some analysis. It is quite clear that the US presidential campaign is a major risk factor. It is not easy to conclude an important deal like this in the last stage of the US election campaign. There is an outgoing President who has attached major importance to this and sees it as a legacy issue to have a successful Trade Round behind him. The President certainly has the authority to sign a deal with the knowledge that it would be his successor who would have to ensure its passage through Congress. Even assuming it is a Democrat controlled Congress under a Democrat President it would be a major responsibility for the future US Administration and Congress to scuttle a deal which had already been agreed among 152 members. One cannot say it would not happen but the stakes would be extremely high. I think everybody would think twice, or even three times, before doing that.

Q112 Lord Kerr of Kinlochard: If I were a negotiator for some other party in the Geneva negotiations I might reach a different view about that and think that it was quite likely that since fast-track has expired any deal that I signed up to this autumn would become unravelled next year by Congress or by the President and Congress, one way or the other. So I would feel disinclined to make major concessions now because if the deal fell apart because the Americans reneged I would have risked annoying my lobbies back home to no purpose.

Dr Balas: That is true, but if a deal is scuttled then whatever concessions are on the table we are back to square one, so nothing is lost for those countries. As I mentioned, it has been known for quite some time, since last year at Congressional approval, that a new TPA would not be available this year. If this is such a blocking issue for those countries who think in the way you describe, they would have tried to stop negotiations some time ago. This is part of the calculation and it is certainly a risk, but if Congress

does not give its approval it would be the US that would take the blame for it. It would be the US alone taking the political blame for not approving the deal. One of the interesting things is that while there are quite a number of countries who might have doubts about these negotiations, for better or worse, nobody would like to be seen as being the one who takes the responsibility for killing these negotiations. Everybody is very cautious in that respect and the US is not an exception.

Q113 Lord Kerr of Kinlochard: How would you answer my Lord Chairman's question on what happens if there is not a deal?

Dr Balas: Well, as I mentioned, there would be a negative impact, both economic and political, for international trade.

Q114 Lord Kerr of Kinlochard: Forgive me, I remember you saying that and I understand this argument. These are arguments you use now to encourage people to do a deal. I am saying supposing a force, nothing to do with the Commission, has ensured that there is no deal, what would the Commission do then?

Dr Balas: We would go back and consult Member States. I am sure that the majority of Member States would like to see the Commission turn towards further bilateral deals. Business needs liberalisation and that is why the EU was restrained in going into new preferential agreements. Especially in Asia a string of new agreements was signed and business thinks there is a reason why they are losing opportunities by being discriminated against, if you like, by not having preferential agreements. One of the consequences would be that the majority of Member States would like to see us continuing to do whatever can be done to keep alive the possibility of reviving the Doha Round later but still to go ahead with these preferential agreements.

Q115 Lord Kerr of Kinlochard: If there were such agreements how would they affect the use of Trade Defence Instruments which have become a matter of some controversy inside the EU and with those to whose exports to us we apply those instruments? Question one: do you think people in the European Union who are very anxious for anti-dumping measures against Asian countries would be happy to agree to the kind of pretty liberal bilateral agreements that the British Parliament, for example, would like to see? Question two: what is the future of the anti-dumping regime anyway?

Dr Balas: With all due respect, I do not see a direct relationship between these two facts. On the one hand, going ahead with bilateral preferential agreements and trade defence measures allow for a finer balancing of economic give and take. In a

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multilateral strategy it is an overall balance of rights and obligations. In a bilateral context, referring to Korea, with which we have a bilateral agreement, there is product-by-product bargaining, including not just tariffs but non-tariff barriers, and the car sector when it comes to non-tariff barriers is one of the major concerns of the EU producers and a major issue in negotiations. Once we get to an agreement for industrial products it would mean full liberalisation and Member States would accept it and be ready to live with it. On the other hand, trade defence measures are possible vis-à-vis most favoured nation partners and preferential partners. Certainly there might be increasing pressure to use trade defence measures if it is felt that there is more unfair trading or unfairly exported products coming to the EU market. There are possibilities there with or without the success of the Doha Round.

Q116 Lord Woolmer of Leeds: You have touched partly on industrial products there and you have told us that the key areas in agriculture where you can see progress being made. On the NAMA side of things, what are the key things that divide the various parties to the negotiations at the moment?

Dr Balas: The single biggest question is in agriculture because, unlike agriculture, NAMA consists of single pillar market access, there are no substitution issues. Certainly the ambition is for market access and what is a comparable level of the liberalisation of markets to liberalisation in agriculture. It is a question of what is a proportional reduction in tariffs against a background which is very different from agriculture. Overall, one could say that apart from a few exceptions agricultural sectors across the world are rather heavily protected both in developed and developing countries. There is a more comparable point of departure than is the case in industrial products. In industrial products, which was the major focus of liberalisation in the history of the GATT, the tariff protection, especially in developed countries, was rather low already. There are certainly some peak tariffs but in developed economies, including the EU and US, the average industrial tariff protection is around four or five per cent. This is an average, there are certainly higher tariffs. In the case of the EU there is one product which has a higher tariff of 24 per cent and all the other tariffs are lower and almost 40 per cent of the EU imports come duty-free, no tariffs. The EU average is four per cent. Turning to developing countries, the industrial protection, especially the contract-based or bound level of tariffs is several times higher. In countries like Brazil, India, ASEAN countries, the average industrial protection looking at the bound tariffs is 30 per cent or higher against the EU's average of four per cent. On the other hand, the applied tariffs, the actual tariffs which after imports one has to pay at the

border, are lower, especially in countries like India where major autonomous liberalisation measures have been undertaken. Other countries, such as Brazil and Argentina, during the Uruguay Round undertook to apply lower tariffs but maintain a high contractual level of tariffs. Under the present negotiations the big question mark is what is the value of cutting the difference between bound and applied tariffs, in our jargon cutting water. Developing countries claim that this should be taken as a full value commitment and not just any other tariff reduction. Our companies say that they are interested in what happens on the ground, i.e. can they see their export opportunities increase or not. They are less interested in the legal niceties of cutting this water. The truth is probably somewhere between the two. On the one hand, consolidation, that is cutting the water between applied and bound tariffs, certainly has a value because it protects exporters against the possibility of developing countries suddenly deciding to raise their tariffs to the contractual level which they could do any time. On the other hand, it is certainly not sellable to Member States and EU industry that what would happen in industrial negotiations would be just consolidation, basically cutting water and consolidating your existing market access. This is the major point of contention, to what extent developing countries should undertake such tariff cuts which would result in giving new export and trade opportunities for their partners.

Q117 Lord Woolmer of Leeds: If the European levels are very low, what does Europe have to offer in the negotiations?

Dr Balas: To agricultural exporters serious tariff and subsidy cuts and a phasing out of export subsidies.

Q118 Lord Woolmer of Leeds: In industry.

Dr Balas: It is a single undertaking where one sector can be bargained against others.

Q119 Lord Woolmer of Leeds: That leaves services. What are the issues in the services area?

Dr Balas: Due to the characteristics of services trade, there is no single figure like tariffs to express the level of protection. These are various government measures. It is much more difficult to establish a benchmark for ambition. What happens is countries, including the EU, would follow two targets. First of all, as in industrial trade, to consolidate already existing market access, which is not bound under the WTO, and in services especially there are a lot of unbound market access possibilities. On top of that, to get some additional opportunities. By definition services negotiations are bilateral, a contract basically between two partners about dealing with specific measures although the outcomes, the results,

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will be multilateralised at the end of the Round. Overall, the EU would like to see in major sectors of interest for the EU—financial services, telecommunication services, business services—consolidation of existing market access and in selected areas the obstacle removed.

Q120 Lord Woolmer of Leeds: Taking agriculture, industry and services, this sounds as if in the Doha Round it is really the other countries who are giving more up and we are offering agriculture but we want industrial concessions and service industry concessions. Is that fair?

Dr Balas: If I look at the expected new trade opportunities created by the Round, I think that most new trade will come in agriculture. New trade import opportunities will be more limited in industry and services, but much more consolidation.

Chairman: Thank you very much. I would like to go on to agriculture and oil and food products with Lord MacLennan.

Q121 Lord MacLennan of Rogart: If I may just latch on to that point that you made. Do you think that what has been agreed so far, or what is looking like being agreed in the agricultural sphere, can be parked as an achievement, an agreement, without balancing action on the other fronts?

Dr Balas: No, it is impossible, agricultural Member States will never accept it.

Q122 Lord MacLennan of Rogart: So what has been agreed is not good for everyone?

Dr Balas: I was speaking about 27 Member States of the EU. There is a very fine balance among various interests and positions. There are agricultural Member States who are not happy to see any liberalisation to start with, market opening or reduction of subsidies, but they could live with it if, on the one hand, the Member States that have a major interest in industry and services could see their own interests being fulfilled. If I think about a country like France, which has a very strong agricultural interest, at the same it also has industrial and services interests. Based on a balanced deal there is a chance to sell an agricultural liberalisation. Just agriculture is not saleable.

Q123 Lord MacLennan of Rogart: What has been the impact, if any, so far of the sharp increase in oil prices, commodity prices, upon the negotiations on agriculture, both in respect of developed countries and developing countries?

Dr Balas: Historically, this could be a rare occasion for having an ambitious agricultural deal based on the present market conditions. If there was a time when a little subsidisation was needed, this is it. The EU is not giving export subsidies for the

overproduction because it is simply not needed. Even if farmers grumble, because they are farmers, and this is their job, they are doing very well, thank you very much. If you look at it objectively the circumstances are really good. However, politics come into it, and I referred to the US Farm Bill where lobbying interests proved to be stronger than the intention of the Administration to have a similar reform as the EU had under their Common Agricultural Policy. The present Farm Bill, to put it politely, is not a reformist Farm Bill at all, it is basically business as usual, the same type of politics and benefits that was the case during the previous Farm Bill. Another interesting element is that the value of agriculture market opening is somewhat diminished. Those agricultural exporters who look in a short-sighted, short-term manner at their present world farm market say, “We have a problem meeting demand as it is. Some countries like Argentina and others even apply export restrictions and export taxes to stop exports going out too cheaply to depress domestic prices”, so they claim that under the present circumstances they feel even less compelled to give major access to industrial products. This is one possible effect of the food prices, but overall I think responsible governments everywhere should use this opportunity to undertake major reforms and get something in return for it as others who are doing the same and opening up markets across the board.

Q124 Lord MacLennan of Rogart: In the case of the poorest developing countries where food shortages may be apprehended following this rise because of the attraction of the export markets, what response would you see from them in this Round?

Dr Balas: The first response is that the poorest countries are unfortunately in the worst situation because they are hit in parallel by fuel and food prices with very little to rely on. There are short-term measures which, irrespective of the Doha Round, the EU and other responsible countries could and should do: stepping up Food Aid, helping them to foot the import bills. It is also clear that when it comes to poverty reduction then liberalisation in developing countries', agricultural sectors, will be as important as liberalisation of developed countries' agricultural markets. Countries like India, for instance, put their emphasis on what developed countries do and this is an exclusive interest while they maintain defensive positions under the Doha Round when it comes to agriculture. I recently saw some analysis which underpinned the view that while developing countries' agricultural liberalisation is very important and it is a basic part of the deal, developing countries should also liberalise in order to deal with poverty reduction. Liberalised agricultural markets give a boost to efficient producers to step up their

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production and thereby, at least in the medium-term, deal with their supply side shortages of food.

Q125 Chairman: Thank you very much, that is very clear. I think you really told us that if through no fault of the EU the Doha Round stalls or fails, probably not until the autumn, that you then see the way forward as bilateral agreements. Is this very much *faute de mieux* or do you think they work quite well?

Dr Balas: I think it is *faute de mieux* because there is no question that multilateral liberalisation is the best, but still it is better than having no liberalisation at all. There might also be attempts to have plurilateral agreements among interested companies, but based on the experiences of the previous period I feel that these plurilateral agreements would be mostly among developed countries, or a few advanced developing countries. So far developing countries with large emerging economies have not shown very much interest in going into plurilateral agreements.

Q126 Chairman: Your view would apply also to the so-called regional agreements?

Dr Balas: When I speak about preferential agreements, these are bilateral or regional preferential agreements, yes.

Q127 Lord Woolmer of Leeds: When you talked about the consequences of the breakdown of Doha you said there would be a number of developing countries who would be disappointed because they expect significant benefits. Can you give us examples of the kind of country you have got in mind because the average citizen prefers to understand which countries they are talking about. Who are likely to be concerned if Doha breaks down?

Dr Balas: Basically developing countries which are competitive in agriculture or industry, or both, because they would lose out on new export opportunities. It is our impression in the Commission that Brazil would like to see a Round on terms which are acceptable to themselves because they are perhaps the most significant efficient agricultural exporter, so they would lose a lot and they look on a

longer term basis than is the case with a country like Argentina which seems to be very focused on what is the situation currently.

Q128 Lord Woolmer of Leeds: One witness said to us that countries like Brazil do not think the Doha Round goals are ambitious enough and they would not be too worried if it did not go forward.

Dr Balas: I think Brazil thinks the agricultural negotiations are not ambitious enough but the NAMA negotiations are too ambitious for their liking, but that is normal. China, without question, would be the single major beneficiary from a NAMA outcome and yet China seems to be more defensive. They claim that they have huge problems in digesting the effects of their WTO accession and the liberalisation undertaken. Without question, it is true that China's import protection is much lower than is the case with comparable large developing country economies so they feel there is a lack of balance. In our view at least they do not show the kind of ambition which objectively should be there and we do not see that they are putting enough weight behind having a successful Round.

Q129 Lord Kerr of Kinlochard: Is that not partly because they do not need anything to change, they are doing extremely well under the present rules of the game, they are a status quo power now?

Dr Balas: China has fully bound tariffs unlike other developing countries which means every tariff cut, as is the case for the EU and US, counts and it would be a real cut in their protection. As they have an average industrial tariff level of seven per cent they think these are exempt from ambitious commitments under the Doha Round and for better or worse they are more defensive because some of their sensitive industries might be affected. To be frank, I do not think that is the case because they seem to be competitive across the board.

Chairman: Thank you very much. Dr Balas, I feel we have taken enough of your time. It was very good of you to see us and you have made a lot of things clear that were floating about in our minds. Thank you very much indeed.

MONDAY 23 JUNE 2008

Present	Cohen of Pimlico, B (Chairman)	Maclennan of Rogart, L
	Kerr of Kinlochard, L	Woolmer of Leeds, L

Examination of Witnesses

Witnesses: MR PAOLO GARZOTTI, Deputy Head of Unit, MR EDOUARD BOURCIEU, Economist, Chief Economist Unit, and MR JEAN CHARLES VAN EECKHAUTE, Deputy Head of Unit, Policy Coordination, Directorate-General for Trade, European Commission, examined.

Q130 Chairman: Thank you for coming to meet with us today. May I start, Mr Garzotti. We are trying to dig into what role you think the WTO will have perhaps in the 21st Century. Based on our experience of recent years, is there a need for reform of the WTO? Would you make any changes to its decision-making processes? It is really how could the WTO be better, how could it be different?

Mr Garzotti: The way I see the WTO role is that it should not be very different in the 21st Century as opposed to the 20th. It has three main roles. One is to negotiate multilaterally trade rules and liberalisation of markets. The second function is to solve disputes. The third is to provide transparency, exchange of information and some kind of monitoring of what is going on in world trade thinking about Free Trade Agreements, so the monitoring and transparency aspects of WTO. If there is one field where the WTO probably would have to do something more in the future than it has done in the past it is to have some more activity in this third pillar, the transparency and monitoring. On multilateral negotiations, of course, we are now facing some difficulties in concluding the Doha Round. There were difficulties in concluding the negotiating rounds in the GATT before and in the Uruguay Round, so this may be normal. It is important to conclude the negotiation to maintain the credibility of the WTO system. If there is need for change in the decision-making and dispute settlement? I would be very cautious in any changes to the decision-making system personally that would involve an exception to the unanimity consensus rule that is there now. One of the reasons why I personally consider the WTO a special institution is the fact that one country has one vote. It is not like other institutions where you have one dollar one vote, this is one country one vote. Of course, this creates limits and it has become clear with 152 members, but I would be careful in changing the decision-making. As far as the dispute settlement is concerned, we have ideas on how to improve it and there are negotiations ongoing and the European Community has made proposals to improve it. One is to give more transparency to open panels and appellate body hearings to the public. We could not have this done at WTO level because it was not agreed, but some panels and hearings of the WTO where the EU and

US were parties have been open to the public. There are other ideas on how to make the role of the panellists more professional so that they are not just ad hoc diplomats or professors who take up a case once in a while but a more professional body. There is room for reform in the dispute settlement, improvements I would call them, not radical reforms. Up until now it has worked reasonably well so some adjustments are warranted, but not a major overhaul of the system. One change to decision-making in the WTO that is always supported, but for which we know the difficulties of having it approved by other members, is the creation of a more parliamentary dimension in WTO, to have a link between parliaments and the WTO. For obvious reasons this is not something that all members of the WTO support and this is one the situations where the unanimity of consensus makes it difficult. We are supportive of that. That is in relation to the reform of the WTO. There has been a lot of work going on in the European Parliament and you might have the opportunity to read the recent report on the reform of the WTO that has been prepared by the European Parliament and the rapporteur, Cristina Muscardini. It is an interesting report. There is one thing in that report that we in the Commission think is a timing issue that needs to be revised. It calls for reform of the WTO during or even before the conclusion of the Doha Round. This was the same response we gave to the Sutherland Report that you are probably aware of. The reform of the WTO in certain areas can be started and there are ideas that we can explore, but the first priority now is to close this round of negotiations. We do not have time to go through all of them, but one of the ideas that could be interesting is more work on the transparency and monitoring part. When one is monitoring Free Trade Agreements there are a lot of bilateral and regional agreement negotiations going on which probably need better rules and transparency. The role of the WTO Secretariat and Director General, we could study a way to make it more important with the possibility to propose compromise solutions, for example, and so on, than at this stage.

Mr Bourcieu: Just one comment on this question of the WTO in the 21st Century. One of the main challenges for the WTO in years to come is how we

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can engage emerging countries to play a constructive role in the WTO. For 10 years now they have become very important players in the WTO, they are central players and have been empowered, but in terms of responsibilities they are still behind their weight in the role they play in the system. This is probably one of the main reasons why there are difficulties moving forward with current negotiations. It should not be a surprise as their increased role is still a rather recent phenomenon that the system has to integrate. After the DDA there will be long-term work to be undertaken to build trust with emerging countries on key issues for the future, first in the WTO but also outside the WTO. We have now developed strategic partnerships at EU level with most of them. We have to use these tools to have wider ranging discussions with them, not only on trade but on other global economic governance issues where their role in the world system is also important.

Q131 Lord Maclellan of Rogart: Mr Garzotti, you talked about maintaining the credibility of the WTO system. Does it have any credibility with the developing countries? Theoretically, free liberalisation must be good for everyone but can you point to good examples of how it has actually benefited developing countries?

Mr Garzotti: One simple answer would be China or India or Brazil. Major developing countries, what we call emerging economies, have broadly benefited from liberalisation. The growth that we are witnessing in China, India, Brazil, Mexico and Chile is due in part to the opening of world trade. The misunderstanding that could be implicit in your question is what we are calling developing countries.

Q132 Lord Maclellan of Rogart: That is the point.

Mr Garzotti: I would say that is the misunderstanding that is at the basis of many difficulties we have in world trade now starting from the Doha negotiations. They are grounded on this misunderstanding because they are called the Doha Development Round. There are some developing countries who think that the Doha Development Round means unilateral liberalisation by the developed world. This is something that, being trade negotiators, we cannot sell politically to our constituencies. It is something that would not be fair if you are talking about developing countries like the one I mentioned. Of course, putting in the same basket economies and societies like China or India and Gabon or Guyana is simply not feasible. If you want things addressed in the WTO legally, you have just three categories of country: the developed economies, developing countries and the least developed countries, which is those that are recognised as LDCs by the United Nations. If you are not an LDC and you are not a developed country you

are in the middle, and it is true that liberalisation could involve risks for certain weaker developing countries, small and vulnerable. Something we are defending and pushing and accepting in the DDA negotiations and the WTO is that these countries will have to follow their own speed in liberalising and in both agricultural and industrial goods negotiations we are now undergoing there is this. As far as the institutional structure of the WTO is concerned, the WTO is the one multilateral organisation I would trust if I was a small and vulnerable developing country because it is the only one where I can say "no" and a deal would collapse. As a matter of fact, in Cancun the Ministerial Conference collapsed because four African countries were discontented with a solution on cotton and on Singapore issues. It was a Ministerial Conference that was derailed and failed basically for that reason.

Q133 Lord Maclellan of Rogart: There are these three tiers that you are speaking of, but the decision-making structure of the process, the institutional arrangements, do not seem to reflect those differences of interest, particularly the LDCs. You say they have got a protective device, which is their veto, but that is not a heck of a lot of use if one is trying to use it as a proactive mechanism for assisting their development. *Mr Garzotti:* LDCs in the WTO have the same legal right as any other member of the WTO. This is a peculiar situation in a multilateral organisation because that is not always the case. Of course, when addressing LDC issues you need others who do not have LDC interests to look into it and do something, which is what we did unilaterally with the Everything But Arms Initiative in 2001 when we liberalised access to the EU for all imports from less developed countries. It is true that other developed members were not along that line but in Hong Kong we pushed for 100 per cent liberalisation for LDC products all over the world and we managed to get to 97 per cent. We had an idea and language to have this 97 per cent go to 100 per cent at a certain moment in time. We are ready to look and negotiate with LDCs on Rules on Origin applicable. I am not saying it is a perfect world.

Mr Van Eeckhaute: Can I add something. A distinction should be made in the WTO between the formal decision-making system, which is what is indeed regulated in the WTO Agreement and where every member has one vote, and informal decision-making systems. There we have seen an evolution as compared from ten years ago where developing countries, and certainly the poorest ones, had less voice, to a situation. Now *de facto* also in the informal decision-making mechanisms, which are the small groups which meet to negotiate issues, and which we call the Green Rooms, they are present and can make their voice heard. This has changed as a

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result of what happened in Seattle in 1999, and it was clear in Cancun in 2003 that developing countries were able to show their strength. Since then in these Green Rooms, where about 25–30 members of the WTO are called together to try to make breakthroughs, because you cannot do it with 152 members, all categories of members, including LDCs and small and vulnerable economies, are represented. A lot of critics of the WTO tend to look at the WTO as it was ten years ago, rather than how it is now and the evolution that it has undergone as a result of the events I referred to earlier but also as a result of the personality of the Director General, *et cetera*. A lot of the criticism that one hears about sometimes about, for instance on Common Agricultural Policy, also tends to be based on how this policy was ten years ago, rather than on how it is now after the various reforms it went through. What you sometimes hear in those circles where they are very critical of WTO and of world trade, does not correspond to the WTO as it is now and to how it has changed since Seattle in 1999 and since Cancun as well.

Q134 Lord Kerr of Kinlochard: For the purposes of the next five minutes, let us assume that the Doha Round continues to go slowly or fails, does not reach an immediate conclusion this year, what would the effect of that be on the other parts of the WTO machinery? You elegantly described the three roles at the outset, but how would the other roles be affected? We, in London, used to believe in the bicycle theory, that you needed to move forward in order to stay upright. We thought the credibility of the dispute settlement mechanism and the role as regulator would be weakened if there was not a continual liberalisation of the system. Were we right or were we wrong? What do you think?

Mr Garzotti: I am not in a position to say if you were right or wrong, they are both theories. I do think if the DDA negotiation fails there will be an important effect on the WTO as a whole and it will be very problematic for the WTO to sustain this impact. First of all, on the dispute settlement system the immediate reaction could be that as the political branch, if you want, the negotiating branch of the WTO failed then some of the objectives of the Member States of the WTO that could not be achieved by means of negotiation they would try to achieve by means of dispute. There could be an increase in activity in the dispute settlement branch of the WTO. In my view, this has risks. It has risks because constitutionally there is a limit for the WTO as to how much they can bear in terms of disputes. We have seen already a situation where the lack of political legitimacy of the WTO made it difficult for Member States of the WTO to assert judgments of the courts, let us say. At the beginning a shift towards dispute settlement activity

could be there and some success, for example, in agriculture. I think there would be good cases and successful cases that Brazil could bring against the United States in particular and the new Farm Bill subsidies. It will become more and more difficult for Member States to address world trade just by means of dispute. Another aspect that will be affected is the third pillar, the transparency and the monitoring. No progress in the negotiation, in my view, will legitimise that branch. My personal view is that a failure of the DDA could involve a serious blow to the WTO as an institution in a situation where we need a multilateral institution to address not just trade issues but, for example, now we are facing climate change a lot of global problems where multilateral solutions are the best solutions in Europe's view. To have such a dramatic failure after eight years of negotiation of one of the most successful multilateral institutions, probably even a victim of its own success, would be a bad thing. Personally, I do believe in the bicycle theory and we need to make progress in the DDA if we want the multilateral system to continue to be at the centre not just of Europe's policy, which is and will be the case, I hope, but of other partners in the WTO.

Mr Bourcieu: Maybe I could make one point in addition to what Paolo has just said. Historically, the alternative to negotiations in terms of moving trade liberalisation further was dispute settlement within the WTO. The problem now is there are more and more alternatives outside the WTO and in particular in connection to very important wave of bilateral Free Trade Agreements which is developing and which are to a certain degree motivated by the frustration of some members of the WTO with the lack of progress within the WTO. The risk in the future will be that alternatives to WTO negotiations will be outside the WTO and progressively marginalise the WTO as an institution.

Q135 Lord Kerr of Kinlochard: Yes, I agree with all these points but I wonder if the situation is not worse. Supposing the Doha Round broke on agriculture because the US Farm Bill represents something which this President or the next Congress would not go back on. You say the Brazilians could bring very good cases against the United States, and I am sure you are right, but I am not sure that the United States would act on the decisions of the court, and then we would have a very serious situation, we would be back to the situation in the middle of the 1990s when we had the United States Administration not sure that it was going to accept the jurisdiction of the court and the Bob Dole monitoring mechanism and annual reports and all that. We would be back to that and it might even be worse than you say.

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Mr Garzotti: I do agree that the dispute settlement system can provide solutions, but if you do not have a strong negotiating, call it political branch, then with too much weight on the dispute settlement centre there is a risk it will break. On subsidies there is another issue that is very sensitive in the United States, which is the trade defence measure, where there has already been a very severe attack by Congressmen and Senators of the United States against WTO judgments on trade defence measures. We have to look at Europe as well, and we know how problematic disputes on GMOs or hormones have been. There is a limit to solving problems by means of dispute. A failure of the DDA would risk bringing the multilateral system beyond that limit.

Q136 Lord Woolmer of Leeds: Can I ask you three things about industrial sectors. Do you think that tariff reductions in the industrial sector are now so low in the developed countries, and even in some of the developing countries, like China, that there is not a lot more that can actually be achieved there? If that is the case, what are the reciprocal reductions that can be achieved under Doha that will help Europe and America accept changes on the agricultural side of the package?

Mr Garzotti: The mandate of the DDA negotiations as far as industrial products are concerned was to complete liberalisation in industrial products and eliminate high tariff peaks which still exist. A distinction has to be made between developed countries and emerging economies and other developing countries, for example. In Europe we have an average tariff on industrial products of around four per cent. A successful Doha Round around the coefficients that we are negotiating for reducing subsidies would bring the average down to more or less two per cent. We still have some peaks. We have more than 20 per cent duties on tuna which, believe it or not, is negotiated as a non-agricultural product. We have import tariffs of between 10 and 14 per cent on cars and trucks. We have some bargaining chips and we have to remember that when we are talking of tariffs of this kind in the European Union we are talking of tariffs of that level for accessing a market of half a billion people. In the EU we have a relatively high tax on textiles and in the United States, not the same as we do, they have sectors where they have high tariffs and textiles is one of the cases. There is already a good deal of tariff reduction on industrial products that can be done at the level of OECD developments. Where there is a lot to be done is in developing countries and emerging economies. While you are right that China has a very low average of applied tariffs on industrial products, which is due to the fact of their late accession to the WTO in 2001 and they now have around a nine per cent average tariff, that is not the case for India, a founding

member of the GATT, which has an applied tariff of ten per cent but has an average bound tariff well above the 30s and has peaks that can go up to 100 or 150 per cent, for example, for cars. The same goes for Brazil and other developing countries which maintain tariff peaks and protection. I would say there is possible further liberalisation of industrial tariffs seen where industrial production is moving more and more. This further liberalisation would be in the interests of the developing world because we now see who the big industrial producers are. The next and most important chapter of negotiation on industrial products will soon move from tariffs to what we call non-tariff areas. This is already becoming a major problem between, let us say, “grown-up” economies and that will be a major challenge for the future and one of the functions, hopefully, of the WTO and it is an agenda that we are pushing in the WTO to address non-tariff barriers for industrial products.

Q137 Lord Woolmer of Leeds: That is trade defence instruments, public procurement and all those kinds of things?

Mr Garzotti: That is surely a part of our agenda in the WTO, but unfortunately we could not even push transparency in government procurement, let alone market access in government procurement. They are not necessarily related to industrial products.

Mr Van Eeckhaute: They are considered as non-tariff barriers.

Mr Garzotti: In a WTO sense they are non-tariff barriers. They are considered beyond the border, like a regulatory matter, all those issues like—

Q138 Lord Woolmer of Leeds: Licensing and so on.

Mr Garzotti: Yes.

Q139 Lord Woolmer of Leeds: You mentioned climate change. As the European Union moves towards an increasingly significant price of carbon, how is the WTO going to cope with Europe wanting to protect carbon intensive industries and ensure that simply does not result in an export where carbon intensive industries set up elsewhere against running some kind of regulatory protection? How do you fit climate change, the high price of carbon and relocation of industries and so on into the agenda?

Mr Van Eeckhaute: Can we save this question for the next session because they will have an expert on this issue.

Chairman: That seems sensible.

Q140 Lord Maclellan of Rogart: This is on the multilateral trade agreement. Can you really say that the progress which has been made by India, for example, which was one of the countries you mentioned, which has liberalised quite considerably

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this year, is due to a multilateral trade agreement? What is the nexus between WTO and the movement of these countries? So many of their movements seem to have been *ex proprio motu*.

Mr Garzotti: It very much depends on which country you are looking at. If you are looking at China surely the need and will of the Chinese Government to get into the WTO was an important factor in the liberalisation of the Chinese economy and the lowering of tariffs and liberalisation of the services market. I would say very little on India for the simple fact that India did not undergo the pressure of a WTO accession, it was a founding member of the GATT. The GATT was the first agreement that India signed as an independent country. The liberalisation that India has experienced during the last ten years has been mainly unilateral. I would say that generally liberalisation, on which Edouard will have better data than I have, is mainly due to unilateral movement in the countries deciding internally to do so and then negotiating these margins of manoeuvre that they created themselves in the WTO.

Q141 Lord Maclellan of Rogart: If that is so, what can WTO trumpet as its achievement in this multilateral field with developing countries?

Mr Garzotti: When you liberalise, and you need to consider history, liberalisation is not a one-way street. You can liberalise and, due to any change in the economic situation, being forced politically or by pressure in your constituency to work back. Surely with the WTO at this level of very high liberalisation generally in the world, particularly a Doha deal, a ratchet, that would be an important point of insurance so that the liberalisation we have achieved until now, and these emerging economies have achieved, is set and bound in the WTO. In my view, it is important that with the difficulties with the oil price and so on you can see calls for more protectionism in the world coming, not just in emerging economies but in the United States and Europe as well to make sure the level of liberalisation we have now is safeguarded and to consider it as key and binding will be important. Even if the new DDA deal did not necessarily break new ground, but broke some new ground in terms of market access in these emerging economies, even if there is not a dramatic improvement in market access, binding the access to these markets as far as goods are concerned, and even more for services because a lot of investment decisions are related to having a consolidated and safe investment environment which is very good for market access in services, would be very positive for the global economy. The fact that we are not breaking new ground and, to a certain extent, the fact that India has lowered its tariff to more or less ten per cent in the last ten years, they have done their homework and now have to bind it in the WTO, that

is fine, if the level of liberalisation is acceptable we can live with that.

Q142 Lord Kerr of Kinlochard: I just wonder if we have all made a tactical mistake with the Singapore issues. The doctrine of a big Round is that everybody gets a prize at the end and everybody is prepared to bear some pain at the end. The developed world, OECD, took a lot of demands off the table at Singapore. Was that an error?

Mr Garzotti: Here, again, I cannot say it was an error or was not an error. It is true that if we see what we got in exchange for dropping the Singapore issues in Cancun, it is hard to see a direct gain in the negotiations. I think that is factually right.

Q143 Lord Kerr of Kinlochard: I am not a mercantilist, I do not believe in zero-sum games.

Mr Van Eeckhaute: We did not view the Singapore issues as necessarily one area where one could follow a mercantilist approach but more as a systemic area where everybody would see the interest of adopting certain rules. We saw this happening in the Uruguay Round. It is very difficult to exchange, for example, the lowering of a tariff with the removal of a barrier against investments. We did not see the Singapore issues as something for which a price had to be paid.

Q144 Lord Kerr of Kinlochard: I wonder if we were wrong.

Mr Van Eeckhaute: The question is whether you see the WTO as a place where you do everything on the basis of an exchange rate or where you can also negotiate on the basis of a well-understood self-interest.

Mr Garzotti: One of the problems with the Singapore issues which I believe were good subjects to go into with the WTO was that there was not a constituency, unfortunately. There were not just developing members who were saying, "This is too difficult, too demanding and a ghost of the MAI in the OECD" and so on. I must confess that in Europe we would have expected or wished to have more support from our constituencies for those negotiating areas. It is a pity, but there were not many people ready to take that on board. That was mainly the developing countries who refused to negotiate on that and we dropped those issues, we were the demander. The only Singapore issue that remains on the agenda, trade facilitation, is the one where the collaboration with developing countries is working better and probably the most advanced and less problematic area of the negotiation. We found a very interesting way of co-ordinating negotiations, new rules, and special and differential treatment for developing countries where new rules and the capacity of developing countries to implement them are linked in

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a very inventive manner, in my view, that could be a good lesson for rules-making in the future.

Q145 Chairman: I have got one last quick question. The Commission is in the middle of negotiating a lot of bilateral trade agreements. What are the EU's trade objectives in the context of these bilateral agreements and could you comment in particular on services?

Mr Garzotti: We have several negotiations going on on bilateral trade agreements and not all of these negotiations have the same objectives. I am thinking about negotiations that we started on the basis of the *Global Europe* communication, so with South Korea, the ASEAN group and India. Those are negotiations in particularly India and Korea where we want to address the improvement of competitiveness that we need. We are trying to access those markets that are growing fast in the world where there are still considerably high barriers to those markets and where we have an interest. This is not the same as the bilateral negotiations that we are pursuing, and some have been concluded already, with Africa, Caribbean and Pacific countries which have a purely developmental function. Other negotiations that have this ideal are those with Central America, for example. Negotiations where we are more interested in accessing these markets is the Gulf Corporation

Council. On services, as far as GATT services our objective is to try to gain market access in these countries and bilateral deals can be easier to get concessions in because the concessions will be done vis-à-vis the EU. There are some partners who may be more worried about other Member States of the WTO and, therefore, will be more worried about opening the markets in a multilateral way whereas they would be more open to do so at a bilateral level. This has limits as well. My personal view is that most of the difficulties that everybody finds in multilateral negotiations are then found in bilateral negotiations as well and, on top of that, you do not have the same pressure you have in multilateral negotiations because the prize is less interesting because you have access just to a regional based market and not to the multilateral form. We do not want to be dogmatic about it so we have been launching negotiations and we hope on services that will deliver more for our economy, but we maintain the multilateral avenue is the most important and privileged one.

Q146 Chairman: I think that does answer my question. It has been very good of you to come.

Mr Garzotti: Thank you for your questions.

Chairman: Thank you very much, it has been most illuminating. We look forward to seeing your trade and development colleagues.

MONDAY 23 JUNE 2008

Present	Cohen of Pimlico, B (Chairman) Kerr of Kinlochard, L	Maclennan of Rogart, L Woolmer of Leeds, L
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Examination of Witnesses

Witnesses: Ms ANDRA KOKE, Head of Unit, Trade and Development, MR GARETH STEEL, Expert, Sustainable Development, MR DOUGLAS BREW, Expert/Negotiator, EPAs, and MR JEAN CHARLES VAN EECKHAUTE, Deputy Head of Unit, Policy Coordination, Directorate-General for Trade, European Commission, examined.

Chairman: Good afternoon. We asked a question in the last session about climate change and they said with some firmness that this question should be referred to members of your delegation so, if I may, I will do that.

Q147 Lord Woolmer of Leeds: They said the real experts were in this group! As the price of carbon gets pushed up and the European Union is concerned about the implications of this for certain industries and wants to avoid two things, simply business relocating and the same issues arising elsewhere; and potentially destroying industries, what are the implications of that for WTO and trade and tariff policies and so on? Are there any? What is the connection between these policies and climate change? Is there a connection?

Mr Steel: In the space of just a few minutes?

Q148 Chairman: Yes.

Mr Steel: This is a massive question, with great respect. My name is Gareth Steel, I am in the Sustainable Development Unit of DG Trade where climate change is one of the topics that are covered in the context of our trade policy. I do not specialise on climate change, but I think it is worth putting it in the context of what we do in our unit, which is to look at activities in trade policy generally, be they multilateral or bilateral, and try to ensure that our policies relevant to sustainable development are being served optimally in the way that we are pursuing those trade policies. I have to say that latterly it has been most especially on the front of bilateral trade agreements where we have been actively pursuing those opportunities although these issues, I recognise from your question, arise particularly in the multilateral context as well. Just a word on each. In the bilateral context, whether it is Economic Partnership Agreements or Free Trade Agreements, our new generation of Free Trade Agreements with different parts of the world, or whether it is the trade components of broader Partnership and Co-operation Agreements or Association Agreements, we have to recognise that these environmental issues are a controversial part of the whole and it is not necessarily accepted by the other side that this is the subject of a trade agreement

to get involved in these issues at all. I think when we are talking to our partners and potential partners we are very upfront about the fact that climate change is one very large environmental question which is primarily to be pursued in the context of environment policy, but our concern in the trade policy area is to make sure that what we do fits in with the broader picture and what is going on elsewhere. Principally we are looking at agreements on non-lowering of standards and opportunities for environmental technology to be facilitated. Where we get closer to climate change per se is in the area of environmental goods and services. On the multilateral side environmental goods and services are obviously a very prominent part of the DDA negotiation, which is very relevant to climate change. On the bilateral side there is limited scope. Because you are liberalising substantially all trade there is limited scope for playing games on tariffs for environmental goods, you are essentially hoping to liberalise those tariffs anyway.

Q149 Lord Woolmer of Leeds: I thought the Union were talking about seeking to internalise into imports an imputed, implied price of carbon in some way, effectively to tax goods on a carbon price basis. How does that fit into liberalising trade?

Mr Steel: You are bringing me right back to the heart of the climate change debate, disciplining me a bit because I was doing a very rambling approach to it. Those discussions are about the equity, as you said in your first question, of our industry bearing costs which industry elsewhere in the world is not bearing, and whether it is possible to level the playing field by bringing imports into emissions trading essentially. There has been agreement that this is one of the things that would be looked at in the absence of a multilateral worldwide agreement on a system to follow up on the Kyoto Protocol, but it is seen as premature, other than doing advance technical work, to start introducing into discussions with partners how we might burden their imports because that by itself would start interfering and poisoning slightly the atmosphere of what we want to be a worldwide agreement on what to do next on climate change. It has been acknowledged that is one of the possible ways of dealing with it, and that is the way that

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involves trade, but there are other ways of dealing with it in terms of distribution of allowances which would help industries cope with the unequal competition from outside, but without using a trade mechanism. I think the great fear that has been expressed by BusinessEurope, and it is obviously a fear that we are sensitive to at the Trade Policy Directorate-General—

Q150 Lord Kerr of Kinlochard: Does the Commission believe it is best dealt with by a mechanism which is entirely separate from trade, like Kyoto, a UN-type mechanism, a world carbon trading system or whatever, or, as some Member States seem to be arguing, that it is part of trade policy and should be umbilically linked directly into trade policy? What is the Commission's position?

Mr Steel: I think the Commission's position at the moment is reserved and watching and awaiting developments. Before you asked that question I was just about to say that the big fear on our side, and it is very relevant to your question as well, is that if you start using border mechanisms you generate a knock-on effect which is very difficult to control. The tit-for-tat repercussions of any action at the border are very unpredictable and difficult to control and essentially then generate a process which is beside the point of tackling the climate change issue. Those ways I was talking about at the beginning of trying to use trade policy to help the process of dealing with climate change as the positive steps that we see forward, we see this talk about unequal competition as anticipating, firstly, a failure in worldwide negotiations that has not yet happened and, secondly, a rather negative mindset as a way to look at the problem.

Q151 Lord Kerr of Kinlochard: Could I piggyback on that a social clauses question? I saw in the same document, *Global Europe*, you guys saying that you need to work to develop sustainable development through our EU bilateral trade agreements: "This could include incorporating new co-operative provisions in areas relating to labour standards and environmental protection". What do you do you mean by "new co-operative provisions" in areas pertaining to labour standards? I cannot see the Thais and the Malays rushing to say that they wish to be consulted about wage levels and working conditions in Luxembourg. Am I wrong?

Mr Steel: No, you are not wrong. I am going to the Philippines tomorrow night and I am sure that our joint opinion on that will be borne out. What was meant back at the time of the *Global Europe* communication by "co-operative mechanisms", and has subsequently been refined in the negotiating Directives that the European Council has set for

these various negotiations, was that sustainable development is not only about Europe pointing the finger at inadequacies that we perceive in practices elsewhere and saying, "You have jolly well got to sign up to these standards or we will not trade with you". That would be an error and, frankly, would not make a lot of negotiating sense in a lot of places where we have not got much negotiating leverage and they are extremely sensitive about these areas because they see them as very threatening to their political systems.

Q152 Lord Kerr of Kinlochard: The people who are pressing you to think of adding labour conditions to bilateral trade agreements are using the same arguments that the Democratic Party are using in the debate in the United States, arguments which appear to be carrying the day, sadly, in the United States and in parts of Europe. This is quite a serious debate that we have on our hands, I think.

Mr Steel: One of the first messages that we have got to get across in these negotiations to the potential partners is that we are not proceeding from a protectionist motivation and we have a genuine concern that trade agreements are not just to let there be more trade but they are in pursuit of greater welfare for both sides. In the European view that is very closely tied up with this concept of sustainable development which we do not see as culture specific but as something which is equally of interest to the partners, whether they be in Asia, Africa or Latin America. There is a very big part of the process of persuading them of our intentions and I do not recognise that we would come under massive protectionist pressures from domestic constituencies if we were to say this is not what this is about, it is very much more about these co-operative mechanisms, to come back to that, setting up a couple of chapters, or one chapter, in an agreement which would deal with environmental and social questions and say that we have some basic levels which we expect to be respected on both sides. It is not about imposing our own high standards, our own current level of standards on the other side, it is allowing a certain amount of sovereignty to have play for countries or groups of countries to decide on their own ambitions in this area, to set up structures in the agreement which will allow better implementation of existing commitments which will allow co-operative and participative processes to yield better results than have been achieved with, say, the Chinese.

Mr Van Eeckhaute: If I can add something to that. At the European Parliament we see a lot of demands for having an approach that is closer to that of the US. This is something that is coming up strongly. It depends on the political majority in the Parliament. You can imagine that within the Parliament there are strong demands for a less co-operative approach and

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a more coercive approach on these issues and this has to be kept in mind. We are in limbo with the Lisbon Treaty at the moment where, in principle, the Parliament would have extended powers on trade, which it does not have for the time being. These types of issues will come even more to the fore when, and let us hope it is as soon as possible, the Parliament will have a full role to play in trade policy as well.

Chairman: That is a very fair point. I would now like to take us back. What we have been asking your colleagues is how is Doha going, what are its advantages, where are we not getting anywhere and, fundamentally, what happens if no further progress is made. Against that background, with particular relevance to developing countries, I will come to Lord Woolmer.

Q153 Lord Woolmer of Leeds: I will start off with a simple, basic question. Do you think that developing countries or the less developed countries have benefited from multilateral trade agreements?

Ms Koke: I think that question is for me. First of all, it depends how you look at that. I do not think that there is any data which clearly and indisputably quantifies the benefits which can be directly attributed to trade. Our policy, looking from the trade and development view, is we do believe that developing countries are benefiting from liberalised trade and also from specific special market access they have gained to the EU market which we refer to as quota-free, duty-free access. At the same time, we believe that multilateral trading rules are most important globally but there needs to be co-operation between the partners and the EU. The EU alone cannot ensure a free multilateral trade system globally. We also pursue the trade and development policy aspects bilaterally and unilaterally autonomously and it is easier to quantify and measure the benefits that trade is giving. I think that answers your question.

Q154 Lord Woolmer of Leeds: Do you think that the European trade policy could do still more to help the less developed countries reap the benefits of global trade?

Ms Koke: You mean any type of trade, multilateral, unilateral, regional?

Q155 Lord Kerr of Kinlochard: Yes.

Ms Koke: That is part of our policy. We believe that trade is a component of development, it is not alone, however complete economic development is not imaginable without external trade. We see trade as part of a wider development strategy. It is macro-economic and structural policies, human resource development, development of social security systems, improving infrastructure and, of course, giving

market access and taking care of the environment, providing good incentives and a good environment for investment and innovation. Also, it is the EU joint Aid for Trade strategy which is directly intended to assist developing countries, and in particular least developed countries, to develop productive capacity, infrastructure, to carry out trade reform policies and thus enable them to benefit more from trade.

Q156 Lord Woolmer of Leeds: This is not a trick question because I do not know the answer myself. We have been told there are three blocs, the developed, the developing and least developed. Broadly speaking, what is the proportion of the world's population that lives in the least developed category? The question that follows from that is the impression I got from earlier responses to questions was that the developing countries, particularly the larger ones, have a lot to gain from the Doha Round but many of the least developed are still pretty marginal, they have got a lot of problems and may not benefit a great deal. What is the proportion of the world's population that lives in this third category of nations? What number of people are we talking about? When the public read about trade negotiations it is helpful if they have got an idea what proportion of the world this is relating to that might get the least benefit. Do you think the Doha Round, if successful, as it is currently going will be of significant benefit to those people?

Ms Koke: That question applies to my colleagues who were here before.

Q157 Lord Woolmer of Leeds: It is to do with sustainable development.

Mr Brew: I am taking a complete guess off the top of my head here, but probably around 20 per cent in the least developed because it is the developing countries that dominate the world population, the likes of China, India and Latin America.

Q158 Lord Woolmer of Leeds: Twenty per cent of the population.

Mr Brew: I can find the figure but that would be my rough guess because you are talking largely about the very small and very excluded economies here, not the big populations.

Q159 Lord Woolmer of Leeds: These are the ones with least negotiating power and probably the least to offer, the least to benefit from the current Doha Round.

Mr Brew: If it is leading into the area where I work on EPAs it is very difficult to separate the least developed and the developing economies one from the other. An awful lot of the least developed economies are directly dependent on their developing

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country neighbours and in Africa the Burkinas, the Malis, go straight through the Côte d'Ivoires and the Ghanas in order to get finance capital and access to ports. Very often the fact is a least developed country is linked to this isolated inland status. The same is true in an awful lot of regions. It can sometimes be quite difficult to separate out the benefits because they have often piggybacked on the growth that has happened in other regions. It is rather different for us, it is how we extend that growth out, which is one of the reasons within the EPAs that we have taken this view, which is supported by the regions, that this is a question of creating a scale inside those markets, both domestically and internationally, and breaking down a lot of very fragmented economies where you have a perfectly good production facility or resource in a least developed country but you have endless bureaucratic and physical barriers getting across the border to link them into the kinds of investments that are available in developing country neighbours. There is high potential.

Chairman: I think that answer has led us into Economic Partnerships.

Q160 Lord Maclellan of Rogart: I wonder if you could give us an indication about the progress on Economic Partnership Agreements. There is some indication that at least in Africa it has been a bit spotty with not the kind of regional agreements that were apparently being aspired to.

Mr Brew: In the Caribbean we have a very good and very high benchmark for the kind of agreement that we would be looking for. It has got some very ambitious and very, very generous development clauses in it. We were not able to get that far in the other regions. The Pacific is a very unique region because we have extremely limited trade with the vast majority of the people there, scattered small islands, and they do not have the same regional integration view of the world. Africa suffered precisely from this problem, there was a division between least developed and developing countries and the time pressure on the negotiations came from the threat from the WTO of legal action against their trade regime which the least developed countries did not feel was fair. and in that atmosphere it was enormously difficult to bring people round the table with a single objective. Correct, we certainly did not get as far as we would have liked to have seen nor where our partners on the African side would have liked to have got. What we did get to was a far better platform and one of the biggest calls from the ACP side was that they were not ready, they needed a bit of extra time to negotiate and they wanted to see the end of any threat or external pressure. They have got that. We have everybody who wants it and needs it pretty well on a duty-free, quota-free access regime,

both least developed and developing. We have got the ministerial level and everybody says they are still at the table. Negotiations are moving. We have got a list of concerns on the table and we have the ability to sit down and discuss them free from what was a very poisonous atmosphere towards the end of last year. Where and exactly how far we are going to get is precisely an issue of negotiation. It is up to both sides now to determine the level of ambition. One thing is clear, that we are not in the game of pressing any region into commitments they are unable or unwilling to accept. We all know that it is simply not realistic for very poor countries to start to take on the kind of extensive services commitments that you see in the Caribbean, so we will need a different kind of approach. We are now in that ground of working our way through the issues and there are positive signals, positive engagements in the different regions. Over the next year or so is when we will start to see where the landing zone is for these.

Q161 Lord Maclellan of Rogart: Can you give us any global indication of the economic impact of those partnership agreements on trade costs?

Mr Brew: It depends how you define all the trade costs. If you have a genuine regional agreement then you will cut the costs of doing trade substantially. Cargoes are sitting in the major African ports 20/30 days before they are moving, they are having to cross 15/16 separate permitting processes and trade is being badly held up. The kind of vision that we have of the way EPAs will work will go a long way to helping to cut that down. It will certainly make trade an awful lot easier both within the regions and between the regions and Europe. Our big goal in terms of the economic costs is that we have been in a situation where for over 30 years we have seen a continual decline in the share of ACP trade and a continuing concentration of that trade in primary unprocessed commodities, and reversing that and getting value added processing for economic development in the region is where the main economic benefits of this lie.

Q162 Lord Maclellan of Rogart: Some of the, I do not know whether it is fair to call them holes but in Africa a country like Nigeria has not been participating in this, I understand, and that does make it more difficult to achieve. What can we in the Union do to push this process forward in the sort of timeframe you might have in mind?

Mr Brew: In terms of the question, in a country like Nigeria it is very much a political question. It is continual encouragement to those countries to engage within the region, because this is very much a regional vision which we will be following within the ACP regions, to send the message that Europe is

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there for the long-term, we do not see this as a one-off signing, we see this as a 15–20 year process, that we are there with our development programmes to make sure we do not only provide the trade agreement but we are there to make sure that the rest of the measures which genuinely make trade work are there in place.

Q163 Chairman: We are rather grimly asking everybody what happens if the Doha Round fails. If it fails, what does it do and what can be saved, what can go on being done in the event of a formal end to the Doha Round?

Ms Koke: That is certainly not a cheerful perspective or scenario to play out in our minds but, at the same time, while the Commission believes that developing trade at a multilateral level is the most efficient for all parties involved, it is a pretty slow process, as we can see, and we can also see it is a quite uncertain process. We can look at the other levels which we can do and where we are more in control of obtaining a result, a certain outcome, and that is on the bilateral or regional agreements. The Commission is now working on autonomous trade preferences which are not only tariff preferences but which would be seen as an element of a larger trade and development policy where development is linked also to autonomous trade preferences. That is ongoing work. However, looking at the preferences at the multilateral level, it is not only north/south trade which is important to be liberalised or developed but also south/south trade which is picking up and gaining more and more of a share of global trade. Secondly, that is also where barriers exist, both tariff and non-tariff barriers, as was mentioned, to a much higher degree than in north/south trade. That is where we see multilateral trade liberalisation and trade facilitation will be more beneficial than bilateral, regional or even autonomous.

Q164 Lord Kerr of Kinlochard: So we would favour regional free trade areas?

Ms Koke: I do not see any harm in that. Whether it is something the Commission can do or achieve, that is another question. As part of the EPA negotiations that will be one of the directions we move towards.

Q165 Chairman: In the course of long, drawn-out Doha negotiations quite a lot of things were taken off the table in Singapore. Did we make a mistake there? Would it have been helpful particularly to the less developed and developing countries to go on with the Singapore agenda? I am thinking of things like IP and investment protection.

Mr Brew: Yes, it would have been good for developing countries to keep those on the agenda.

Q166 Chairman: We thought so, we just wanted to clarify.

Mr Van Eeckhaute: The real question is did we make a mistake in the very context of the WTO negotiations as they were going on at that time. At that time in the context of the WTO we had no choice because, as we said before, the WTO is a democratic organisation and if there is a majority, and we are talking about a majority of the members, who do not want an issue on the agenda and if there are those who think if it is on the agenda a price should be paid for this that is not a real price or cannot be calculated then we have no choice but to withdraw the issue. It depends how you see it in the context of the negotiations. In an overall context we were probably right to say these issues are the future of trade policy because, as was rightly pointed out, tariffs, et cetera, become less and less important. The point is that the context of the WTO did not allow us to pursue this, so from that perspective it was not a mistake.

Mr Brew: I did not phrase my answer perhaps in the most correct way.

Mr Van Eeckhaute: No, you were right.

Mr Brew: The international community, I believe, made an error in taking this decision.

Mr Van Eeckhaute: Absolutely. I know that was what you meant.

Q167 Chairman: I suppose this is really in the context of in the event that this Round simply fails, where does that leave the WTO? What can they do? We fished around and thought perhaps they could take some of the Singapore issues which are not the non-tariff issues.

Ms Koke: That is also a question about the WTO with all the international community represented there. As I say, I think the Singapore issues will be supported more globally once the developing countries realise that once they develop productive capacity and are producing more value added in their countries they will see that those issues are something which are really important for them and then we can resume our discussion on those issues.

Q168 Lord Woolmer of Leeds: Some, I would not say critics of the European Union, critics of the richer countries, often say in EPAs that deal with some of the smaller and weaker and least developed countries in the world they have got the least ability to negotiate and are suspicious of whether these are even-handed arrangements. What would be your answer to those kinds of critics?

Mr Brew: My answer would be, yes, these are countries with very low capacity to engage and that is why we have provided them with extensive support to engage for which we do not see the results. We provide studies which they have access to and we do

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not, we fund their attendance according to their schedules when they want to come and we are very, very conscious of it. The real question that is being assumed underneath this is that there is a strong commercial interest or some offensive interest of the Commission that is leading us to push these agreements forward, and there is not. We trade more with Switzerland than we do with the whole of the ACP put together. We trade more with South Korea than we do with the rest of sub-Saharan Africa. We have six desks compared to one for China. We would not allocate that if we had commercial interest. Similarly, the markets are just not small enough. We need to look at the industries. We would love to have industries coming in talking about offensive interests in the ACP, but the only industries I have ever had come and talk to me are interests concerned about their imports from the ACP into Europe being sustained. A lot of this is around that word "suspicion". Yes, it is an area where we are treading very carefully and one reason we are in that situation now is we took that step of agreeing interim agreements, even though they are not perfect, in order to provide the extra time and space that these countries need.

Q169 Lord Woolmer of Leeds: China is putting a lot of effort into Africa. How would you compare the Chinese approach to sustainable development in their relations with countries in Africa with the European Union's approach?

Mr Brew: I will probably hand most of that over to Gareth. These things have to be placed very, very much in context, that although China is very much more engaged in Africa, it is concentrated in a smaller number of countries and very heavily in a specific number of sectors and through state-owned trading entities which affects how it operates. It has also got very different political operations, a very, very small aid programme relative to us, and the whole context in which it operates is miniscule compared to the European Union. The context is very different in which they operate and the industries are at a very different operating stage, they operate on far slimmer margins, and there are a number of questions over how sustainable that is and over time they will find themselves, as they recently did in a number of countries, drawn into the same kinds of debates about the role of foreign companies inside an African context that thus far they have been by and large insulated from. We have completely different economic trade and development relationships framing the way we operate.

Mr Steel: I do not think I have much to add to what Douglas has said. There is a slight definitional question hovering over all of this in terms of development issues and sustainable development.

Development in the sense of bringing those countries on, economic development, is part of a larger picture of sustainable development in our book. When we talk to the Chinese about sustainable development issues we have a different definitional problem because they tend to see it very strongly in environmental only terms, they have environment blinkers on, which is quite widespread and obviously it is a very big component. I would say that the Chinese are becoming very sensitised themselves to environmental issues and slowly and surely this percolates through to their dealings with developing countries where obviously they are not starting from the same place as us. It is also true to say that the Chinese would like to limit the term "sustainable development" to its environmental sides when talking to the European Union and there are openings also in China's own terms, talk of "harmonious society", which link in a little bit to the social aspects of sustainable development.

Ms Koke: I would like to share my observations. Recently at the UNCTAD Conference in Ghana there was a side event which was entirely devoted to trade between Africa and emerging economies. Surprisingly, China was not present at that meeting at all. However, Brazil, India, Russia and Kazakhstan were there sharing their experiences in how trade has developed and it was demonstrated that there have been notable increases. The most interesting part of that was the reaction from the African participants who were listening to these presentations and were very unhappy. They said the trade increases are only on account of the exports of raw materials and do not do much to the development of those countries. Emerging countries, particularly Russia, responded what were the trade and development aspects they could bring to the African countries rather than simply going and increasing trade in raw materials and minerals. Those are my observations that I have heard and noticed.

Q170 Chairman: We were discussing anti-dumping measures and trade protection measures. There have not been all that many anti-dumping cases but we wondered whether, in fact, the anti-dumping measures that are allowed under the last regime have had an inadvertent impact on less developed countries? Do we know anything about it, or does it only really hit the developing countries?

Mr Van Eeckhaute: Most of the measures we do take are mostly vis-à-vis emerging economies. I do not know whether we have—

Mr Brew: We have not ever taken an action against the ACP countries.

Q171 Lord Kerr of Kinlochard: Have they started actually manufacturing something?

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Mr Brew: I think they have got so far to go before there is any chance of them coming close to taking on the Asian manufacturing economies that it would be extremely unlikely in my view. It would probably be a good indicator of a successful development programme if we felt that they were a big enough risk that we would take an anti-dumping action.

Q172 Chairman: I am glad to know. When you think about it, it sounds like the sort of thing that is very damaging to a less developed country but, as you say, they have not got there.

Mr Van Eeckhaute: Even if we had a complaint we would really put everything in the balance.

Q173 Lord Kerr of Kinlochard: Can I ask a very simple question. Was it a good idea to call this Round a "Development Round"?

Ms Koke: It is a question of intentions.

Mr Van Eeckhaute: It was the only thing that we could do given the negotiating dynamics and politics at the time when it was launched. I spoke earlier about what happened in Seattle where there was this strong outcry from the poorest developing countries saying, "What is in it for us? Do we really count in this system?" The question is whether we should not have made very clear at the beginning what we meant by this because the term "Development Round" has so many interpretations that it is a problem. It is a difficult question. The jury is out on that.

Q174 Lord Woolmer of Leeds: When free trade areas are negotiated with some of the bigger players, quite clearly that could have knock-on effects that damage some of the least developed countries, dealing with India, the effect on Bangladesh, and so on. Where do you come into that? Where do your sustainable development interests fit in with people who see the possibility of an FTA but you can see problems of knock-on effects? How does that get dealt with within the Commission?

Mr Steel: How that principally gets dealt with is through trade sustainability impact assessments which have to be conducted for every trade negotiation and we look at the impacts. It is true principally of the two regions concerned, but they do indeed look at other repercussions.

Q175 Lord Woolmer of Leeds: Having looked at them, what can be done about it?

Mr Steel: That is often raised about SIAs. The point of SIAs is to be available for negotiators even before the thing is agreed, so it is not just a matter of wringing hands after the event, the negotiators can take those considerations into account and back off if they are pushing something which is clearly going to have a deleterious effect or, conversely, to identify accompanying measures that would help palliate the effect, cushion the effect.

Mr Brew: I think it is fair to say that this is something where in the context of the ACP we are not in the game of maintaining residual tariff barriers on one set of poor countries in order to favour another. At the start of the Lomé trade preferences everybody had very high tariffs and we maintained very low access for the ACP at the time, but we are now in a different situation where what we have is a series of tariffs on goods we do not produce on countries, some of which are poorer than their ACP partners, who legitimately have a complaint that this is discrimination. We are very conscious that that kind of change is very difficult, very far-reaching and very deep, which is why we are pushing our transition times as long as possible and, as Gareth said, we are opting for it. Fundamentally, that is not a path to development if the only reason that you are in production is because of a tax on somebody else. That is the context we are working in. We are not going to oppose that change, we think it is essential, but we will do everything we can and we are very conscious that it is a real problem for countries.

Ms Koke: All least developed countries have duty-free, quota-free access at all times and you cannot get any better in terms of market access than that. The one thing which is ongoing now is the reform of the Rules of Origin which also impacts the trend of market access and the purpose of that reform is to make them more development friendly and transparent.

Mr Van Eeckhaute: This underscores the superiority of multilateral trade arrangements in WTO because the countries that are hit by an erosion of their preferences that is a result of any liberalisation that takes place, whether it is bilateral or multilateral, will have knock-on effects on those who have preferences. At least in the WTO they can negotiate compensatory measures as is being done for the time being. That is less the case in bilateral deals.

Chairman: I think we have trespassed enough upon the time of the Commission. Have we left a question unanswered? No. It remains for me to say thank you very much indeed, we found that extremely helpful.

TUESDAY 24 JUNE 2008

Present Cohen of Pimlico, B (Chairman) Maclennan of Rogart, L
Kerr of Kinlochard, L Woolmer of Leeds, L

Examination of Witness

Witness: Ms ANJA OSTERHAUS, Co-ordinator of Fair Trade Advocacy Office, Fairtrade, examined.

Q176 Chairman: Thank you very much for coming. We are very pleased to have an opportunity to talk to someone from Fairtrade because we have not had that much opportunity in England, not many of the NGOs have talked to us. I am particularly interested in your views on the less developed countries, the poorest countries, because there are quite a lot of people speaking for the developing countries, either for or against, but we are not getting much of a handle on the very poorest countries, the LDCs, so we are very glad to see you. I want to ask a very general question, which is what steps should European trade policy take to help the less developed countries reap the benefits of global trade? In that context, do you think that special and differential treatment and Aid for Trade are relevant to real development needs?

Ms Osterhaus: Thank you very much. I do not know if you want me to give you a little bit of background on Fairtrade.

Q177 Chairman: I should have offered you the opportunity to make a statement first, if that would be helpful, to give us a general background.

Ms Osterhaus: Thank you. I was prepared to answer questions, but I think it might be useful for you to know where I am coming from.

Q178 Chairman: Indeed it would.

Ms Osterhaus: I brought a book in case anybody has the time or interest to go into the detail on Fairtrade, specifically because it has the contact details and it says who we represent here in Brussels.

Q179 Chairman: Thank you very much.

Ms Osterhaus: Here in Brussels I am the voice of Fairtrade. We are represented by a little office, very small, with just two staff, or 1.8 to be exact. We represent the international Fairtrade movement. That goes beyond the Fairtrade Foundation which in the UK is the reference point for Fairtrade and everybody knows the logo and the products are everywhere. We have had this fantastic growth rate of 80 per cent in one year of Fairtrade sales. I do not only represent the labelling part of Fairtrade but all the others, like the Fairtrade companies, the producer organisations, the support organisations for Fairtrade, those who help them to export, those who help pre-financing, et cetera, and also the

specialised Fairtrade shops. They are all organised in different associations and the two that are international are called Fairtrade Labelling Organisations and International Fair Trade Associations and they are represented by my office here in Brussels towards European decision-makers but with other institutions. We work towards the WTO, UNCTAD, even the International Organisation for Standardisation, so everything in terms of European and international institutions are our partners for dialogue. Against this background, I am very happy that you asked for our opinion and our view on trade policy in general. You probably know that basically we see trading specifically under fair conditions and these products you can buy as a direct tool to support poor producers, but it is even more a means to an end and in general the end would be fairer trade rules because we have doubts about the current system and we are convinced that there are problems, particularly for developing countries. Our focus is not even at country level but the marginalised groups in these countries, particularly the small producers but also workers on plantations and companies who do not benefit from open trade and liberalised trade. That is our conviction and we think we have a lot of evidence to prove that. Our focus is on these groups and that starts to answer the first question. It is good that the WTO has one country one vote, that is something. It is good that there is special and differential treatment and other measures to try and support the weaker partners in the negotiations to benefit from what has been achieved. It is better than not having it, there is no doubt, but it does not systematically address the problems we have in international trade if we look at it from the perspective of developing countries and small producers in these countries, which is our focus. I am not saying protectionism is good. There are many reasons for protecting your country and your specific sectors just because you want to protect people there or the ones who make the profits, you do not want them to lose out, but protectionism in itself is not a good concept. Open trade can be positive and helpful, the problem is it does not really address the supply-side constraints of particularly the smaller players who are the ones who lose out in globalisation. We know that and that has been proved in so many different studies that we have. That is not always the case, of course,

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there are some smaller producers who benefit from trade but when we look at specific examples, and our classic example is coffee, which is the biggest product of Fairtrade, for decades the coffee producers did not really benefit from the fact that they could sell the product on the international market, there were many problems, there were support measures to coffee producers in Vietnam, et cetera, to overcome their specific problems and then we had too much coffee and an oversupply and had to depress prices for decades. That is not helpful. Coffee producers had to produce coffee under the production costs. That is just one of the hundreds of thousands of examples we have where we can see that specific groups definitely lose out systematically. It is not that this happens once in a while to a group of small coffee producers, it is systematically a problem that smaller players lose out in international trade, and this is particularly true for developing countries. It is good that we have some measures that address it, but it is not sufficient. One of the reasons why it is not sufficient is because in most developing countries, and it is not completely different in Europe, the ones who tend to lose out, the smaller, weaker partners, do not have a voice because who decides the rules are the governments influenced by interests and the smaller producers do not manage to defend their interests. They do not normally know how to speak to decision-makers and most of the decision-makers are not interested in listening to these weaker parts in their society. In the end, systematically trade rules are not made in favour of these groups. That is a problem the WTO does not address at all. It does not address this and it does not systematically address the problems of the weaker countries because the same phenomenon we have within the countries exists at the international level as well. There are 153 negotiating partners and it is obvious that with the European Union coming with hundreds of specialist negotiators, 10 on a specific issue, and they sit at a table with maybe one or two from Uganda, the negotiating power is completely different between the different players. Even though there are some concessions made we have a hard time in the EU even to get to common ground on key issues like agriculture policy. There are some concessions made here and there but they are not sufficient and do not address the systematic problems of the small, weaker partners who lose out in the negotiations.

Q180 Chairman: Can I just pick up one point. I think you are suggesting that some of the smaller, weaker partners would be producers in otherwise quite successful countries. You might have some small, weak producers in successful developing countries like India or China.

Ms Osterhaus: Yes.

Q181 Chairman: But then there are whole countries where everybody is a small producer.

Ms Osterhaus: Yes. India is a very powerful negotiator at the WTO level while Uganda is not.

Q182 Chairman: But would there be interests within India that are not being met?

Ms Osterhaus: Absolutely. We have got two problems.

Q183 Chairman: I thought that was what you were saying, I was trying to disentangle that.

Ms Osterhaus: That was exactly what I wanted to say.

Q184 Chairman: I think the most useful thing we can ask you to address in the context of the WTO, which is what we are doing, is the whole country problems where it is the smaller countries which, as you say, lack negotiating parity.

Ms Osterhaus: Yes, because negotiations happen at country level but there can be measures in the WTO and also awareness among the negotiating partners that these interests need to be taken much more into account. If trade, in theory, is one of the means to address some of the problems, when you look into the details of Aid for Trade and what happens there—we are a bit provocative, so let me be a bit provocative—it was a bargaining tool in Hong Kong to say, “Here we are, the big players, the US, the EU and Japan, Australia, et cetera, we offer Aid for Trade”. It was two days before Hong Kong when the pledges for Aid for Trade started. We do not think it was a serious taking care of the development concern, it was a bargaining tool to have developing countries subscribe to deals which they did not really do and it did not work out. We really think it is absolutely necessary to help developing countries, and particularly marginalised groups in developing companies, to benefit from trade because there are so many benefits from trade, and we see it with Fairtrade. We see how trade can work for development and we have the proof, it is possible. It also works in some cases without Fairtrade, but not systematically. Aid for Trade could be a very powerful tool, but not if it is done to make the developing countries subscribe to a deal which they otherwise would not subscribe to, to buy them in. That is a big problem with Aid for Trade. Currently we are running research looking into what is being supported under Aid for Trade. The first thing to say is that nobody knows because Aid for Trade is a huge concept which is not properly defined, many things overlap. If you build a road in a poor country which has poor infrastructure, this can well be Aid for Trade to be able to transport

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the goods to the port, but why should you call it Aid for Trade, you could also call it development support, infrastructure, it is very difficult to define. Anyway, money goes into Aid for Trade, is labelled "Aid for Trade". We are looking into how much of this money goes to address the concerns and problems of the smaller, weaker players. It is 0.5 per cent, and in some countries a little bit more, a little bit less. It is very, very difficult to identify and find out, but it is very small. It goes to the big projects and big companies to help them. Of course, there is a little trickle down effect from a big company to some workers, but then you need additional measures to make sure that there are really benefits for the poorer groups and society. We do not see that systematically being addressed, absolutely not. There is no political will to do that. The interest in Aid for Trade is not there and if that is not met we will not overcome supply-side constraints for these groups again.

Q185 Chairman: So we should view Aid for Trade with some suspicion?

Ms Osterhaus: Yes, absolutely.

Q186 Lord Maclellan of Rogart: May I ask a supplementary on these structural issues, institutional issues. You said it was a good thing that there was, as it were, one nation one vote, but does that not almost inevitably build in the weaknesses that you have been describing, the negotiating weaknesses of the smaller countries? Would it not be better if there was some kind of regional structure in which nations with similar problems could, as it were, come together and have a slightly more powerful voice?

Ms Osterhaus: It sounds very good and attractive but what would the regional groupings be, who would come together? If you look at Africa, would you bring together the whole region, neighbours who are about to go to war, or completely dictatorial and tyrannical regimes with democracies? It is so difficult. The EU is so advanced, with all the difficulties we have, in joining positions and coming together on key issues and we do not have that in any other region. It is very difficult on the practical side.

Q187 Lord Maclellan of Rogart: When you say there should be more concern expressed, it is a sort of charitable concern that you have expressed, it is not a bargaining among equals, you are trying to say the big countries should just behave in a decent way.

Ms Osterhaus: It is not charitable, it is more a concept of wanting justice.

Q188 Lord Maclellan of Rogart: Justice.

Ms Osterhaus: The question is if you have a public institution, and the WTO is a public institution, do you allow the players to go for their own rights and interests or do you build in systems whereby the weaker parts are protected, which I think a public institution should do, and does, but not sufficiently. If not, you just have the rule of the strongest and why do you need a WTO any more because you can do that without any regulation, the stronger partners win.

Q189 Lord Maclellan of Rogart: I am sorry for that slight diversion perhaps. How do you see the way the Commission is currently playing the negotiations in the Doha Round? Do you think they have got the right brief and right objectives? How do you think it is going to play out? That is a general impression question.

Ms Osterhaus: From our perspective, of course, they do not have the right objectives because the main objective, despite all other rhetoric, is to open markets for the benefit of European exporters and traders. This is obvious and understandable and it is clear that the EU has this focus and all negotiating partners in the WTO have this as their main focus, they want to have benefits for their own countries and own economic players. It is obvious, it is understandable, but it is still not right. I believe that the EU is in a position, being one of the strongest partners in these negotiations who benefit most from trade in general, to have other objectives and follow them much more systematically than has been done in the past.

Q190 Lord Maclellan of Rogart: Could you give some example of the way that might work?

Ms Osterhaus: Yes. For instance, on the issue of sustainable trade there is a unit in the Commission, in DG Trade, which looks into sustainable trade and they lose out all the time because when it goes to the negotiation and people sit around the negotiating table, they will try and get the best deal for European business interests. I know the people from this unit and they say themselves it is very difficult, "Once in a while we manage to get a little clause into the negotiation". The key concerns addressed in trade negotiations are not sustainable development or poverty reduction, it is business, and that is a problem. Let us just be clear about it, the real issue is business. There is a lot of talk about development but it does not happen. At the negotiating table people do not negotiate development and the negotiators are not even equipped to do that, they are trade people and do not really know about development and what to do and what the impacts will be. They do not care. We see trade as a means to poverty reduction, that is

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why Fairtrade exists, but this is the wrong starting point. It happens to get the right result once in a while but not systematically because the objectives are not the right ones. That is what we think. Of course, the WTO would need to be completely different to meet the goals that we try to meet with trade. It would need to be completely, completely different from how it is set up now. We are far away from anything like that.

Q191 Lord Woolmer of Leeds: Picking up that point first, just then you said the WTO is not actually set up to address the issues that you are concerned about, which almost sounds as if you are saying that whatever you want to be done the WTO is not capable of meeting that. My Lord Chairman did ask you what steps could European trade policy actually take to help less developed countries. Can you be specific because you have been very general? In the context of the WTO negotiations is there anything that could be done specifically by the European trade negotiators that would further the important causes that you advocate?

Ms Osterhaus: I do not follow the WTO negotiations specifically, so I could not say on this particular issue, but I am happy to pass you to other colleagues from the Fairtrade movement who work more specifically on the details of the negotiations and can give you more direct answers.

Lord Woolmer of Leeds: Thank you.

Q192 Lord Kerr of Kinlochard: Your criticisms of the present WTO and how it works included your saying you did not think it could, given its present structure, satisfactorily take account of the concerns you are describing. Supposing it was replaced tomorrow by something completely different, which did provide a more adequate mechanism for taking account of these concerns, a fairer negotiating system, what would it look like?

Ms Osterhaus: Our WTO would have as the first objective, and it is mentioned in the WTO but not as a first objective, sustainable development and poverty reduction and increasing wealth in all countries basically. That would be the first objective. Trade negotiations would have to be assessed against this objective. That is how we do trade. We look into what is needed on the ground for these producers and we try to give it to them. They may need pre-financing because they do not have the inputs to even buy the seeds for what they want to produce. They may need capacity building, so we do that because maybe they do not need the pre-financing. It is a system which adapts to the different situations and contexts and that is not the case at the WTO, it does not adapt to the different contexts. It has the overall idea that liberalisation will be positive for all parties and that is definitely

not the case. It is beneficial for some and not for others, and systematically beneficial for the ones already in a situation to reap the benefits, which are the more developed. Our WTO would take it from the other side, would say, "What is the need in the different countries and how can trade support sustainable development and how can it help to overcome poverty?" Then the whole WTO, which is a dream, we know it is not going to happen and why we do our Fairtrade in the meantime because we do not want to wait for the system to become right, would go for changes and try to adapt things, but we know there are limits in the current set-up.

Q193 Lord Kerr of Kinlochard: So instead of trying to grow the cake, the total of world trade, which is the Bretton Woods/GATT idea, and trying to look out for those whose slices are not growing or are shrinking, you would say one needs to divide the cake into slices and make sure the slices are fair but then hope it grows. You would approach it the other way around?

Ms Osterhaus: Yes. I am not completely convinced by the metaphor.

Q194 Lord Kerr of Kinlochard: Neither am I!

Ms Osterhaus: No.

Q195 Lord Kerr of Kinlochard: I am not sure that doing it your way round would be realistic. If you take where the world now is with oil prices, commodity prices, huge increases, they are a transfer of resources from the OECD world to developing countries. I agree that "developing countries" there is very broadly defined and the real losers are the less developed countries which have neither oil nor copper or iron ore or any of the commodities whose prices are shooting up. I can see that you would like a safety net of increased fairness in the system but I cannot see why the Australians, for example, should agree a lower iron ore price in order to benefit the Congo, or the Congo would agree a lower copper price in order to benefit Brazil, or Brazil would agree a lower iron ore price. It seems to me there is an "animal spirits" world out there: life is a bit unfair.

Ms Osterhaus: Yes, absolutely. The discussion on price is not a discussion which takes place in the WTO. The WTO is about trade tariffs or non-tariffs, et cetera, trying to avoid non-tariff barriers and all these things. The world is unfair, we know that, and the fact that the rules are as they are is because they have been designed by the ones who have a say and not by the ones we think should be involved to a much greater extent. That is why we do Fairtrade in the meantime. We try to engage in the Aid for Trade debate and try to get the rules in Aid for Trade better than they are and make sure that the

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money which is available, and we do not even know if there is additional money available, it has been said but since nobody knows how much money is spent we do not know whether there is more or less, we will never be clear, but let us assume there is more money, goes to the ones who need support to benefit from open trade. If not, it will not help. I agree that our vision of a world trade system is unrealistic, we will not have anything like that in the foreseeable future, so in the meantime we try to change bits and pieces and do our Fairtrade and hope you will buy it and in these cases we know the people who need it most benefit from trade.

Q196 Lord Woolmer of Leeds: I assume that you think the kind of growth rates we have seen in India and China of over two billion people offer more prospect now than, say, 20 years ago for even the poorest to have some prospect of progress.
Ms Osterhaus: Yes.

Q197 Lord Woolmer of Leeds: Can I turn to the European Union's bilateral trade agreements because as well as the multilateral approach there are a lot of bilateral trade agreements and so on. Do you think that the EU's bilateral trade agreements are fair to developing and less developed countries? Do you think outside the WTO what the Union is doing in the bilateral negotiations is an improvement on the WTO situation or is it just the same? Is it a trade-orientated approach? You implied you thought the sustainability part of the Commission does not really get a strong voice even in bilaterals, is that right?

Ms Osterhaus: In general the approach is the same, there is not a significant difference between the WTO and the bilateral in terms of what are the aims of the negotiators and the situation of having unequal partners at the negotiating table and the powers of the negotiators and the number of people around the table and all these things. Similar things apply, however it will be very different from one region to the other. If you look at the EPAs, the fact that the Caribbean happily signed an EPA while the others did not is a sign that they achieved more in the negotiations than others and felt this was a fair deal, relatively at least, for the countries overall. We still have criticisms on special parts of the agreement. It is good that at least the countries there got a better deal, but that does not mean necessarily the banana producers in Dominica are going to benefit from this. We have some criticism there but it shows it is different. In the WTO there are countries that benefit from their openness, like India and China, and many, many people in these countries benefit, it is not that nobody benefits from open trade, absolutely not, but in the EPA negotiations, to go back to that example, in Africa

just by the set-up of the different regions you have a big problem as I said before, you put countries together where the governments are about to start a war and how will they be able to agree on a specific tariff set for coca which may be good for one country and bad for another country, it is impossible. In these cases we have additional problems with EPAs.

Q198 Lord Woolmer of Leeds: What can the European Union in its trade negotiations do in those circumstances that would make you feel they are doing more?

Ms Osterhaus: We have been criticising the set-up of the regions. How Africa has been divided in the different regions was against all evidence and it was always said this was supposed to contribute to regional integration, but this is not true. We have been told so many things, "We take care of this" and—

Q199 Lord Woolmer of Leeds: Should the European Union give the effort up altogether?

Ms Osterhaus: On the EPAs?

Lord Woolmer of Leeds: Without being too critical, you do sound as if you are continually critical and negative. I am trying to tie you down to what it is you would like to see done.

Q200 Chairman: Instead of regional agreements, would you hope for individual agreements with individual countries?

Ms Osterhaus: On the EPAs it is back to the WTO rules that the previous system could not continue and was not particularly good. It did not address problems before and it does not address problems now either. On the EPAs altogether, in Africa I think it is completely the wrong approach in general, not in the Caribbean.

Q201 Chairman: What would be the right approach in Africa?

Ms Osterhaus: The right approach would have been a different regional set-up, for instance, one which has been decided by the African countries not to put them under enormous pressure to sign up to trade deals even though there is a lot of evidence for strategic sectors in several of these countries and in the context of WTO to look for a different solution. There would have been different solutions but there was no political will on behalf of the EU to look into different solutions, solutions which start from the point that we need to enable development and overcome poverty in these countries. That is the highest concern. In all African countries the highest concern is not that they are open to receive trade from the European Union but it has not been looked at like that. For years the development

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experts in the EU were not involved. All the time they said that this would be good for development, it would help African countries, but the development experts from DG Development were not involved, they just became involved because of the enormous pressure from NGOs saying, "You talk about development but the people who sit around this negotiating table are trade negotiators, they don't know about development, so at least do it jointly". Two years ago towards the end when most things were already decided they brought them to the table. At least that happened, but it happened too late.

Q202 Lord Woolmer of Leeds: What would be the structure and content of an agreement between the European Union and some African countries? What would be the content of an agreement that would leave your people, your organisation, happy?

Ms Osterhaus: Now we have ended up having a lot of EBA—Everything But Arms—situations for many of the poorest countries and from the outset they could have said, "this is your option, let's leave it there". Why should the poorest countries which have free access to the markets of the EU without having to give a lot for that be put under pressure to negotiate something different, which has happened for years, they have been put under this pressure? Now we have no regional agreements in Africa but a lot of individual EBA regimes, et cetera. There has been some legal advice which has shown that many of these countries would be eligible to just have this GSP Plus regime, which is much better than an EPA. Rather than trying to put them into regions which did not work and putting them under enormous pressure to sign up to trade deals which are not being signed because it is obvious they do not work for these countries and they have resisted because they have been empowered and supported by civil society in the north which helped them get their points to the negotiating table and supported the developing countries, which was questionable in many cases because we have many dictatorships in Africa but what could they do, they were put under such high pressure by the EU, now we will have a lot of individual agreements and it is not good. From the outset it could have been done much better.

Q203 Lord Kerr of Kinlochard: I think there are three reasons why we have ended up at what you describe as a sub-optimal negotiating position. One is the belief, which is pretty general around this town, that the bigger the cake the more everybody benefits, admittedly with some unfairness in the slicing of the cake. It would be in the interests of those African countries to liberalise their import regimes, which would reduce domestic inflation.

Infant industry protection can be arranged in particular cases, but in general liberalisation is what you would like to see. Two, perhaps working from our own example, we would say, and people around this town tend to say, the more we can encourage regional economic co-operation the less likely countries are to go to war with each other. To take the example of the EU, the original idea was to ensure that France and Germany would never, ever go to war again, and that has been achieved, whatever else we have failed to do. So there is that aim, which is a political aim, and I am not sure it is a dishonourable aim. Third, you say that some of them are dictatorships, some are people we should not be offering preferential agreements to, but I do not know that I agree with that. The number of African regimes that are really unpleasant would probably fall if the African economy started growing faster, as it would if arguments one and two were applied. I would also perhaps add a fourth argument, which is that a bigger barrier to economic development, certainly in Africa, is the trade barriers at the borders between contiguous countries: the more one can encourage a regional pattern the more one might produce a reduction in the costs of moving goods or services across a frontier inside Africa or inside West Africa or East Africa. How would you counter that?

Ms Osterhaus: One point about the economic integration leading to less risk of war, there are elements of that with which I would agree, but if we look at the European Union we first had political agreement that there should not be war any more because of the terrible experiences we had and the wisdom of people in power at that time. Once that was applied politically then economic integration was the first step to putting the EU into practice. It was not that economic integration started and there was no war, it was good enough that there was no war, imposed by others actually, and that was a starting point to get to a political agreement which was implemented by economic steps. To give a drastic example, imagine the WTO imposed on the European Union in 1940 to subscribe to a trade deal with Africa as it is today. Of course, that is extreme because there was a World War at the time which is not there now, but if you think about it for a second you will see this is not the way to go. We cannot solve the problems in Africa. We can try and support development in a good way, but I am not convinced that the WTO rules help systematically to overcome political problems we have in Africa. I truly believe that the way of distributing the regions in Africa by the EU was not helpful at all and that has been criticised by the African governments and many other experts. We cannot assume that just because of the EU now being in a good position to implement the WTO rules and work with them that

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in the rest of the world the situation is the same, that is just not true.

Q204 Lord Kerr of Kinlochard: Could I ask you about the change in world food prices and how that affects the arguments as you see them on the agricultural dossiers in the GATT round? World prices are higher than support prices in a lot of commodities now and it is a very different world agricultural scene from the one in which the Doha Round started. What do you think they should be doing to their negotiating positions as a result of the real world changes?

Ms Osterhaus: As I say, I am not really a specialist in WTO so I would have to speculate. I do not know that I can be very helpful on that answer. I wanted to address one of the other points you made. I am not really sure that liberalisation of trade is always in the interests of the developing countries. If it is done well and takes care of protection in a good way in key sectors of society, for instance in a commodity exporting country which has three commodities, why should it be supportive? It can be supportive to some sectors in society who can now buy the European products without an increase in price by the tariffs, but while this may help the more wealthy parts of society to buy their fantastic European television set or whatever, it reduces the income of the state because it takes away the tariffs which created income for the government in that country. It is not that liberalisation of trade is always helpful for developing countries. If it is done well, in the right way, accompanied by the right measures in the right sequence it can be positive, but it can also be very harmful and we see that with the EPAs where the government revenues through tariffs just disappear from one moment to another or reduce, and that may be a third of the state income because they do not have taxes or do not manage to collect the taxes in a good way, so they really need this tariff income. You come in with

development aid but this is not how trade should work. It is not that you make it worse on the trade side and then compensate a bit with development measures, this is not what we think should happen.

Q205 Lord Kerr of Kinlochard: I totally agree with you about television sets, although it is open to the government of the importing country to tax luxury goods at a high level and thus recoup the money it loses by not having a tariff. My worry is tariffs against fellow African producers, and I think there is quite a lot of that still in Africa.

Ms Osterhaus: Between countries?

Lord Kerr of Kinlochard: More generally. I also think that the bigger the cake the better for the majority of people. There will always be losers, and I am with you that one needs to think of clever, intelligent ways of protecting those who gain less than the others or do not gain at all, but in general I believe in free trade.

Q206 Chairman: Can I just ask a social question as a wind-up. What do you think is the impact of trade agreements on domestic labour markets and levels of migration? Are these factors given enough weight?

Ms Osterhaus: No, definitely not. There is not one answer. In countries like India and China where you have a lot more job opportunities, many of these are positive for society and give new jobs to people who need them, but many others are under conditions which we can only reject. What is absolutely true is that it is not given the right weight. The WTO is not a place where you can negotiate these things. They are not labour experts in the WTO. The labour rights should be enforced and the ILO should be much more powerful in things like that. The WTO cannot enforce labour rights, it is not the right instrument to do that.

Chairman: I think that is probably right. It only remains for me to say thank you very much for coming to see us, it has been very helpful.

TUESDAY 24 JUNE 2008

Present

Cohen of Pimlico, B
Kerr of Kinlochard, LMaclennan of Rogart, L
Woolmer of Leeds, L

Examination of Witness

Witness: MR SYED KAMALL, a Member of the European Parliament, Member of Trade Committee of the European Parliament, examined.

Q207 Chairman: Thank you very much for coming to see us. We know that you are a member of the Trade Committee and since we are writing a report, on European Trade Policy, we have got a set of things we would like to ask you about. We have just come from seeing Fairtrade so we have just recently been talking about the less developed countries and there is quite a lot in your report about them, so we might like to ask you a few questions about that. Unless you would like to make a general statement about the report, can I just start with a question?

Mr Kamall: Yes, please do.

Q208 Chairman: We know you are a services specialist and nobody has told us very much about how services are going under this Round. Can we ask you how you view the prospects for liberalisation of services in the WTO? How is that going?

Mr Kamall: My personal view is that it is not going very well. There are negotiations and negotiating groups specialising in the three areas, and there is one negotiating on services. Pascal Lamy came to see us a couple of weeks ago and I rather provocatively asked him, "It seems that services is a bit of an afterthought" and I know that was provocative but I just wanted to see what his answer was, and he gave the standard answer I expected, which was "We have to have a deal on services because it is a single undertaking, therefore we need a deal on agriculture, NAMA and services. There can be no deal without services". I am not convinced that as much energy is being placed in negotiation on services as it is on agriculture. There may be a good reason for that because agriculture is a very difficult deal to unlock. Even if we do get a deal, and it is looking increasingly unlikely, a Doha deal this side of changes in European personnel and this side of the US elections, then I suspect it will be a very, very minimal services deal, and I do not even know what I mean by that frankly, I have no indication what any services deal would mean because the focus has mostly been on agriculture and industrial goods.

Q209 Lord Woolmer of Leeds: That has rather taken the wind out of my sails!

Mr Kamall: Sorry.

Q210 Lord Woolmer of Leeds: No, not at all, it is extremely helpful to have your current assessment of that. Let me have two tracks with you. One is if negotiations were able to deliver something on services, which are the key areas that you and your Committee would like to see on some liberalisation in services?

Mr Kamall: Can I first of all distinguish me from my Committee, not because I want to but I am not convinced that my Committee would agree with me on this issue. Personally, I would like to see more liberalisation in areas like financial services, for example. I think financial services are incredibly important, the lack of capital in many of these countries. The problem with financial services liberalisation is the way it is portrayed, particularly by the NGOs. It is quite often portrayed—I am just checking whether anybody is wearing a pinstripe suit—as big, fat white men wearing pinstripe suits with cigars who come and stub their cigars out on the heads of poor black people, if you like, and just want to rape the country and exploit the poor people. If you speak to many of the entrepreneurs in these countries, and these are the people who are going to create wealth and take many of the poor countries out of poverty, what they are saying is, "Look, either I have to go to a state monopoly bank or I have to go to a bank where the bank has good connections with the ruling elite, so if I am trying to raise capital and it could be in competition with an organisation that has links to the ruling elite then it is going to be very difficult for me to get capital". When you look at the other side of the story, I was in Uganda in November last year and was speaking to an entrepreneur and I also spoke to the Central Bank governor and got both sides of it, if you like, and they said that one of the greatest things that has happened is the fact that they have gradually licensed more banks to come into the Ugandan market and, therefore, entrepreneurs now have a choice of capital. What that means if we can turn round financial services liberalisation to portray it as giving entrepreneurs in poorer countries access to capital so that they can buy that extra chicken coop, for example, or that tractor to plough more fields, to create more jobs locally in their village and their surroundings, to create wealth, then that

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shows there is a positive side to financial services liberalisation. I also think, where possible, we want all the infrastructure liberalisation, telecoms, energy, but the problem is capacity, can it be done, and even if you do open up your markets would the private sector come in because they want guarantee on return and are they really going to get a 30 year guarantee on return when they go into these markets. I was talking to a chap, Andrew Mwenda, who is a well-known classical liberal in Uganda, and I said, "Look, given that we are going to come in, whether you like it or not we are going to give aid", and he is very sceptical about aid, "Where do you think aid should go?", and he said, "Actually, you should just come in and build infrastructure because the market is not going to deliver infrastructure because we cannot give those guarantees". Financial services liberalisation and all the infrastructure, electricity, if possible, and water. Water is vital in many of these countries. The problem is not water as such, it is the delivery of clean water, and where the state cannot do that because of limited resources I do not see an argument for blocking private providers coming in as long as they are properly regulated and there is transparency. There is still an ideological battle here in the Parliament in my report where I was speaking to my Socialist shadow rapporteur and I said, "I am not trying to score points here but if the state, for whatever reason, cannot provide water services, do you have any objections to private companies coming in or non-state or co-operatives?" and she said, "I don't see how they can provide water".

Q211 Lord Woolmer of Leeds: I agree with every single word you have said. Can I add two follow-up questions? Why do you think that in some of the poorest and some developing countries, but also the less developed, there is such resistance to liberalising services? Secondly, what is it that the rich countries have to offer in return so that it does not look like a one-way track? You and I, and I am sure everyone at the table, would agree with what you have said but from the other side there is a suspicion of, "Well, we are giving this, what are we getting in return". Two questions: why the resistance at the other side of the table to doing this, and I know there is resistance, and what we offer in any deal has got to be a *quid pro quo*, is it just agriculture or is there something in services that can be offered?

Mr Kamall: In terms of negotiations?

Q212 Lord Woolmer of Leeds: Yes.

Mr Kamall: Yes, of course.

Q213 Lord Woolmer of Leeds: Why should they liberalise if they get nothing in return?

Mr Kamall: I think it is partly the EU's negotiating position, and actually America's negotiating position. If you look at the EU's negotiating position it is quite aggressive on things like environmental standards and other issues like that and too defensive on agriculture. The way I characterise the EU's offer is this: we think we have made a very good offer on agriculture, we are waiting for the other negotiating parties to come back with reasonable counter-offers and they have not come back seriously on agriculture. That is what Peter Mandelson has been telling the Trade Committee for a long time. He is saying there are margins for debate, of course. I think we should be more aggressive on agriculture, not aggressive vis-à-vis other negotiating partners but we should give more away on agriculture, frankly, in order to unlock a deal, but we are seen to protect our interests while trying to be aggressive with our service companies in opening up service markets.

Q214 Lord Woolmer of Leeds: I was going to mention service markets and you have helpfully gone on to it. In services particularly, why is it that the other countries, the developing and the less developed, resist, and they do? That is the first question, why is there resistance to the negotiating of services and opening them up? On the service side, what, if anything, can the richer countries offer so there is movement on the services side? You said there is no real serious negotiation going on, is there?

Mr Kamall: Because of the way the negotiations are done, because they are looking at agriculture, industrial goods and services, because we have not given enough away on agriculture, it is all down to negotiating chips at the moment. Rather than the pros and cons of negotiating a particular sector it is down to negotiating chips. I remember once talking to someone here in the negotiating team on agriculture and I said, "Why don't we give away more? Why don't we just give away more on agriculture?" and he said, "Yes, in theory I agree with you, the problem is we lose our negotiating chips". I think that is what we are down to. Regardless of the argument, whether it is good to liberalise services or not, we are down to negotiating chips. The EU has not moved enough on agriculture and that is why the other countries are not moving on services. In order to unlock services negotiations we have to move more on agriculture and the other areas. Secondly, I am not sure that we have addressed the concerns that they have. Services liberalisation is still seen as big European companies being aggressive and taking over water markets, electricity markets or whatever markets, and we have not addressed that concern. It is an emotional argument and we have not addressed it, we are just saying, "You have to open up your markets". Does that answer the question?

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Lord Woolmer of Leeds: It is well on the way and I will come back again if time permits.

Q215 Lord Kerr of Kinlochard: It is depressing because you can see from Sarkozy talking to Peter Mandelson via the press conference at the European Council that it is not going to be easy for the EU to offer more on agriculture. And the American Farm Bill not too good either. And on services is not part of the problem that the BRICs have got in the middle of the debate with, say, Uganda about whether it would be good to liberalise access to services in Uganda for OECD country companies? Isn't that debate now obstructed by people like the Indians and the Brazilians who are doing frightfully well out of the present situation in services and do not see any real reason to give any ground at all?

Mr Kamall: Yes.

Q216 Lord Kerr of Kinlochard: Have you anything to cheer us up?

Mr Kamall: I wish I could cheer you up. I can cheer you up a little bit, but one thing I would say is let us not forget as well that a lot of the poor countries, for want of a better word, do not actually have the negotiating capacity when they put position papers, so who writes their position papers? It is NGOs who have a different agenda.

Q217 Chairman: As we have just seen, yes.

Mr Kamall: The NGOs are going in and writing position papers and these countries are just giving away their negotiating positions effectively to NGOs who are writing the papers for them. I am not sure if it is an ideological agenda or whatever, but some of my colleagues who are more cynical about the NGOs say they have an ideological agenda and others say it is not that, it is well-meaning but misguided. To be positive on services, we are seeing movement on services in the bilateral agreements. If you look at the Economic Partnership Agreement we have negotiated with the CARIFORUM, services is a major part of that. In some ways I think we do not help ourselves. Because we have been so aggressive with services in the CARIFORUM deal the other Economic Partnership Agreements that we are trying to negotiate want a watered down services component to the Partnership Agreements. The criticism I have received of the CARIFORUM deal is if a company wants to invest in the Caribbean the CARIFORUM countries are not allowed to have ownership restrictions, so they cannot go for a joint venture step and I think that is a needless, aggressive position to take. If we want to encourage more liberalisation and more foreign investment we have to allow them to do it their way, or give them policy space as academics say. I am a bit concerned about how aggressive the EU has been in that area. Speak

to me, I am very happy to have 100 per cent ownership from where I am coming from, but if you want to unlock negotiations and bring people with you, you have got to allow them some policy space. In a lot of the bilaterals we will see services as a component because it is in the EU's interest to negotiate that.

Q218 Chairman: How interesting, and how depressing that it is easier to negotiate in a bilateral.
Mr Kamall: Yes. The thing about multilateral versus bilateral is there are lots of different arguments and some papers argue that bilaterals undermine multilaterals and others say if you negotiate bilaterals in a particular way, trade heavy, make sure that non-preferential tariffs are also low, then you can build up or contribute to a multilateral system. The other thing about bilaterals is if a country is concerned about the multilateral negotiations because of the most favoured nation, if they are concerned about one particular country, for example China or Brazil, they may not want to get involved in trade negotiations or negotiate seriously, but if they are negotiating a bilateral and the country they are negotiating a bilateral with does not have interests in the area that they want to protect then what it does is it brings them to the negotiating table, it gives them negotiating experience and skills and they start to negotiate trade agreements and eventually that may or may not give them the confidence to step up to the multilateral table. Like most things, there are two sides to the argument.

Q219 Lord Maclennan of Rogart: Korea is going well, India not too well perhaps but going, and there's ASEAN. How does this all fit in with the wider multilaterals?

Mr Kamall: With Korea, the sticking point is opening up the Korean auto industry and various things like the approval process, why would European cars have to be approved all over again in the Korean market. India, all the issues that they are holding up at the WTO, the same story. I am sorry I cannot remember what the exact point was, but there was a particular point in the negotiations with the EU where the Koreans turned round to the EU negotiators and said, "We cannot give on that ground because it would affect our bilateral with the US". That is where bilaterals can cut across each other. One of the problems with bilaterals if you go back to the old trade diversion argument is it can help in terms of opening up certain sectors for certain European interests and if you have got a US-EU-Korean bilateral you are helping certain interests, but you end up with what everyone calls a spaghetti bowl of deals and it is how these deals affect each other. It was Razeen Sally of LSE who said what you need to make sure bilaterals do not undermine the

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multilateral system is make sure it has to be liberalisation heavy and other issues do not get in the way. For example, on the Economic Partnership Agreements, when I criticised the Commission in Committee on the fact that they were spending a lot of time on the governance structures and almost replicating the EU and having regional assemblies rather than getting down to negotiating liberalisation, the Commission spokesman said to me, “Well, this is not just about trade” and I thought, “I don’t want to hear that when we are talking about bilaterals. I don’t want you to be telling me that a bilateral trade agreement is not just about trade because it will allow other issues to get in the way”. Not only us, we do allow other issues to get in the way.

Q220 Lord Maclellan of Rogart: Is your Committee principally focused on the multilateral activity at the moment?

Mr Kamall: We are focused on whatever the Commission tells us that they are doing. We will be doing reports on particular bilaterals and we are constantly getting either Peter Mandelson or David O’Sullivan before us to tell us about the latest progress, or any progress, at the WTO. If there is a bilateral we will do a report on it. There is an EU-India report at the moment and the Foreign Affairs Committee will also do an EU-India report at the same time.

Q221 Lord Maclellan of Rogart: In your report you touched on the question of the mandate and you said: “the Doha Development Round must focus on development and that negotiations on trade in services must serve both the interests of the EU and the economic growth of the poorest countries”. Is that really the philosophy of the Committee and is it what these negotiations are about?

Mr Kamall: It is not the philosophy of the Committee, no. That is my philosophy rather than the philosophy of the Committee. This will not be the final report, and I am aware of that. I wrote a classically liberal report—it was softened by the Committee—knowing full well that it would be amended, that was my approach. I said that in the first exchange of views, “I do not expect this to be the final report”.

Q222 Lord Maclellan of Rogart: The liberalism and development equate in your mind?

Mr Kamall: They could do. I will tell you why this affects me. When I was eight years old I went to Guyana, which is where my parents come from, and what struck me about Guyana was what an economic basket case it was, even as an eight year old. I do not know if I was a bit of an economic geek at that age. What surprised me was one night my aunt flew in

from Martinique and she smuggled in a potato and we sat round eating this potato, they sliced it, and at that age I could not believe that my aunt was a criminal for smuggling in a potato, but also that a country would ban imports of potatoes. I realised that in many cases it is governments who get in the way of freedom for people, freedom of choice, or even access. You see that all over the world where if you ask citizens they will say, “We want better access. We want access in the first place. We want access to the kinds of services you have access to” and where they do have access they want choice. I am not trying to wave any sort of party political flag here, this is non-ideological in many ways. They are fed up with not having access to particular services and even where there is access they are quite often fed up with the monopoly state provider.

Q223 Lord Maclellan of Rogart: The clout in these negotiations has presumably been exercised by the larger countries, the EU, the US and so forth. The choice that you are describing for developing countries probably plays less part, does it not?

Mr Kamall: If you look at percentages of world trade, for example, it is probably 50 countries, 30 if you count the EU as one, that account for 80 per cent of world trade. If you are looking at the role that some of the poorest countries can play, the role they play in negotiations is they are not able to put positive recommendations on the table, if you like. What they are able to do is form blocking minorities or blocking groups. I think that comes down to WTO governance, if you like. That is one of the problems, that because they are not brought into a project or do not have the ability to put forward proposals they end up in G90 or whatever group they end up in.

Q224 Lord Kerr of Kinlochard: Can you give us your counter to the NGO arguments that knocking down frontier barriers and tariffs reduces money for redistribution inside the country in question, reduces government funds, because tariffs raise money; and that replacing the monopoly state provider by Centrica, Barclays, or whatever, means that the rent goes offshore and the dream of the indigenous micro-credit provider is crushed by the capitalist monster based in London or wherever? How would you answer these two?

Mr Kamall: The first one is the reduction of tariffs. You have to be concerned about any country that bases its tax revenue base purely on tariffs and import tariffs. There is a lot of criticism about Aid for Trade, if you like, and this is where I do see a use for Aid for Trade which is helping governments to diversify their revenue base. The easy argument is, “Well, we can’t do this because it’s revenue for us”. The counter argument to that is in many of these countries you are talking about the poorest people in the world. Take

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Ghana where they only grow 65 per cent of the rice that they consume. That means they import 35 per cent of the rice that they consume. Because of import tariffs, the very poorest are paying more for their rice, a food staple, than they need to because of import tariffs. To me, that would be immoral. The same thing on drugs. Pharmaceutical companies are quite often criticised as evil capitalist companies who want to deny the poorest access to drugs, but if you look at the import tariffs on drugs in many of the poorest countries, poor people are paying more for their drugs. The second thing was?

Q225 Lord Kerr of Kinlochard: You talked about the fact that they want to defend the monopoly state provider.

Mr Kamall: Yes.

Q226 Lord Kerr of Kinlochard: Illiberal opinion would be that once you let in a Centrica, Barclays or whatever, the rent goes offshore and the hope of the indigenous non-state micro-credit provider getting going is crushed.

Mr Kamall: That could be true in certain cases. If you look at financial services liberalisation in Mexico, for example, the argument NGOs often cite is what happened was the foreign banks, particularly American banks, came in and bought the indigenous banks and then the very poorest entrepreneurs do not have access to credit. That is a fair argument. It does depend on how you liberalise. The best way to sell liberalisation quite often, or sell the non-state sector entering these markets or these sectors, is to say, "Fine, let the monopoly state provider carry on providing, but where it does not have the resources geographically or sectorally to provide these services, for example if the monopoly state water provider cannot provide a certain area of the country and does not have the resources to extend its reach, why not allow in a non-state company to fill in the gaps?" I am not going to say that it has to be 100 per cent foreign-owned, it could be a public-private partnership. We are back to the argument we had in Britain in the 1980s, state bad, private good, or the other way round. In Britain we recognised it depends on the particular circumstances in a particular sector.

Q227 Lord Woolmer of Leeds: You said that bilaterals should be trade liberalisation heavy and that things like governance, I assume social and labour conditions and so on, in trade negotiations should be secondary, less significant than those, and yet you said it is the governments that get in the way of access to markets and so on and so forth. Two things. First of all, the NGOs, as you said earlier, place a lot of emphasise on non-trade issues as being important, certainly in bilaterals. What is your answer to NGOs and, indeed, there are a lot of people

in the European Parliament who will be saying there should be a lot more on non-trade issues and social and labour conditions and governance and so on? What is your answer to that? When you acknowledge that it is governments that get in the way and there are governance issues, as we have said to Romania, Bulgaria and others, if we feel that in Europe are you saying you do not say something about that in the rest of the world? I know it messes up trade negotiations but are they not important issues?

Mr Kamall: Undoubtedly they are important issues. You cannot look at things in a black and white way. They are very much a part of it and I understand that there are things like ILO standards and whatever, but we seem to have even more environmental standards, sanitary standards, phytosanitary standards and all those sorts of issues and they end up becoming, if you like, non-tariff barriers or technical barriers to trade. That is one concern I have. The second thing is the World Trade Organisation should be about trade, but I really do not believe that many companies in the world do not care about their employees. There are other avenues for improving all sorts of social and labour standards. This is just a personal view, it is certainly not the view of the Committee. The Committee would say you always have to have the ILO somewhere in an amendment. My concern is they are very important but it is when they inhibit trade negotiations, that is where I have a problem.

Q228 Lord Woolmer of Leeds: In the current negotiations, the Doha Round, do you feel that those issues are (a) being raised and (b) if they are, is that a cause on the other side of the negotiating table for resistance? In other words, are the developing and less developed, the poorest countries, negative about that being put on the table as an issue in trade liberalisation talks?

Mr Kamall: Can you just repeat that?

Q229 Lord Woolmer of Leeds: Do the less developed and developing countries take a negative attitude towards being told what to do as part of trade liberalisation talks?

Mr Kamall: It depends on the countries, but some of them do see it as European imperialism, if you like. If you look at different models of development, you do not start off with the best standards from day one and as you trade more, trade yourself out of poverty, a consequence of that is improvement in environmental and social standards. In every country that has come out of poverty, as people become wealthier, more educated, more responsive, they will demand better health standards, better labour standards, better environmental standards. It depends on who you speak to. It depends on the politician you speak to, but in many countries they say, "For us it's a luxury, we are not at that stage yet."

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Let us develop". Some of these issues are not black and white. Child labour is an example. None of us want to see child labour, children working wherever, but it is the alternative they are given. Are we really saying that wherever we abolish child labour we are going to go in there and provide education? If we are doing that, fine, but if the alternative to child labour is unemployment and no income, and in the worst case scenario selling their bodies or whatever, then who are we to tell them about child labour. We have the luxury to say child labour is terrible because there is an alternative for children in Britain and in the EU, but in many countries there is no alternative and unless we are prepared to shut down that supplier and as a consequence of that we build a school, or encourage a company to build a school, are we really going to throw children out onto the scrapheap. It really depends on the particular issue in a particular country, but in general all of us would agree that we want to abolish child labour.

Q230 Lord Kerr of Kinlochard: Your position is probably not the middle position.

Mr Kamall: Certainly not, no. That is a fair point.

Q231 Lord Kerr of Kinlochard: For many people in the European Parliament, probably in the Council too, it is not just about trade, it is quite a big thing. Do you think that we need to worry about the Chinese attracting people in Africa with their very different model where they just build a road or a railway and are not interested in attaching social or environmental conditions, their own self-interests are pretty clear because it would tend to be a railway line from a copper mine or whatever, but they go in and build it and they do not insist on changing the governance of the country and they do not insist on consultants' reports or whatever. Are we losing out in African developing countries to that model?

Mr Kamall: I view the Chinese involvement in Africa in two ways. In one way I worry because one of the debates where we were building consensus around the aid agenda was on conditionality. Clearly we could not just throw money at governments that were corrupt or govern countries in a poor way or whatever and the Chinese, if you like, are undermining that whole conditionality debate. I think that is a very negative result of Chinese involvement. The positive involvement, as you say, is they just go in there and build the infrastructure, no consultants' reports, 35 per cent not coming back to the UK or the EU in terms of revenue for consultants or whatever, the money just goes in and they build the infrastructure. Many of the governments there are grateful. Why are the Chinese in there? Resource seeking clearly, but market seeking as well. Is market seeking such a bad thing? If they are going to build infrastructure that is not a bad thing at all. My main

concern about the Chinese is the undermining of all the efforts we are putting into improving governance.

Q232 Lord Kerr of Kinlochard: Darfur would be an example.

Mr Kamall: Clearly, and propping up some pretty unpleasant governments, to put it mildly. It is shocking. I am not convinced that we use our leverage with the Chinese enough either, but if we did that then I would be the first to criticise in many ways why are we not focusing on trade. This goes to show how complex it is.

Q233 Chairman: Riveting as this is, we are fast running out of time. One thing I would like to ask, assuming, as I do, that one day the Lisbon Treaty gets through, is what changes to EU trade policy do you think the European Parliament will be able to bring about if it has got the additional powers that come in the Lisbon Treaty? What were you looking forward to, as it were?

Mr Kamall: I am not looking forward to it, despite my own views on the Lisbon Treaty or whatever, purely on the international trade debate. I fear that we will end up as a committee of national protectionism rather than a committee of international trade. We do have similar debates to those we have in Council. If you look at the make-up of the Trade Committee and we are going to be given co-decision, we will have to ratify bilateral agreements, we will probably have to ratify future WTO agreements, I wonder what sort of conditions we would be attaching to ratification. I have seen this in other areas. When I deal with technology areas in the Parliament, quite often when the Commission comes up with a proposal I am critical of it, I think it has gone a bit too far, but by the time the Parliament has thrown in all its amendments I actually want to go back to the Commission proposal.

Q234 Chairman: As you were, yes.

Mr Kamall: As we were. I worry we are going to see the same thing with trade and all the interest groups that will get involved via the Parliament. Some would say that is part of democracy and part of Parliament having a view or co-decision powers, but one of the things I like about the Commission's way of approaching trade negotiations is that we give it a mandate, it goes away and negotiates. That is a pessimistic view. The optimistic view is what we might end up doing is what the Americans do, we might end up giving them a fast-track authority or trade promotion, and we might end up with the equivalent, so all the nitty-gritty negotiations involve the trade promotion authority or fast-track but the Commission still has the mandate to go away and it just comes back as a yes or no vote.

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Q235 Chairman: I think that might indeed be absolutely essential. It is how most countries negotiate on that basis. That was great.

Mr Kamall: Can I just make one last point?

Q236 Chairman: Please.

Mr Kamall: You asked about the effectiveness of our multilateral. Despite it all, I would still say if you look at most countries that have developed, I think it could be argued that most countries that have developed have benefited from unilateral liberalisation. You only have to look at China and India, they did not do it because of WTO undertakings. If you look at the Asian countries around Japan, the reason they liberalised was because they wanted to attract Japanese multinationals into their countries and they went up that growth curve. Even though we place a lot of emphasis on the multilateral negotiations, actually the best way to develop is unilateral liberalisation.

Q237 Lord Kerr of Kinlochard: And 25 years of trying to persuade people that as part of the deal we all give something away may be completely wrong, it could be completely the wrong psychology?

Mr Kamall: What has happened is we have ended up with negotiating chips—

Q238 Chairman: Rather than something you ought to do.

Mr Kamall: It is not countries that trade with each other, it is people in businesses in other countries to mutual benefit. We can either get in the way or we can facilitate that. I think the best way we can facilitate that is to get out of the way.

Q239 Lord MacLennan of Rogart: Can we do that in Europe on agriculture unilaterally?

Mr Kamall: The Commission in its mandate is based on taking all 27 countries with it and you can only go as far and as fast as the most protectionist country will allow you to go. I am not going to give you any points for guessing who that might be! We have heard the French President making noises that he will veto any deal.

Q240 Lord MacLennan of Rogart: I meant to put the question another way, which was not what is blocking it in Europe but if Europe were to come up with unilateral liberalisation on agriculture would that be Europe's pain at the start?

Mr Kamall: Yes, I think it would. Like any process there are winners and losers, but if you look at where other countries have unilaterally liberalised agriculture, they have benefited.

Chairman: Thank you very much.

TUESDAY 24 JUNE 2008

Present Cohen of Pimlico, B (Chairman) Maclennan of Rogart, L
Kerr of Kinlochard, L Woolmer of Leeds, L

Examination of Witness

Witness: MR PETER MANDELSON, Commissioner for External Trade, European Commission, examined.

Q241 Chairman: Good morning. It is good of you to see us this morning.

Mr Mandelson: What I should have intelligently done—I did think about this last night but forgot to do anything about it this morning—is given you a copy of my remarks yesterday which I delivered at the civil society on the civil society dialogue meeting, which I have periodically, on the state of play of the DDA. I am going to get copies and you can take it away.

Q242 Chairman: We will absorb them as we go along.

Mr Mandelson: What I was thinking of was if you had read it before I came in then you could have asked some questions on the basis of it. This DDA today is a very good example. Yesterday was a good day in Geneva. We resolved one issue, which is better than none. Yesterday we resolved the assumptions that the Mercosur countries, Brazil, Argentina, Paraguay and Uruguay, want us to take into account the basis of their Customs Union when calculating the impact of the formula concerning non-agricultural market access on those countries, given the quantity of intra-regional trade that takes place amongst them, because it would make a difference to the use of their flexibilities and how far they can shelter their prized sensitive product sectors from imports through the operation of the formula on the basis of the 2004 Framework Agreement, and so it goes on, and on and on. They are such technically complex issues, fraught with political tension, Argentina being the main driver of this issue with that country at loggerheads with each other, as you know, because they are going through one of their periodic Argentine phases. We have been held up on this issue of the treatment of their Customs Union and their intra-regional trade for some time now. We come to Friday, no resolution of this matter. Brazil and the United States, their ambassadors and senior officials, meet throughout the weekend. They come back into a wider group of 12 yesterday, Monday, and resolve it by the afternoon, but it has taken us a week to resolve one issue in this matter on the industrial goods side. At this rate of resolving one issue per week, we might have a Ministerial in July 2009 or 2010, not the week after next. So, yesterday was a good day in the sense we resolved it. Today is a very bad day, which is why I have been—

Q243 Chairman: It has gone backwards?

Mr Mandelson: --- very intensively on the phone last night and this morning. We have gone to the next issue, which is the question of an anti-concentration clause to give operational effect to a line in paragraph eight of the 2004 Framework Agreement which said that it will not be possible to shelter an entire product sector in a developing country's flexibilities, so that we will at least have some new market access within that chapter, within that product sector, and therefore some new trade for our exporters as a result of this Round. Why is this very important? I am sorry to go straight into this but it is as well to illustrate to you how the technical interacts with the political in the negotiating process. Why is this important? It is important because we are paying in agriculture. Other developing countries and agricultural exporters would say, "Up to a point you are paying because you have your own little special sensitive products and flexibilities that enable you to shelter what they need". Let us assume we are paying through the nose. We are paying through the nose on agriculture and the big issue of trade and politics for me, representing the European Union, is that if we really want this Round to make a contribution to the global economy and trade flows in the future, if we really want to put in place that sort of ratchet to stop protectionist pressures pushing the great global economic machine backwards, if we want an insurance policy put in place, in other words, to make sure there is less scope, less space and opportunity for the emerging economies to put their tariffs up in the future, then we have got not only to bind their existing openness where their duties are applied at this level as opposed to bound here to reduce this gap between the two, but we also want to shave off their applied duties so as to create some new market access as a result of this Round as well as simply consolidating their existing openness. We need this not only for good trade reasons, this Round is after all meant to be contributing to new trade flows, new business opportunities around the world, but politically. Unless I can bring this back and demonstrate to those I represent, to my domestic constituency, that there are opportunities being created for us whilst at the same time as we are paying in agriculture for others, then I am not going to get it passed through our Member States and there is going

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to be a road crash between the Commissioner and the Member States.

Q244 Chairman: I see.

Mr Mandelson: For example, some Member States will say, "Well, there we are, we told you all along the Commissioner is a naïve, gullible Brit who is only interested in selling our European agriculture and not committed to getting anything back in return. We told you this all along, so let's block his deal and turf him out on his ear". Politically, I have a real challenge in this negotiation and I have to persuade the larger, more competitive developing countries, what I would call the emerging economies, to make some contribution of their own to creating some new market access, not across the board but within their flexibilities as agreed, but slightly constraining their flexibilities through this anti-concentration clause that we are discussing in Geneva today, implemented over many years, not overnight. So it is limited, it is countered by flexibilities, it is not overnight, it is implemented over many years, and one day you might actually thank us for putting in place that modest external pressure to continue your liberalisation, to continue your opening up, because you need it as developing countries in order to keep driving your economic growth and lift more people out of poverty. My God, is it a devil's own job persuading them.

Q245 Chairman: My first question was going to have been can you offer the Committee an overview of where the trade negotiations are at the moment which you have, as it were, really told us, that it remains extremely difficult. We have also got a couple of questions on what do we do if it all does not work, which you may well wish not to speak of on the record.

Mr Mandelson: I am prepared to because I alluded to it in my public remarks yesterday. I have been quite cautious in what I have said. I think the systemic consequences would be very substantial, not only for the multilateral system as it operates within trade but the multilateral system more widely. If the negotiations collapsed, if we were not able to bring the Round to conclusion, not only would it be the first World Trade Round in history that did not conclude in a positive way, but the developing countries would draw the very ready conclusion that this Round, which was set up as a "Development Round", and I come back to the wisdom of describing it as such in a moment, as they would see it to enable the rich countries to pay back to the developing countries some of the gains, benefits and advantages that they claim we have 'wrung out' of developing countries over generations in trade, which has driven our growth and now is the time for us to pay back, to open up our markets, to reform our

agriculture, not only here but in the United States as well, to put in place trade rules, slightly stronger or different trade rules that benefit developing countries, putting in place an important package of special assistance and support for the least developed countries in the world, and here we are, we cannot live up to our original intention, we cannot live up to the name of the Doha Development Agenda because we are so greedy, we are so selfish, here again we have a bunch of rich countries wanting to settle everything on their own terms as they have done in every previous Trade Round and it is entirely their fault that the thing has collapsed. The blame game will be huge. There will be endless platform seeking and rabble-rousing about rich countries wanting everything their own way and not prepared to pay back, not prepared to recognise that there is a new multi-polar economic world emerging, that globalisation means we cannot call the shots entirely on our own, that we refuse to acknowledge this shift of economic power from West to East, we are not enfranchising and incorporating the interests and political weight of the emerging economies because we just cannot bear the thought that whilst they are emerging we are submerging, and in spite of our inability to come to terms with the global age in the 21st Century we have caused this collapse of the World Trade Round, and so it will spread throughout the multilateral system.

Q246 Chairman: This critique presumably being delivered mostly by, as it were, the rather richer of the developing countries.

Mr Mandelson: Absolutely.

Q247 Chairman: Not by the poorest?

Mr Mandelson: No, but there is the alliance of 110, which is all the developing countries, which is not a real alliance at all rooted in any common economic interest, by the way, except in the general geopolitical sense that, "We are developing countries and they are rich". So you will have developing country solidarity kicking in but it will be led most articulately by President Lula of Brazil, President Mbeki of South Africa, but with a lot of others joining in. You will have the Chinese as well in a rather audacious spirit expressing their own solidarity with the developing world, of course the developing world being rather resistant to making commitments to open up their economies because they are most afraid of China, not anyone else. They are terrified of this great Chinese manufacturing machine and export monolith rolling through their lowered tariffs scrunching the manufacturing base of every developing country within shooting distance, and that is a real issue in this Round. It is one of the reasons why a multilateral round as opposed to a bilaterally negotiated Free Trade Agreement creates real difficulties for

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developing countries and emerging economies because they cannot discriminate against who they open up to, they have to open up to everyone being in a multilateral round, including China. I have lost count of the times that the Foreign Minister of Brazil or the Commerce Minister of India have said to me, "Look, if we were just negotiating with Europe we could do business, but the fact is in a multilateral round we are taking on commitments to open up to all, including China, and it is China we are most fearful of". However, that will not be said if the talks collapse because China will be there with the rest banging the drum against the rich countries. What validity is there in this argument against the "rich countries"? There is some validity in the sense that whilst we in the OECD area are making real commitments, certainly both in agriculture, reform of our subsidies, and lowering of tariffs, and the United States will do so as well if this Round is negotiated to a positive conclusion, but the United States will not follow us, incidentally, they will follow their new Farm Bill if they do not have a World Trade Round to follow and the Farm Bill takes American trade distorting farm subsidies to a new level of unacceptability, we are making real commitments and the United States will follow us from agricultural trade distorting farm subsidies, and on farm tariffs, and on industrial tariffs too we are opening up considerably both to each other and to the emerging economies really significantly lowering even further tariffs which are extremely low already. I think we are doing our bit. I do not feel, from a European point of view, that we are holding back, that we are making offers that I am ashamed of; I am not ashamed of them. In agriculture it is true we can only take things to a limit. We take things to a limit in reform of our subsidies that our CAP reform in 2003 took us to but, even so, we are talking about a 70 per cent cut in most trade distorting farm subsidies and an overall trade distorting subsidy ceiling cut by 80 per cent. We are able to do this as a result of the 2003 reforms, and we need to do this, so I am not asking anyone to express any pity or sympathy for what we are doing. What we are doing is real on the subsidy side and on the tariff side. It is a real effort, if you take in agriculture a combination of our decoupling of our domestic support, the real percentage cuts, plus our commitment to eliminate all our export subsidies by 2013, plus our tariff cuts, you are talking about a real change, and a creation of real space, both in our domestic European market and international farm markets where we will have a smaller European presence which is opening up real new market access for agricultural exporters in the world. Who are the agricultural exporters that will benefit? In the main, apart from Australia, the United States and New Zealand, it will benefit Brazil, Argentina, South Africa. You would be right in saying what about the

other real developing countries, the smaller less competitive but more needy where levels of poverty are much higher, to which I would say we have a darn good record in the European Union in giving duty-free, quota-free access to developing countries, not only the 50 poorest developing countries in the world are able to export Everything But Arms into the European market duty-free, quota-free with a small interim transition for sugar, but to the ACP countries, the African, Caribbean and Pacific countries, with whom we are negotiating Economic Partnership Agreements, they will have duty-free, quota-free access to the European market on a scale that they have not previously enjoyed. Alongside the multilateral negotiation, which will, I accept, benefit the larger, more competitive developing countries, we have in place duty-free, quota-free access for the least developed countries and for the African, Caribbean and Pacific countries where they wish to avail themselves of the opportunity provided by those Economic Partnership Agreements. So, all told, I think we have a pretty good record, but it is an illustration of where the multilateral sits comfortably beside the plurilateral and the bilateral.

Q248 Chairman: Thank you, that was very useful. Let me just try and pick apart what we have got. I would like to ask you what does "good" look like in this context? Is there something short of complete success? Is there something short of complete success that will do, or short of a full Round it is failure?

Mr Mandelson: It depends on your point of view. From a classical liberal point of view, I would define success as getting to the finishing line given this Herculean difficulty that we have in pushing this boulder uphill. To get it to the top of the hill would be a cause for immense celebration. The fact that we had not broken up, the talks had not collapsed, the international trading system and its rules were still in place and the WTO was still intact and all we associate with the WTO was still motoring in, that would be success in itself. I have to tell you that is a rather British view. If I were expressing a more continental view I would have to define success not only as success for the multilateral system but success for new trade flows creating genuine new market access where there were real, new, practical, tangible business opportunities being created as a result of the action on tariffs and subsidies in agriculture, tariffs in industrial goods and in the case of services, where there are neither tariffs nor subsidies but a consolidation of the opening to foreign competition of different countries' services sectors. The question, however, is whether it is reasonable to attach value as a result of this negotiation to simply consolidating the existing openness of the world trading system or whether you have to define success in terms of additional value, new market access being created

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directly as a result of this Round. My view, and it is both an institutional view as well as a personal view, is we need more than consolidation.

Q249 Chairman: Not just locking in existing liberalisation?

Mr Mandelson: Yes. I accept that this is the first Round in which the emerging economies, developing countries will be making real cuts in their applied tariffs or, indeed, their theoretical bound tariffs as well, and it marks a real gearshift for the international trading system in our method of negotiation to get the emerging economies, to get the more competitive developing countries to do that, but, nonetheless, it is a reasonable thing to ask them to do, first of all because everyone has to make their proportional contribution, secondly because it is in their own best interests and, thirdly, I cannot sell it politically if they do not.

Q250 Chairman: Absolutely. When will you know? How will you know? Who is going to blow the whistle? Does a moment come when you say, "Okay, actually I can't get any further"?

Mr Mandelson: The next defining moment is to put in place the modalities for agricultural and non-agricultural market access. The modalities are basically the tariff cutting formula, how it will apply to developed and developing countries, differentially of course, what flexibilities will be enjoyed by whom, what exclusions will be enjoyed by whom, which is very difficult for this reason: developing countries are not identikit, they do not all come out of central casting, they are not homogenous countries with replica tariff structures and schedules, they are different. Therefore, the way in which the formula bites into both their bound and applied duties will be different. Let me give you an illustration of this. South Africa entered the WTO as a sort of developed country and it has taken on tariff cuts and it does not have a great difference between its bound and applied duties, so a formula which causes it to reduce its tariffs, for South Africa more than other emerging economies, bites more and more quickly straight into its applied tariffs.

Q251 Chairman: It is not theoretical at all?

Mr Mandelson: It is not theoretical, it is more real and live. Now, South Africa says, "We are a competitive developing country, you have got to see us in the same way as you judge other emerging economies. We have a tariff structure and scheduling different from these others, you have got to make special provision for us so that the formula, when agreed at the time of modalities, bites us in a slightly less severe way than it will others", not in fact that it bites anyone in a particularly severe way but, anyway, we will put that aside for one moment, "you must make

an allowance for us". I have always taken the view that we should make such an allowance, we should recognise the particular status and difference in treatment that South Africa should attract. The United States has taken rather longer to be persuaded to arrive at this point of view, but they have and we are doing it. We are making a little bit of a special allowance for South Africa. We are making another special little allowance for the Mercosur countries. Then Venezuela wants to come in. Despite its oil wealth, it wants to be treated as a small and vulnerable economy. Bolivia also wants to be treated in an exceptional way. It does not make much odds to us how Bolivia is treated, to be perfectly frank, although it would be helpful if they stopped nationalising our companies without compensation. The fear is that this will spread and the ASEAN countries in South East Asia will say, "Hold on a moment, if you are making an exception here, an allowance there and a special provision over here, we want some special help as well". The fear is that as you start making these special provisions you create an epidemic amongst countries, all of whom are demanding are special treatment at the time of modalities, which will make it impossible for us to arrive at an agreement. That is the defining moment, when we agree how the formula for tariff reductions in agricultural and non-agricultural market access will be put in place, in what form, how they will bite on different developed as opposed to developing and then amongst developing, how they will bite with certain exceptions. We have also said at that time we must have a clear view and we want everyone to signal what final offers they will make in services as well because if I am going to be able to persuade EU Member States and the USTR is going to be able to persuade her US constituency that these modalities are acceptable, we want to see this outcome more in the round, as it were, and have some idea of what binding of existing openness and, indeed, what new openings might be created in the services sector as well. Again, a very big ask to make of developing countries, not because they do not, cannot and should not make these commitments, but because on the basis of a previous agreement the services offers were going to follow, not come at the same time as industrial goods and agriculture. For reasons that I have explained, we need to have some signalling of intention by the emerging economies, by the 30-odd developing countries who matter, at the time of the modalities otherwise it will be harder for me to sell the outcome at the time of modalities.

Q252 Lord Kerr of Kinlochard: And outside you have all these people saying it is quite wrong and wicked to be trying to get to that on agriculture.

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Mr Mandelson: Not all of them, but a lot of civil society say, “You are just trying to force-feed liberalisation and globalisation and push it down the throats of poor developing countries”. Yes, you have a bit of that as well.

Chairman: You said earlier in the game that Doha was trailed as a Development Round. Can I get colleagues to ask a couple of questions on development, Lord Woolmer?

Q253 Lord Woolmer of Leeds: I think the Commissioner Peter has covered quite a few things. What, if anything, further do you think European trade policy can do to help the least or less developed countries to meet the calls from, as you put it, civil society and so on?

Mr Mandelson: It needs capacity building. It is one thing giving them access to our market, which we do in Europe, but if they have insufficient goods to trade then they are no better off. This requires a number of things. LDCs and a number of developing countries rely historically on the export of a very limited number of commodities, barely transformed commodities with little added value to those commodities. We have got to operate our policies in a way that enables the economies of the least developed countries first of all to have greater opportunity and success in turning their commodities into tradable goods so that they are transformed rather than simply exported. We can help in doing that, first of all, by opening our markets to their goods as well as their commodities and, secondly, easing and simplifying the Rules of Origin that we apply to their preferential access to the European market. I will illustrate what I mean by that. If you say, “If we are giving a tariff preference and special access to our market to country X, we expect those goods genuinely to be produced in country X, not produced in China and shipped through country X to use that channel to get access to the European market but genuinely from that country”, the country will turn round and say, “Yes, but we need to import certain basic materials possibly to contribute to our transformation of those materials into tradable goods and products. We want you just to show a little more leniency and latitude about the sourcing of materials for our goods and in the case of textiles or whatever we want to have a single transformation. So we are getting a raw material or an unfinished good into our market, we transform it or fully finish it, and then we export it and it only has one transformation and you accept it into your market”. There are those who take a rather more prudent view of this than perhaps we would on the trade side. We favour trade. We favour opportunities for trade from these countries and, therefore, we would take a wider view of what has gone into making this product for onward export to the European Union than some

who would say, “No, the rules have been abused, they are far too flexible. Any Tom, Dick or Harry is able to channel what they are producing, just a little finishing job, a little label, by country X for onward transmission to Europe and that is not good enough. That is too flexible. It is bending the rules”. So there is a tension over that. That is one way where we can open our markets, make our Rules of Origin slightly more simple and flexible. Thirdly, to help these LDCs invest in their capacity to produce as well their infrastructure through Aid for Trade and gear our aid to trade and to capacity related to trade. We also want them to grow their own regional markets. It is one thing saying, “We are open to you” but, let us be honest, they should have more and easier accessed markets within their regions and in closer proximity to them than the European market can provide. We encourage them to lower the tariff barriers amongst themselves. We encourage them to integrate their economies regionally so that their trading space, the local markets for their businesses in which to supply goods and services, allow those businesses to become more competitive and profitable and employ more people, but also to use those regional markets as a more attractive magnet to bring in inward investment and foreign direct investment, private investment, because that is what they need as well. You are actually tying in many strands of development policy and strategy to your trade platform and arriving at a point where developing countries are integrating, co-ordinating, incorporating a whole number of different strands of policy to a single development strategy, of which trade then is a major part and provides some sort of driver of economic growth, but it is trade being harnessed to development with a development strategy being built up not only on a national basis by the countries concerned but regionally amongst themselves. This is absolutely at the philosophical and policy core of the Economic Partnership Agreements that we are attempting to put in place with the African, Caribbean and Pacific countries. It is a better development paradigm, in my view, and it is a more modern 21st Century approach to combining development and trade strategies. Where there are necessary adjustments to be made as they lower tariffs so as to create greater trade opportunities amongst themselves they lose revenue for their finance ministries, so we offer assistance to meet the adjustment costs and offer them ideas and help over a period of time to bring about that adjustment from tariff revenue to alternative sources of revenue raising within their economies. It is very complicated, you have a whole number of different pieces to the development jigsaw based on a firm trading platform. Is it easy to get developing countries to approach this in such a coherent, strategic and long-term way? It is really, really hard.

Q254 Chairman: I am sure.

Mr Mandelson: It is really hard in some cases because

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of the limited capacity to grasp what we are trying to achieve or because local vested interests prefer the status quo because they have local markets tied up for their own companies and interests and they do not want change, they do not want opening up and do not want competition. Thirdly, they do not want to be told what to do or even advised by the European Union. Fourthly, because there are so many political tensions and disagreements within countries and between countries, getting them to integrate economically and in trade terms is a very difficult thing to achieve.

Q255 Chairman: After all, we have not been that great at it ourselves in many ways, it took us a long time.

Mr Mandelson: It has taken us in Europe 50-odd years.

Q256 Lord Kerr of Kinlochard: You are also keen on bilateral agreements. What is the trade-off? You are trying to bring this great thing to a satisfactory conclusion but you are also out on another track. How does that work?

Mr Mandelson: It works in the following way. In a multilateral negotiation you have optimal coverage across the trading system of what you have agreed. You are, in a sense, generalising and applying to particular countries which are anxious and resistant to taking on multilateral commitments because they feel that they are insufficiently taking into account the particularities of their economies in their stage of development. In the case of Free Trade Agreements you are taking the particular circumstances of a country, or group of countries, and its trading relationship with the European Union, putting in place more tailor-made openings, adjustments, opportunities for investment, rules between us dealing with non-tariff barriers as well as tariff barriers. In a sense, it is a more replete tailor-made agreement which in time you should be able to generalise more to the multilateral system so your depth and reach is greater in the case of Free Trade Agreements. But, if it is working well, Free Trade Agreements should be absolutely in keeping with WTO requirements, they should not be some sort of superficial, loose-fitting, rather narrow politically expedient trade diversionary agreement, they should be a more replete WTO compliant trade creating agreement which, because of the greater openness or liberalisation or progress that those two negotiating or trading partners are taking on, in time should enable them, persuade them, to be more willing to multilateralise in the longer term what they are accepting on a bilateral basis. In a sense, in a multilateral you are generalising to the particular and in Free Trade Agreements you are taking the

particular and, hopefully, in time folding it into the multilateral. That is a rather benign view.

Q257 Lord Kerr of Kinlochard: It is wonderful. Beautiful, sunlit uplands stretching ahead. Supposing we get a train wreck in the Doha Round or, more plausibly, a Democratic run Congress meaning some of this protectionist rhetoric, and it all runs into the sands during the course of 2009, do you immediately jump to bilateral agreements, the Free Trade Agreements? What is the right position to get into, that the Doha Round needs to be kept alive on life support in case views change, on that the Doha Round should be dropped and one should start a narrower negotiation? We have got to have a narrative.

Mr Mandelson: You have got to have a narrative and you have got to have your apples and pears in the same basket, but they are apples and pears. You have also got to realise that each is going to be on different timelines. Thirdly, and most importantly, you must ensure that what you are negotiating bilaterally is consistent with and capable of being folded into subsequent multilateral agreement. It is very hard to do but, I will be honest with you, I have already started doing it. I proposed to our Member States that our approach should change on this. I did say that in 2006 because I wanted to be ready for what I anticipated then would be the completion of the Doha Round in 2007. I said that our priorities one, two and three are the multilateral, but remember we have already got our existing EU-Mercosur negotiations, which did not come to completion in 2004, they have been suspended, so we reignite those. We have existing negotiations between the EU and the Gulf States currently coming to a conclusion but held up on two ticklish issues: Saudi Arabia's objection to taking constraints on their export duties and, secondly, political clauses that our Member States insist on inserting into this trade negotiation. Then we have negotiations started with South East Asia by me, negotiations started with India by me, and negotiations with Korea, also started with me and possibly coming to a conclusion at the end of this year. I am already doing it and I am already there. I am there partly because in policy terms and philosophically I do not see an opposition between the multilateral and the bilateral, and, also, because in the event of the multilateral talks failing, I felt Europe should be in a position where it could make up, in trade terms through bilateral agreements some of what it had, I hope, temporarily lost through the temporary failure of the multilateral. I cannot stand still. I cannot see the United States or Japan and others concluding bilateral agreements of their own and have Europe left so far behind the curve, given it takes us six months to get a policy in place, six months to get the policy agreed by our Member

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States and the mandate put in place and another three months to start the negotiation. If I had not prepared the ground and paved the way for this at the time that I did, I could have been facing the failure of the Doha Round this year or next and then scrambling in a rather undignified way to put bilateral negotiation alternatives in place whilst others were a long way up the course ahead of me.

Q258 Lord MacLennan of Rogart: Peter has answered a great many questions very informatively. I am wondering as we approach the end of our talk whether if things go less well than you would hope in the Doha Round, and bearing in mind some of the things you said earlier about the desirability of regional negotiation at the EPA level, do you have any thoughts about structural change in WTO that might make the conclusion of agreements easier, particularly in respect of the least developed countries? Although they are all equal, obviously some members are much more equal than others. The criticisms we have had from the NGOs and some of the academics on this have all pointed to the powerlessness, vulnerability and incapacity to negotiate and so forth. I do not know whether there is a structural way forward, but I wonder if it has occurred to you.

Mr Mandelson: This is an extremely important issue and I am glad you have asked the question. We have recognised it for a long time. We make the following provisions. First, we have a relationship with African, Caribbean and Pacific countries because of our historical relationship, because of Lomé, Cotonou and now the replacement trade relationship in the form of Economic Partnership Agreements. I would not say that we look after the interests of the ACP and the WTO but we give them a heck of a lot of support, a lot of financial support. Their organisations, opportunities for meeting, the people who service them, those who professionally equip them to undertake negotiations are often paid for by the European Union. Even when we are paying for platforms on which they stand and criticise us, we equip them with sticks to beat us around the head, et cetera. We do that very generously. I have the bruises and scars to show how effective they are in using their sticks and bars from time to time. Secondly, we recognise and support the view that any agreement on trade with really developing countries, particularly LDCs, has to be deeply asymmetrical. There has to be reciprocity otherwise they are not WTO compliant, but they are incredibly lopsided reciprocal trade agreements. Thirdly, we recognise the need for capacity building and we give and organise Aid for Trade to increase capacity. Lastly, in the context of the multilateral programme, for example, when we are negotiating the lowering of tariffs we have to understand that for those countries

whose trade depends on tariff preferences, as the tariff comes down so do the preferences and, therefore, there is a major issue in the multilateral round about preference erosion. There we are trying to strike a balance between our desire to increase trade flows in the international trading system by lowering tariffs, whilst at the same time in practice and over time to take account of the lower tariff preferences from which LDCs are suffering as a result of multilateral negotiation. It is hard to do and results in tremendous tensions amongst developing countries, the more competitive ones who want tariffs lowered and the least developed ones relying on preferences who want the tariffs kept up so that their ability to jump over them remains intact as far as possible. We try to strike that balance for them. Structurally, institutionally, I think the WTO is very cognisant of the needs and special position of smaller, more vulnerable, less competitive developing countries. We not only have the special development package for LDCs negotiated in place, in which we have been the market leader, we have pioneered it in Europe more than anyone else in the WTO, and I am proud of that, but we have got to maintain that cognisance, that allowance, practical facility and negotiating resources given to LDCs. If I can just make this last point, and in a sense it goes back to what Lord Kerr said. If the multilateral talks fail the systemic damage, not only to the international trading system but the multilateral system as a whole, in my view will be substantial. We are not going to see a collapse of international trade as a result, but the systemic damage will be substantial. For example, I think that it will be less easy to get agreement with developing countries, the emerging economies in the post-Kyoto talks heading towards Copenhagen and the very, very difficult reciprocal, binding proportional commitments we are trying to get on the climate change side if we have collapsed on the trade side.

Q259 Chairman: Nobody will try a multilateral ever again?

Mr Mandelson: I will come back to that question in a moment. I am saying that the relationships, the negotiating dynamic, the texture and conversation that needs to take place between developed and developing countries on climate change, for example, I believe will not be helped if there is collapse and fallout from the failed Trade Round. Managing the process of globalisation, managing the emergence of a multi-polar economic world in which we are coming to live in this century, managing the negotiation about who does what in the world to make it work, to tackle the many global challenges we have, all require a new set of relationships, a new sort of political management, a new sort of give and take, new definitions of reciprocity and what should be in

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our commitments and which are bound and which not. This is the way the world is going and we have to recognise this. I am sorry to keep pushing my speeches at you but I will give you copies of the Churchill Lecture from New York the other week where I addressed this. If the WTO talks fail it will be less easy to manage all these relationships and bring negotiations to agreement across a whole range of issues in the coming years. That is my view. On trade specifically, will another multilateral round be possible if this one fails? To be frank, I think it will be hard to restart another multilateral round even if this one succeeds. The appetite for them, the complexity of them, the number of countries now in the WTO negotiating, the sheer number of cross-cutting interests and issues will make the commencement and completion of another multilateral trade round very hard work.

Q260 Lord Kerr of Kinlochard: Damage to the dispute settlement procedure, the bicycle theory?

Mr Mandelson: I think the authority of the WTO will be damaged if these talks fail. You will not see a collapse of the dispute settlement machinery but what you will see is the attachment of developing countries to the WTO and their confidence in that system weakened. It will not collapse but it will be weakened. I will tell you from a European perspective that what I fear in a sense is the emergence of BRIC power as an alternative to the international trading system or the emergence of APEC, the Asia/Pacific, US-China led development of free trade. The answer to this may be right, Europe has got to get its skates on and start devising its own trade arrangements with the BRIC countries and Asia/Pacific, but it is not that easy to do. Frankly, the problems we are encountering multilaterally will be very similar and will be replicated, except that we are not great agricultural exporters in Europe so we have that

happening less than the United States does, but we will have these problems replicated. One development which might gain support if the multilateral talks collapse is a response by us that the developed world should start organising their own free trade arrangements amongst themselves and excluding the rest. There is a demand amongst some for an EU-Japan Free Trade Agreement, an EU-US tariff-free area, et cetera. If we were to make that the exclusive priority and put our energy only into the developed world it would be damaging for the free trade system in the world. You cannot say that we should forget about the progressive integration of the emerging economies into the international trading system, and instead concentrate on developing our own developed country OECD trading arrangements. The risk would be that over the long term you institutionalise a north-south division. We need a single international trading system. We need a progressive integration of developing countries to that international trading system. We need to be able to anchor the emerging economies, the Chinas, Indias and Brazils, into our rules-based international system in order to hold them to account. Some in Europe will say that is naïve. Their view is that China, India and Brazil will never play by the rules, let us just strengthen our own internal market in Europe, our own OECD trading arrangements, and if they cannot play by the rules they should not be rewarded by the international trading system. This is a minority view, a view without legs at the moment, but if things get more divided the sectarianism within the international system will grow and international trade would suffer if those ramifications were to come about. I am going to have to leave you, I am afraid.

Chairman: You have given us more time than we had hoped for. Thank you very much indeed for having us. I think the only other thing we can do is wish you luck! Thank you.

TUESDAY 24 JUNE 2008

Present Cohen of Pimlico, B (Chairman) Maclennan of Rogart, L
Kerr of Kinlochard, L

Examination of Witnesses

Witnesses: MR ADRIAN VAN DEN HOVEN, Director International Relations, MR EOIN O'MALLEY, Senior Advisor International Relations, and Ms SCHILD, Junior Advisor International Relations, BusinessEurope, examined.

Q261 Chairman: Thank you for coming to see us today. I am going to start and ask formally how you see the Doha Round working out? Do you think that its prolonged nature has led many participants to give up on the whole idea of multilateral trade arrangements? Is there a possibility that failure to agree the Doha Round will compromise functions of the WTO, notably the dispute settlement mechanism? Whoever would like to put the formal answer to that on the record, I would be glad to have.

Mr van den Hoven: We probably do not see the Doha Round as failing or there is a likelihood of complete failure of the Round, but we do see there may be some difficulty in trying to conclude the Round by the end of this year, that is while US President Bush is still in power, because we are already at a point where now it will be technically very difficult for the WTO members to file all of the commitments that they would undertake. Nevertheless, we are supporting and calling for the conclusion of the Round by the end of this year if it is possible. One of the reasons why is because the Round has been going on for too long from our perspective, and this is making some members of the business community who are broadly supportive of the Doha Round, at least among the European business community, very sceptical about its prospects. As scepticism grows, it becomes more difficult to mobilise people, even when they believe fundamentally in trade liberalisation. Another problem or challenge with the Doha Round and the business community is that the agenda of the Round has got smaller over time, a certain number of issues, such as investment, have been taken off the agenda and there are some concerns among business about low ambitions for trade liberalisation in the Round, whether for industry or services, as well as some problems in areas such as intellectual property protection or anti-dumping rules from our perspective becoming too flexible which would mean an increase in the number of anti-dumping cases against European exporters. That being said, in spite of the scepticism and the concerns we regularly go to the European business community, our National Business Association members at the highest levels, and they still ask us to continue our work to advocate in favour of concluding the Round. We had a meeting two weeks ago where all of our presidents confirmed that, so there is still support in the business

community. On the issue of whether or not a failed Round would affect the WTO dispute settlement system and WTO system as a whole, a failed Round would obviously be very unfortunate for the business community as the European Union is the biggest exporter of both goods and services. In addition to that, we have mixed views on how this will impact dispute settlement. On the one hand, there would be no change to the agreement so the disputes could be taken there and would normally function and be resolved as normal and there should not be any change there, however it is true there are some cases that are linked to the Doha Round negotiations where certain governments, such as Brazil, are taking the US or the EU to the WTO dispute settlement to try and push them to go further in the Doha Round negotiations. If the Doha Round fails they will be faced with panels which they have lost, or will lose, and they would then have to adopt those changes or reforms without anything in exchange, and that may be politically very difficult. Another concern we have is the business community sees growing protectionist tendencies around the world, but the greater concern is in big trading partners, in China, in the US, and in some Member States of the European Union although it has not really affected the European Union to a great extent yet. There is a lot of protectionist rhetoric today in those major markets and, being the leading exporter in the world, that is of great concern. Failure in the Round would probably exacerbate that protectionist shift and that would be very risky for European business.

Chairman: Thank you very much.

Q262 Lord Kerr of Kinlochard: May I come in on that? That is an extremely interesting presentation, thank you. Why is the voice of business, and I am sure you correctly describe business views, so quiet in public? If you look at America, the great transnational corporations based in America, who have more to gain than probably anybody else, are not resisting the protectionist rhetoric of the election campaign, they are not popping up. To a slightly lesser extent I fear the same is true on our side of the Atlantic, where the NGOs shout at the Commission for asking too much of developing countries and there is no very loud countervailing force from business saying, "Free trade is good for you. Opening

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your markets is in your interests as well as ours". Why is that?

Mr van den Hoven: I cannot speak on behalf of US business, but according to our US business counterparts they see this protectionist rhetoric as rhetoric and it will subside after the elections. We are a little bit more concerned than they are, but maybe that is because we do not fully understand their political system and what is happening on the ground there. When it comes to European business expressing support for trade liberalisation and rejecting protectionism and the like, we have really worked hard on that point. One of our priorities is to reject protectionism and to support trade liberalisation, of course, which is the more positive outlook on that. We have been very, very active. One of the difficulties we have faced is with the Doha Round the media is no longer really interested in it. You are from the UK and if you read the *Financial Times* you will note that the number of articles and interest in the Doha Round has really diminished, so it is very difficult to get anything into the media. We have done a lot of activities and last year we mobilised at one of the low points in the Round 40 CEOs to make a statement about why they supported multilateral trade liberalisation in the WTO and the like. Where we had 40 CEOs of mostly big companies, but also a few medium-sized companies, no real small ones, that generated almost no interest from the media. It has been a difficult time to get out positive messages on trade liberalisation. Whenever there is something going in the other direction, ie someone pushing for protectionism or something, that gets an immediate strong reaction, but positive views on trade liberalisation do not sell in the media.

Q263 Lord Kerr of Kinlochard: Was the Singapore issues decision a mistake, taking these issues off the table? These were issues in which business in Europe had a very real interest and issues the public could understand, such as investment protection. Maybe it had to be done, maybe it was inevitable they had to be taken off the table, I do not know. Is that part of the problem? It is not so obvious what we stand to gain. NAMA in Africa is no big deal for Europe, but services yes. Are there too few things that European business really want this time around?

Mr van den Hoven: Three of the four Singapore issues had to be taken off the agenda otherwise the Round would have been dead and the business community reluctantly accepted that trade-off, in Europe at least, that we would have to abandon those issues or abandon the Round altogether, and then we would not have gotten those issues either. It was quite well understood after the breakdown of the Ministerial meeting in Cancun that those issues, in particular investment, would not work in this very politicised Doha negotiation around that issue. For European

business there are sufficient export interests, market access interests in the Round to keep the business community on board because the European Union is such a big exporter of services and industry and there is real interest. I would say you are correct, the business community is not clamouring to open markets in sub-Saharan Africa or really poor countries, but it is adamant about opening the markets of emerging countries. The reason for that is the development of China. In the space of 10 years China has gone from being a nobody in international trade to being the third biggest exporter and most of the business community thinks other emerging countries are following that path and will become big exporters. For the business community, India is probably the most likely candidate for that, but also other countries like Brazil. We suspect in the future these emerging countries, like China, will be very serious competitors to European business and that is why, as this Round will be implemented over a 10 or possibly 15 year period, we have to look at this Round as setting the trade rules not for next year but for 10, 15 years from now. That is where we think these emerging countries are going to be very strong and we need that Round to open those markets in a balanced way otherwise we will have certain industries who would not like to see the Round concluded. Overall they are in favour but there are a few who say, "If we get a bad deal with the emerging countries, we would rather have no deal".

Lord Kerr of Kinlochard: Thank you.

Q264 Lord MacLennan of Rogart: Following on Mr van den Hoven's point that there is fear in industry that the ambitions are too low, we have heard it said in evidence to us that tariff reductions in the industrial sector that are achievable have just about gone as far as they can go. Do you think that is true or do you think there is scope for further reductions on the industrial side in the current Round?

Mr van den Hoven: We disagree with the other evidence that you have received on that. The European Union is the second biggest importer in the world and that is growing because we are in a high currency zone, so it is likely that we will soon be importing roughly one trillion euros per year. What that means in trade negotiating terms is even a reduction of very low tariffs, or the elimination of small tariffs, has a significant impact on imports into the European Union and provides significant savings for countries exporting to the European Union or for importers. In addition to that, the European Union still has high industrial tariffs on textiles, all of the automotive sectors, cars, trucks and the like, as well as some electronic products. I would say medium level tariffs on chemicals. With the exception of aerospace, those cover most of the European Union's trade, the biggest share of its industrial trade. From

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our perspective, the trade volumes and these peak tariffs have to be reciprocated by our trading partners. We simply cannot allow the European Union to lower those tariffs without getting anything in return. This is one of our major concerns with the Doha Round. It has nothing to do with the very poor countries of the world that are members of the WTO, but it has to do with the emerging markets as well as something in the Doha mandate which is a commitment that peak tariffs will be eliminated. What we see today is that mandate for the elimination of peak tariffs will not be fulfilled. I can give a specific example. Most emerging countries have an automotive tariff of about 35 per cent, some much higher but very few have an automotive tariff below that, and the European automotive tariff is 10 to 20 per cent for trucks. In the Round the automotive tariff will go to below five per cent, probably to around 4.5 per cent. We know that most of the emerging countries will keep their tariffs on automotive at 35 per cent, which means that in this sector we will have a huge imbalance, we will not be able to export very many automotives, maybe very, very expensive cars, maybe some Jaguars or Porsches or something like that, but very few mass-produced cars and that creates a challenge.

Q265 Lord Maclellan of Rogart: I guess I was asking not what was desirable but what you thought might be achievable. You have just said that our evidence is wrong, but perhaps it is not wrong in respect of the automotive industry with 35 per cent. Are these immovable objects?

Mr van den Hoven: We think that the European Union has not put enough emphasis on this in its negotiations in the Doha Round. The EU has privileged its defensive interests in agriculture over its offensive interests in industry.

Q266 Lord Maclellan of Rogart: So you genuinely think that there is a *quid pro quo* that we can offer?

Mr van den Hoven: Yes.

Q267 Lord Maclellan of Rogart: That might unlock the 35 per cent, to take that example?

Mr van den Hoven: Yes.

Q268 Lord Maclellan of Rogart: We are talking about China or Korea, are we?

Mr van den Hoven: India as well.

Q269 Lord Maclellan of Rogart: How interested are they in our agricultural support systems?

Mr van den Hoven: You cannot do it all as a trade-off for agriculture but you can make a trade-off within industry as well. For instance, with China I think you could make very strong arguments that China has to open its market further just by looking at its position

in terms of exports in the US and the EU, and there has to be some balance there. With India that is probably more difficult, although we have to admit that India has been autonomously liberalising its industrial sector over time, so they are not completely closed to the idea of liberalisation. There has to be some discussion with India about how to advance that. Perhaps some further concessions from the EU on services towards India might be a way of convincing the Indians, but we think there has to be further pressure from the European Union on the industrial side. We do not think that it should let up and should allow a free ride for the emerging markets on industry.

Q270 Chairman: Do you see there still being a place for trade defence mechanisms, anti-dumping and the like? How can these mechanisms best be designed to be effective without damaging European firms with overseas suppliers which seems to be the difficulty?

Mr van den Hoven: The second is more difficult. In answer to the first question, we think that there is a place for trade defence in EU trade policy. First of all, the reality of the international trading system is that it is not always fair and that there is a lot of dumping and a lot of subsidisation around the world. What we see in many of the key emerging markets which over time are becoming the key trading partners of the European Union—the growth of trade with emerging countries is much higher than the growth of trade with industrialised countries—is emerging countries are increasing state intervention into the economy, not decreasing it, and this leads to a lot of distortions in trade.

Q271 Lord Kerr of Kinlochard: Does it matter?

Mr van den Hoven: It does matter when it has adverse effects on EU industry. A country which is increasing its state intervention in the economy is Russia and some of the things it is doing—

Q272 Lord Kerr of Kinlochard: If it is t-shirts or trainers, the kids in the shops of Europe do not care where it comes from. Do we really need to preserve a t-shirt or trainer industry? Do we?

Mr van den Hoven: I do not think we need to preserve a t-shirt or trainer industry but we need to maintain fair conditions and if that industry can survive it is able to survive. The European Union has a fairly efficient textiles, clothing and shoe industry—

Q273 Lord Kerr of Kinlochard: At the high end of the market.

Mr van den Hoven: Also in some ways at the low end of the market. You have to keep in mind that the European Union also includes some very low wage countries and, therefore, the idea that the textiles industry is just going to disappear because the

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European Union is all like Sweden is a misunderstanding of what the European Union economy is. Romania has the same level of GDP per capita as Brazil, so we have to keep that in perspective. In many East European countries we still have a substantial amount of low end manufacturing and that has to be kept in mind. What also has to be kept in mind with trade defence is that the main users are not the textiles and clothing industries, although there have been some very high profile cases recently. The main users are energy intensive industries: metals, chemicals and the like. These industries are not only important in terms of exports—chemicals is among our top export industries—they are also very important in the value chain of the European Union's manufacturing industry. The chemicals industry, which is the biggest user of trade defence, is the base for most of the manufacturing industry, a lot of the innovation of the manufacturing industry, for instance, in pharmaceuticals but also in others, paints and various things for the automotive industry and the like, lots to do with agriculture. These industries, and you could make a similar case for metals, argue that if you let the basic chemicals or metal industries disappear the high end chemical industries or high end metals industries will also disappear. If the European Union loses the high end of those industries then we will be in trouble in terms of maintaining a strong manufacturing industry in the European Union. There is a third aspect about trade defence beyond the industrial competitiveness aspect, which is that without trade defence it is very difficult to get some industries to support trade liberalisation. Of course, that may seem contradictory because you can say you are going to liberalise trade and then use anti-dumping to protect it again, but it is not quite that way because when you liberalise trade it is much more substantial than trade defence. Trade defence affects around one per cent of the European Union's trade whereas something like the Doha Round affects probably 80 per cent of its trade. I believe you do need some kind of safety valve there for certain industries or you will have a lot of difficulty getting industries which are big exporters, like the textiles and clothing industries, to support certain trade liberalisation agreements. I can state, for example, that on the Green Paper on trade defence, which was a debate here in Brussels over whether or not there should be a reform of trade defence, unfortunately this provoked a reaction against trade liberalisation by some groups who said, "We can't trust the Commission, they don't care about industry any more" and the like. I think that was the wrong reaction but that is the way it is. If I can move to the second question, which was how it affects overseas suppliers, that is more complicated. It is true that overseas suppliers can be caught in anti-dumping or anti-subsidy cases and then face duties,

just as, let us say, any foreign company could and that is always going to be very difficult and one of the risks associated with supplying outside the European Union. That is why trade defence rules need to be as transparent and predictable as possible. If they become unpredictable and they are decided just on the basis of who is the strongest lobbyist then that would be very risky for business. I also think that often it is perceived that trade defence is purely a political game, maybe a political game between Member States, the Italians wanting some kind of protection or the Germans and British not wanting it, or vice versa if you talk about something like salmon, but it is more than a political game between the Member States, it is also inscribed in a very strict set of international WTO and EU rules and very often these cases end up before the Court of Justice of the European Union. That is why I think there have been discussions here in Brussels about giving a kind of dispensation to European affiliates, for instance in China, from anti-dumping or anti-subsidy, which sounds very politically appealing, but when you try to put that into the framework of law it makes it completely impossible because none of our affiliates in China have European passports, so from a legal perspective they are simply Chinese or Indian or American or whatever companies. This discussion over overseas suppliers can be very difficult but trying to create special rules for that will be next to impossible in this context.

Chairman: That was rather our impression.

Q274 Lord Kerr of Kinlochard: Can I ask about the link between bilateral agreements and the Doha Round, particularly on services. Supposing we do not do very well on services in the Round or there is no agreement in the Round, do you see the right step for pursuing our interests in export of services being to increase the number and the content of bilateral agreements?

Mr van den Hoven: Eoin deals with bilateral agreements, so I will let him answer.

Mr O'Malley: First of all, on the whole we are supportive of the EU strategy on bilateral FTAs, we think that the current approach on the *Global Europe* response to the economic realities of high growth markets in Asia we need to pursue and we do not see bilateral agreements as a risk to the WTO, at least from the perspective of the European Union. The European Union has maintained its commitment to the WTO ever since we launched this latest round of agreements. If you look at a country like India which may have slightly less trade negotiating capacity, we note that in our bilateral agreement with India they are prioritising the WTO over dealing with us on the FTA, so that is slowing the process down. In general that specific question on the delay between the two is reasonably able to be resolved. On the issue of

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services, yes, we must pursue the FTAs as a vehicle for liberalisation in services. In terms of the hierarchy of mechanisms to deliver services liberalisation, far and away the best route so far in terms of delivering that has been accessions to the WTO. If you look at Ukraine, Vietnam, and the commitments that they have made in joining the WTO over the last year, those are far and away the best commitments of anybody in the WTO, including the EU and the US. Those markets are almost completely open in the key sectors that we outlined earlier. Beyond that, we see the WTO as a way to tackle a broad number of members and, after that, preferential agreements. The WTO did a study a couple of years ago on the outcome of preferential agreements in services and that showed there is a varied picture. In some agreements, particularly those between developing countries, there is very little new liberalisation under preferential Free Trade Agreements, but if you look at the agreements between the United States and in particular small partners that they have negotiated with since 2003 you can see major results, real new liberalisation in key sectors dealing with substantial issues of equity caps but also barriers to cross-border trade. We think that the EU has the prospect of achieving similar results in its negotiations with Korea, India, the ASEAN countries as we progress,

not that those negotiations are easy and we do not kid ourselves that is the case. As we have seen over the last year, delivering results is not a straightforward process and may, indeed, be a long one, but we do think it is possible. On services in particular it is important to stress that if the EU wants to receive something it must also be prepared to concede something. As Adrian has already outlined, the area of temporary movement of service providers, so visas related to service provision for Indian high-tech specialists, for example, is an area where the EU can do more in order to get more on services. As a last point on the FTAs, we would stress that while maybe under the current conditions in the WTO Round it is difficult to envisage this, we certainly do not rule out FTAs with OECD countries in the future. Our major trading partners are the US, our largest trading partner, and we do not rule out in the medium-term as a vehicle to secure our position in that market trade negotiations with the US, nor do we rule them out with Canada or with Australia or other countries. That is just an overview.

Chairman: Thank you very much, that was jolly useful. We have not had much opportunity to ask the representatives of business what they feel about this, but it has been extremely useful. Thank you for coming.

TUESDAY 24 JUNE 2008

Present Cohen of Pimlico, B (Chairman) Maclennan of Rogart, L
Kerr of Kinlochard, L

Examination of Witness

Witness: MR FREDRIK ERIXON, Director, ECIPE, examined.

Q275 Chairman: Thank you very much for coming. Could I ask what role do you think the WTO has in the 21st Century and what should be its objectives and functions? Do you see the need for any change in the decision-making structures and dispute settlement? How do you feel about all that?

Mr Erixon: One can discuss this matter in two ways. The first one is to discuss perhaps what would be the ideal developments when it comes to the future of the WTO, perhaps not ideal in the sense of entirely unrealistic. Another issue is what is politically feasible given current constraints, current views of the membership and many other factors that need to be taken account of. I tend perhaps to be a little bit more realistic, I hope, when it comes to my outlook on at least the medium-term future of the World Trade Organisation. I think that the basic role of the WTO in, let us say, the next 10 to 15 years will be to try to maintain and ensure the integrity of its basic trade rules. I do not think that the World Trade Organisation will be a "world trade" Organisation, time is over for this organisation, it is too difficult in order to achieve liberalisation on a global stage like that. But that does not mean the organisation does not have a role, it has an extremely important role when it comes to maintaining the rules, making sure that these rules are not being eroded in any way, upholding the integrity of the dispute settlement system and, in addition to that, organising its analytical work in the sense that it can scrutinise the trade policies of its membership in a much better way than it can today and that it can engage in analysis and discussion with the broader community on the developments we are seeing outside the multilateral track of trade negotiations.

Q276 Chairman: Fundamentally that would turn it into a research organisation with the management function of dispute resolution?

Mr Erixon: Just to maintain and negotiate trade rules, that is going to take up a significant part of the organisation as well. I do not envisage any broad changes when it comes to the staff or the structure of the organisation to enable it to do more analysis, it already has all the capacity it needs in order to do this research and to publish the research. They are already doing this research, the only problem is that often they cannot publish it and cannot take part in the broader discussion in a meaningful way.

Q277 Chairman: Because they are engaged in negotiations?

Mr Erixon: No, because the membership has constrained them when it comes to what they can publish and what sort of discussion they can take part in. To give you an example. The trade policy review mechanism was something that started as something to build a review mechanism within GATT at that point, but it became the WTO, something that would look like the Australian Tariff Board in the 1980s. It was supposed to be a mechanism with much greater clout, it would make its own decisions when it comes to what issues they can look into, what sort of analysis they can do and give them more independence and freedom in trying to commission their own studies and go ahead, let us say, co-operating with outside institutes when it comes to giving views on individual Member States' trade policies. That idea did not fly and what came out was the very weak trade policy review mechanism that we see today. If you look at bilateral regional trade policies, for example, they already have a division dealing with these sorts of affairs. They already collect all the information that is necessary in order to make judgments and do analysis of the quality of individual agreements and the likelihood of the agreement leading to substantial effects in one way or the other. They have databases on all this, but they are not public and they cannot really take part in a public discussion about all of this.

Q278 Lord Kerr of Kinlochard: If the Doha Round failed or ran into the sand, what would happen to the dispute settlement mechanism of the WTO?

Mr Erixon: I think one of the immediate effects would be that a number of new disputes would be submitted to the WTO. We would lose an opportunity to diplomatically solve some of the disputes that are there but would be tremendously difficult to solve by legal means. That would put a lot of strain on the system. I am particularly referring to Boeing-Airbus, which is going to be a tremendously difficult case. We have another recent development when it comes to complaints from the United States and Japan against the European Union on tariff reclassifications. It is a very, very big issue and hides a number of very sensitive issues which deal with interpretation of the extent to which agreements cover products that have developed in the sense that they are different products

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today than they were before and, of course, this is more a matter of principle that does not only apply to specific goods or this specific agreement, it applies to all sorts of goods and agreements. These problems can only be solved by negotiations and by improving the agreements. I think it would be very difficult to solve them by legal means.

Q279 Lord Kerr of Kinlochard: Perhaps if the Round had failed because of increasing protection in the United States then there is the real risk that if the dispute settlement works and produces an outcome that is politically unacceptable in the United States, the credibility of the whole machinery may be lost—
Mr Erixon: Yes.

Q280 Lord Kerr of Kinlochard: And the lot is lost.
Mr Erixon: Yes.

Q281 Lord Kerr of Kinlochard: So the stakes are quite high.

Mr Erixon: The stakes are high. So far the dispute settlement mechanism has been a great success, particularly when you look at compliance with the rulings of the panels or the appellate body. There have not been very many cases where we have come to a position where retaliatory actions have been taken because countries that have been ruled against have not changed their policies. One important matter concerns the United States and that is the case brought against the United States by Antigua relating to online gaming. It is an issue of interest because we are talking about a situation where one big country has been ruled against in favour of a small country and the small country does not have the clout that it needs in order to take retaliatory action. If Antigua, for example, was going to take retaliatory action amounting to the same losses it has suffered from the United States regulations they would have to slap a tariff on a substantial part of their imports from the United States and they cannot do that. I see new problems of a similar kind coming down the road if we are not going to see any developments in this Round or what is going to happen afterwards.

Q282 Lord Kerr of Kinlochard: Does that take you to thinking that any outcome is better than no outcome from the Doha Round?

Mr Erixon: No. We have already reached a position where whatever outcome that comes will be so weak and so, not meaningless but will not be of any considerable importance to anyone or anything in the WTO that the interpretation of the outcome will be that we do have a big crisis in this organisation.

Q283 Lord Kerr of Kinlochard: The argument for a fairly meaningless outcome would be (1) that it was an outcome, and (2) if you are binding tariffs, say, even if they were highly academic now, that binding might be valuable if the world spins further into protectionism because you cannot rule out people doing really dreadful things, so it might be worth doing to create a sort of firewall against things getting worse.

Mr Erixon: Yes, I think that is true to some extent. I am clearly in favour of that sort of development where you at least get a good binding of the tariff levels. I am not so afraid that rising protectionist sentiments are going to lead to any big increases or considerable increases in tariffs, at least not from the major countries or the 30-odd countries, counting the EU as one, that represent nearly 90 per cent of all trade. For industrial tariffs, I think most countries are aware of the integration of their companies and their production with the rest of the world and they understand that if we do introduce a tariff on something there is not only going to be retaliation from another country, your own firms are going to suffer from increasing production costs. Since supply chains are so fragmented and production networks so dense that I do not envisage any problems there. When you look at agriculture tariffs, I do not think that any binding in this Round is going to be very substantial. The real development when it comes to binding of tariffs will be from the European Union and I do not think the European Union is going to increase its applied agriculture tariff levels in the future, partly for the reason that it does not have to given current market conditions and because its broad, long-term development of decreasing the subsidy levels of individual farmers will lead to a subsequent lowering of tariffs. For many of the other countries tariffs are not going to be that big a problem when it comes to binding. Then we have subsidies. I think it would be good to get any form of binding from the United States, but I do not think the binding level of subsidies that is going to come out of this agreement is going to constrain them in any meaningful way.

Q284 Lord Kerr of Kinlochard: On our side of the Atlantic I suppose the French policy would tend not to tariffs but to some non-tariff barrier of more sophisticated, complicated kind, perhaps phytosanitary checks.

Mr Erixon: Yes, indeed. I do not think we are going to see any development at all there.

Lord Kerr of Kinlochard: Thank you, my Lord Chairman. I have made myself very gloomy!

Q285 Lord MacLennan of Rogart: This morning we heard from Commissioner Mandelson about the high stakes in the Doha talks of, I suppose, lost

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opportunities for greater trade and for Europe. How well do you think Europe has acquitted itself in these negotiations? How do you appraise the performance of the institutions and the line that the governments have taken collectively?

Mr Erixon: To start with, trying to sequence different phases of European decisions, I think we can call this a European Trade Round because Europe was the main initiator of this Round, it started with Sir Leon's attempts in 1997 to kick off something called the Millennium Round and that led to the Seattle Ministerial where the Millennium Round was going to start, but it did not, and then we ended up with the Doha Round. The European Union was very enthusiastic about this particular Round, partly as an interpretation of the Uruguay Round that something needed to start very soon to deal with the built-in mechanisms of the Uruguay Round, in particular on agriculture, and partly as a consequence of the fact that Europe was on the way to integrating former Communist countries in Eastern and Central Europe and understood we needed every sort of mechanism to make sure that integration would not lead to a substantial increase in subsidies, in particular agriculture subsidies. At the time of Doha Ministerial, Europe was still very enthusiastic, although there were different positions between the European Commission and some individual Member States. From Sir Leon's first attempts up until 2001 there were developments on some policy issues, in particular the Singapore issues were much more emphasised on the side of Europe. Environmental and labour standards were heavily pushed by Europe in advance of the Doha Round and in Doha the Commission, as well as individual Member States in Europe, made many attempts to get them into the agreement. But they did not succeed. Until Doha, Europe was very enthusiastic and actively engaged. It has continued to be actively engaged but I do not think it has assumed its leadership role to the extent I would have liked to have seen both in terms of concrete negotiation and leadership on content. What do you need to deliver as a leader for the entire negotiations in order to move forward? It is pretty fair to say that when that deal between Gerhard Schroeder and Jacques Chirac was made at the outskirts of the EU Summit on the future of the CAP we all knew what was going to happen to the Doha Round because it did not deliver enough reform for Europe to go to other countries to say, "This is our red line but it is something you could accept because it is a considerable liberalisation that we can commit to". The CAP decision then was for the 2007-2013 period, and the decision, which killed a lot of enthusiasm in other countries, meant that little would come out of this round in agriculture. Then Europe started to have problems and became very, very defensive after

that point, partly because it also had to discharge many of its more offensive interests, in particular at the Cancun meeting with three of the Singapore issues being discharged. It did also accept discharging those issues as an idea to try to buy off any offensive interest on the part of the agriculture liberalisers. If Europe was not pushing so heavily for new Singapore rules they thought they were not going to be so heavily attacked by other countries for not liberalising agriculture so much. But that was a miscalculation. Since then all negotiations have basically been about agriculture. We have had developments when it comes to industrial, NAMA affairs, but all other negotiations have been waiting for what is going to happen on agriculture. For obvious reasons, Europe has had difficulties committing to any further reform when it comes to agriculture because we do not know what is going to happen after 2013. Member countries, in particular France, Ireland and Hungary, to some extent Poland and a few other countries, have blocked all sorts of efforts in order to commit to post-2013 developments when it comes to subsidies, leading to obvious problems. This has also led to problems when it comes to negotiating tactics. In 2005 and 2006 Europe behaved not very constructively because it was not prepared to take part in meaningful negotiations by disclosing what it was suggesting and for a very long time it insisted on hiding different tariff lines and different subsidy lines behind the general proviso it opted for, and that was a proviso representing eight per cent of all tariff lines. Eight per cent of all tariff lines can mean 80 or 90 per cent of all trade because trade is very much concentrated in a certain number of goods. Europe became very defensive and was very defensive until 2007 and then it started to get confused because it opted for different strategies. It launched its *Global Europe* strategy in 2006 which opened the door for bilateralism again big time. Europe had had a moratorium on the FTA negotiations since 1999 and now this door was open again and everyone understood if you open it for substantial bilateral negotiations with big countries that is going to be your main focus. It was confused for a while but, at the same time, it tried to move negotiations forward. Europe was very much behind the Potsdam meeting in 2007 between the big four where there were attempts to try to stitch together a deal but that failed. Europe was not prepared to deliver what I think is necessary for this Round to conclude but, at the same time, it wanted to have the negotiations going and it tried and tried to make things move forward, but they did not.

Q286 Lord Maclennan of Rogart: That is a long and very full answer. I would like a footnote about that. You have been pointing to the failures in all sorts

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of way, but what is the way forward in your view for liberalisation?

Mr Erixon: You mean for Europe or the system itself?

Q287 Lord Maclellan of Rogart: For the system. You said that you do not expect the WTO to be able to do these things again and you are clearly not very optimistic about this Round being finished successfully. You are not just a constitutional pessimist, I am sure, you must have some ideas as to what would be the right approach, particularly for Europe.

Mr Erixon: Yes. My view on this is not much different from what actually has happened in the last 20 years. Looking back, there is not much liberalisation that has come through the WTO. If you look to developing countries, roughly 65-70 per cent of all trade liberalisation achieved since 1980 has come by unilateral means, by unilateral negotiations opening up new markets. Another 15 per cent has come from regional and bilateral negotiations and the rest from multilateral negotiations. When you look at developed countries, particularly Europe, when it comes to industrial manufacturing tariffs, and we are talking about fairly low tariffs on most goods, there are a few tariff peaks but the average tariffs are very low. It is not going to happen so much on this front. When it comes to agriculture it is entirely autonomous liberalisation that must come before you can commit to any sort of binding or agreement in the WTO.

Q288 Lord Maclellan of Rogart: Thank you.

Mr Erixon: When it comes to services and non-tariff barriers that is something that is going to be opened up on an autonomous basis because it is too difficult to negotiate. You can easily negotiate about tariff lines and subsidies, but negotiating about regulatory systems which sometimes are not there for any protectionist reasons, but because of different sorts of traditions, that is going to be very, very difficult. When I look into the future, looking at services, investment and agriculture, which are the three main areas for future liberalisation, most of the liberalisation in future will come by autonomous liberalisation.

Q289 Chairman: Your hypothesis really is that the EU lost it at the point when we failed to reform the CAP, we left ourselves with not enough to give away. Other witnesses have also told us that the goals and ambitions of countries like China, India and Brazil are not accommodated effectively, there just is not enough to go for for them in the current trade negotiations. Would you say that was fair,

that the tariff reductions obtainable probably do not make enough difference to them?

Mr Erixon: It is absolutely true for Brazil when it comes to agriculture, but it is not true when it comes to industrial tariffs. There I think they are very happy with the current status of the negotiations. India is even happier about the current status of negotiations because they have defensive interests in agriculture as well as industrial affairs. Their interests have been accommodated by the negotiations in the sense that it has not moved forward to any significant degree. China has been on the sidelines watching the negotiations and not taking an active part. They are a new member since 2001, they want to watch and learn, but also they undertook commitments in their accession which go far beyond the current levels of commitments in most developing or emerging countries. They have not had any particular reasons to try to push for anything because they have understood that then they must start to liberalise their economy further. I do not think it is correct or meaningful to point the finger to Europe or to the United States only when explaining why this Round has not moved forward as it should. It is not an issue about Europe or the United States, there are many participants whose actions have led to the current situation, including Brazil, India and to some extent China, but also many other countries.

Chairman: Thank you. We had not really thought much about that.

Q290 Lord Kerr of Kinlochard: What about the least developed countries? Have they gained much from the whole multilateral process? Do they stand to gain much from whatever might happen next?

Mr Erixon: I do not think they have gained much because they cannot gain much. If you look at LDCs, the really poor, the 49/50 countries that are poorest in the world, their trade and trade potential is so small that neither the WTO nor any other form of agreement can give them big benefits in that regard. If you look at their trade, a very high proportion of their trade is traded under preferential tariffs in various sorts of agreements, the Everything But Arms agreement or African Growth and Opportunities Act in the United States. China and India operate preferential agreements for LDCs as well. I think the WTO has influenced these countries positively when it comes to institution building, building up a trade political institutional structure that is coherent, based on good rules and transparency. On the trade facilitation side I think the WTO has been a positive influence as well. If you are trying to assess in terms of volumes of trade and in that sense cash benefits, revenues from trade, it has been very small for these reasons.

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Q291 Lord Kerr of Kinlochard: What should we be trying to do? Is the regional concept right: do they stand to gain most from taking down their barriers against each other?

Mr Erixon: I do not think so for the reason that their neighbouring markets are very small. For most of these countries the best way to grow with the help of trade is to head for the big markets where the purchasing power is. There are benefits to be made by regional integration but they have been wildly exaggerated. It is also going to be tremendously difficult to try to achieve any form of regional integration, and I am talking largely about African countries since a great proportion of the LDCs are African countries. We are not talking about industrial production at all, we are largely talking about raw materials and some EC refinement of raw materials and that sort of trade. It is very difficult to fragment supply chains in a way that you will have regional trade between countries before it is shipped off.

Q292 Lord Kerr of Kinlochard: I agree on raw materials, particularly things like commodities, metals and so on, but there the obvious thing is for investment protection agreements which will greatly encourage the inward investor, although that appears to be a non-subject.

Mr Erixon: Indeed. Everyone has been afraid of trying to move that issue forward again since the fall of the MAI. There have been attempts in the European Partnership Agreements but the attempts and efforts have not been very strong because of hesitance on the side of the African countries.

Q293 Lord MacLennan of Rogart: Can you tell us how you see the negotiation of bilateral agreements meshing, if at all, with what is being attempted in the multilateral sphere, particularly the European efforts with Korea, India, ASEAN and so on? What is the interface, if any?

Mr Erixon: These negotiations started at a late point in the Doha Round, so I do not think the launch of these negotiations has been a reason why the Doha Round has not been moving forward, but they have complicated matters. They have certainly complicated matters when it comes to resources, personnel, having time to actively be engaged on all different fronts. *Global Europe* itself concerns 21 or 23 countries that are pointed out in the strategy and some of these countries are parts of groups where negotiations have been going on for a long time and some of these countries are new countries. In addition to that we have the Economic Partnership Agreements and they took a long time for the Commission to negotiate and engaged in all sorts of discussions. I do not think the European Commission had the capacity to negotiate all these

bilateral regional agreements at the same time as devoting enough resources, time and energy, particularly intellectual capacity, to work on the Doha Round.

Q294 Lord MacLennan of Rogart: Looking at this from the outside, how would you prioritise these matters, or would you attempt it in some way to augment the resources available?

Mr Erixon: It is difficult to say given the circumstances at hand. I am not really sure. Let us say that the Doha Round had not moved at all and the prospects for any sort of development at all in the Doha Round were very bleak, at that point what should we have done? Assuming problems in Europe when it comes to trying to achieve unilateral reforms, service market directives, ports liberalisation, many of the Lisbon agenda areas, financial services for example, and all these attempts failed, what should we do then? We can look at some bilaterals, that is true, but I do not think I would have chosen the new bilaterals that Europe chose. I would not have chosen ASEAN at all, in particular not to try to negotiate a common deal with all ASEAN countries. I would have gone for an FTA with Singapore and FTAs with other countries subsequently that would have liked to have a good FTA, Thailand, for example, and Vietnam. I think these countries would have been able to negotiate an FTA with Europe. Then I would have headed for the two big markets in Asia which matter, China and Japan. Negotiating FTAs with them would have been too complicated, but in a non-FTA setting the EU could negotiate and address regulatory concerns between Europe and Asia, regulatory concerns on both sides. I would have tried to move that agenda much further. With India we could have made a similar effort but not negotiating an FTA. With South Korea an FTA negotiation was necessary due to the American FTA negotiation with South Korea. If the United States had ratified that agreement it would have put a lot of European companies in a disadvantaged position, so Europe also needed to try to get the same preferential access to South Korea as American companies. Apart from that, I think I would have been very slow on FTA negotiations.

Q295 Chairman: That is extremely interesting. I am sorry we do not have time to go on. Thank you for your very carefully considered and thoughtful answers which have told us a few things we had not been thinking about. Before we go, is there anything you feel we have missed that you would like to tell us about?

Mr Erixon: The only thing I would stress is when you look to the future at important trade policy decisions as well as trying to find an intellectual

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structure for European trade policy I would focus much more on domestic reforms, single market reforms, making sure that on services and investments Europe is able to negotiate strong agreements, whether it is multilaterally or in bilateral negotiations with important partners for

the future, but none of this is going to happen before we see reforms at home in Europe. To end with a quote, it is proper to say that internationalism, like charity, begins at home.

Chairman: That is a very clear and interesting thought. Thank you very much indeed.

TUESDAY 1 JULY 2008

Present	Cohen of Pimlico, B (Chairman)	Trimble, L
	Haskins, L	Watson of Richmond, L
	Moser, L	

**Memorandum by International Financial Services London (IFSL) on behalf of the
IFSL Liberalisation of Trade in Services (LOTIS) Committee**

Question 1

IFSL believes that trade agreements are most effective when negotiated on a multilateral basis, and that the multilateral trading system needs to develop further. The current Doha Round of negotiations has proved slow and difficult, for well known reasons. But a multilateral approach to services liberalisation remains important, particularly in relation to financial services, a core UK trading interest. IFSL has been active in promoting this view. At the same time, it is necessary to use all approaches towards achieving liberalisation; and bilateral agreements offer a significant alternative, which may be more acceptable for services than for trade in goods.

Question 2

Trade policy, successfully applied, can stimulate growth and job-creation in Europe. The openness of the UK financial services market is an example of the success of a liberalising approach. IFSL takes the view that trade liberalisation should be at the heart of EU trade policy.

Question 3

IFSL believes that there can be positive relationships between European trade policy and policies on development, climate-change and depletion of natural resources, although (given its financial services focus) IFSL claims no special expertise in these relationships.

Question 4

IFSL's research suggests that developing countries can benefit from multilateral trade agreements and that financial services liberalisation can bring particular benefits, especially if developing countries open their financial markets to international firms. But certain negative impacts need to be recognised and addressed through "sequencing" and capacity-building.

Question 5

While preferring a liberal approach, IFSL has little comment to make on the EU's use of trade defence instruments. But IFSL is opposed to the idea of a GATS-based "Emergency Safeguard Measure" for services, as proposed by a number of WTO members. In the case of financial services, IFSL believes this to be unnecessary, given other measures open to WTO members under the GATS.

Question 6

IFSL has no specific comments to offer on intellectual property rights, beyond drawing attention to the need for financial services businesses to be able to protect and freely use internationally-known business names.

Question 7

IFSL believes that multilateral mechanisms remain the best mechanisms for removing barriers to trade in services. But IFSL also draws attention to other means, such as regulatory convergence. IFSL believes that the GATS remains fit for purpose.

Question 8

IFSL supports the view that there is still a role for the WTO in the 21st century.

International Financial Services London (IFSL) welcomes the opportunity to give evidence to the House of Lords European Union Sub-Committee Inquiry into European Union Trade Policy. IFSL is a member-based cross-sectoral organisation (collaborating on a contractual basis with UK Trade & Investment and the Corporation of London) representing the whole of the UK-based financial services industry.

IFSL's Liberalisation of Trade in Services (LOTIS) Committee was set up in the early 1980s when services were first included in the GATT Uruguay Round. The Committee comprises senior representatives from UK-based financial services sector and related professions and businesses such as legal services and shipping. It is the established cross-sectoral voice for UK financial services in connection with both EU trade policy and WTO affairs. This evidence reflects the LOTIS Committee's views, and focuses mainly on EU trade policy as it affects the UK's financial and related services.

IFSL believes that the work of the House of Lords Sub-Committee is timely, coming at a point when the benefits from freer trade have created unprecedented economic gains, and yet when these gains are increasingly threatened. With protectionist sentiment being expressed in a number of WTO members at a political level, and with the current challenges facing the Doha Development Round, it will be important for countries such as the UK to restate strong support for trade liberalisation.

Question 1: What are the future prospects for Multilateral Trade Negotiations? What effect will the rising number of Bilateral Agreements have on the existence and further development of Multilateral Agreements?

1.1 IFSL believes that trade agreements are most effective when negotiated on a multilateral basis. Multilateral accords offer the opportunity to lock-in genuine liberalisation on the basis of Most Favoured Nation (MFN) provisions that apply to all: examples are the Marrakesh Agreement (1994) which concluded the GATT Uruguay Round and included the General Agreement on Trade in Services (GATS) and the Fifth Protocol to the GATS (1997) on financial Services. The existence of the GATT and the WTO, and the multilateral rules-based system underpinning both, has brought order and stability to international trade relations. The MFN provisions in the GATT, and subsequent multilateral agreements, allow all WTO members the opportunity of equal access to each others' markets. The multilateral system has led to global economic gains, with the Uruguay Round estimated to have increased world GDP by more than \$100 billion per annum.

1.2 The further development of the multilateral trade framework will be a key factor in building global prosperity. The existing level of liberalisation secured on a multilateral basis is not sufficient, particularly in the area of services (which account for more than 70% of both GDP and employment in almost all European countries). At present large areas of trade in services are not covered and there is a strong UK interest in securing further liberalisation through the multilateral process. Unfortunately however, progress in the Doha Round has been slow and uneven, and the prospects for its successful conclusion remain uncertain. This has been as true of negotiations on financial services as in other areas. It is a matter of disappointment to IFSL that the Doha agenda continues to be dominated by negotiations over Agriculture and Non-Agricultural Market Access (NAMA), given the world-wide economic significance of the services sector. IFSL regards a successful conclusion to the current Doha Round—which means a conclusion that adequately reflects the importance of services—as being of the highest importance.

1.3 Within services, financial services in particular are an area of especial interest for the UK. The sector represents 10.1% of the UK economy, a far larger proportion than that of any of the UK's EU counterparts. Much of this is concentrated in the City of London: as a financial centre, London provides a market for investors in the 692 international companies listed in the UK. London also accounts for 79% of European hedge funds assets, 75% of worldwide Eurobond trading, 70% of the global secondary bond market, 66% of global turnover in internationally traded insurance and reinsurance services, 53% of cross-border equity trading, 50% of private equity in Europe, 43% of over-the-counter (OTC) derivatives trading, 34% of global

foreign exchange turnover, and 20% of cross-border bank lending. It is estimated that, if London's financial services cluster did not exist, EU GDP would suffer an immediate reduction of €33 billion. The true significance of the sector is almost certainly greater still when related professional and support services are taken into account. No other EU Member State has a financial services sector (wholesale or retail) which is close to being as prominent or successful as that of the UK.

1.4 Against that background, IFSL attaches high importance to the WTO as providing a sound basis for financial services liberalisation. As an instrument for financial services liberalisation, the GATS and related texts provide a framework of interlocking provisions including the GATS Annex on Financial Services, the Understanding on Commitments in Financial Services, and the "prudential carve-out"; and the GATS also functions (under Mode 3) as an investment agreement for financial services. IFSL has therefore sought to promote negotiations on financial services in the WTO framework, pressing the case for these to be carried out on the basis of the "model schedules" of commitments wherever possible. The "model schedule" approach sets high market access benchmarks for financial services suppliers to be able to establish a commercial presence and supply on a cross-border basis. Particular features reflect the most liberal approaches found in schedules of commitments under the GATS or in free trade area agreements (FTAs). In support of this, IFSL has consistently stressed the need for good offers under the request/offer process which is at the core of the GATS negotiating process. At the start of the WTO Plurilateral Negotiations on Financial Services (early 2006) between some 20 countries (the EU counting as one), IFSL pressed for a broad-based Collective Request. Regrettably, none of these efforts has yet borne fruit. However, now that there have been Reports by the Chairmen of the WTO Committees concerned with Agriculture, NAMA and Services (February 2008) IFSL believes that, despite the slow progress so far, there remain prospects for reinvigorating the Doha Round and concluding it with a balanced liberalisation package bringing substantial opening of financial services markets. IFSL welcomes the European Commission's efforts to pursue that objective.

1.5 As for the effect of the rising number of bilateral agreements on the existence and further development of multilateral agreements, IFSL accepts that this is a matter of debate but believes that it may be less deleterious in services than in goods. This is because global trade in services is less affected by the so-called "spaghetti bowl" of rules of origin, rules governing inward and outward processing, and other matters affecting goods. However that may be, regional trade agreements (RTAs) have now to be accepted as a central feature of the world trading system. In a recent decade (1995–2005) some 200 RTAs were notified to the WTO. More importantly, the share of world trade accounted for by RTAs has grown by some 25% in recent years, from some two-fifths to over half of world trade. Bilateral trade arrangements are becoming more common: of some 185 RTAs currently in operation, no less than some 140 are bilateral. One of the striking features of the recent growth of regionalism is the extent to which Asian countries that had previously eschewed regional deals are now engaged in the process.

1.6 There is a growing view that regionalism is a viable alternative to the WTO-based system. This view has been particularly propounded by the United States. It is difficult to measure the results of US policy in terms of commercial advantages accruing to the US. But—to take one example—it is noteworthy that, in wholesale financial services, the US accounts for 39% of world wholesale finance services, whilst the EU accounts for 28%. The EU's wholesale financial sector averaged 4.9% annual growth between 1997 and 2005; the US 7.0%. In the early 1990s, the two were on a par but a larger, more integrated services market and faster economic growth have helped the US pull away. Some of this differential may be the result of the US strategy for RTAs: it is a question requiring further examination. IFSL therefore sees little option but to acknowledge that while the multilateral approach may be far preferable, alternative avenues need to be explored, particularly when progress on the multilateral track is slow. This was recognised by the European Commission in its "Global Europe" communication, which set the agenda for a new suite of negotiations towards Free Trade Agreements (FTAs) with third markets. As long as it remains necessary to seek further liberalisation to unlock the full economic potential of the UK financial services sector, it would be irresponsible not to seek all avenues where progress can be made, and IFSL therefore sees an important role for bilateral negotiations.

Question 2: What role can European Trade Policy play to stimulate growth and create jobs in Europe?

2.1 The primary objective of European trade policy must be to promote economic growth and prosperity, both in Europe and amongst the EU's trading partners. The continued liberalisation of trade in goods and services is essential to this objective, particularly in areas such as financial services where Europe maintains a strong comparative advantage.

2.2 The classical Ricardian economic arguments for the role of a liberal external trade regime in promoting domestic welfare and wealth-creation are well-known. The recent expansion of UK financial services through an open market is emblematic of practical effect of these arguments when they are allowed free play to operate.

As has already been mentioned, financial services comprise an important part of both the UK and wider European economies. In the UK, the financial services sector constitutes a principal component of economic growth, contributing disproportionately to the expansion of the UK economy over the past decade. London is now the world's premier financial services centre, and the location of choice for multinational companies seeking to raise capital for global business. Its financial services cluster is open to cross-border business and inward investment, and is especially attractive for enterprises relying on recruiting and retaining international staff. UK financial services suppliers have a value-added of over £100 billion per annum, and play a critical role in allowing the UK to meet its targets for employment, tax revenues and balance of payments. This has been achieved, since "big bang" in the mid-1980's, by conscious recourse to liberal and open policies for trade and investment in financial services.

2.3 In IFSL's view, the pursuit of trade liberalisation must be at the centre of European trade policy, with an eye to the growth and employment implications for the European economy as a whole. There will undoubtedly be divergent views on the best way to achieve this. Most important however is to place the liberalisation principle itself at the heart of European trade policy, and to assess the extent to which different multilateral and bilateral activities aid the pursuit of these objectives. It remains important to address the protectionist instincts that can emerge as the result of economic readjustment, and which may sometimes attract EU policy-makers. Whatever its short-term attractions, protectionism undermines long-term economic performance by postponing change, eroding competitiveness, and leading to poor resource allocation and to a distorting focus on areas where economies are losing natural advantages. By the same token, it is critically important for European policy-makers to identify areas where the most significant progress can be made. Given that agriculture represents less than 3% of employment in most European economies, it seems perverse that so much of the EU's negotiating efforts are concentrated on this area. To gain maximum economic impact, European trade policy needs to focus on the liberalisation of trade in services, given that the services sector is now the primary contributor to economic scale, growth, employment and competitiveness.

Question 3: What should be the relationship between European Trade Policy and policies on development, climate change and depletion of natural resources?

3.1 IFSL recognises that the relationship that exists (or ought to exist) between European trade policy and policies on development, climate change and depletion of natural resources is a matter of wide debate. IFSL claims no special expertise in this area, beyond taking the view that trade and development are inherently interlinked, given that long-term, sustainable development in poorer countries is virtually impossible to secure without effective access to the global trading system (a linkage to which the Government has responded by making trade policy a shared responsibility of the Department for Business, Enterprise & Regulatory Reform (BERR) and the Department for International Development (DfID)). IFSL believes that a European trade policy promoting an open trading system, through which emerging markets can both trade and have access to the supply of financial services (whether cross-border or through commercial presence) will be beneficial to development. The key benefits will be access to capital at competitive rates and the spread of banking, insurance and other forms of financial intermediation capable of mobilising personal savings. This view is explained in greater length under Question 4.

Question 4: Have developing countries benefited from Multilateral Trade Agreements? What steps should European Trade Policy take to help less developed countries reap the benefits of global trade?

4.1 It is commonly said that developing countries have benefited substantially from previous multilateral agreements, and stand to accrue disproportionate benefits should the Doha round be successfully concluded. Following the conclusion of the Uruguay Round in 1994-95, developing countries' share of global goods and services exports increased from 36% in 1996 to 43% in 2006. Countries in East and South Asia have seen the greatest benefits, but there has also been substantial growth in developing Latin America. Growth outcomes have of course been varied (as the experience of sub-Saharan Africa demonstrates only too clearly) and are critically affected by factors ranging from quality of infrastructure and degree of necessary reform to natural catastrophes and war.

4.2 In its Research Report "Benefits to Emerging Economies of Liberalising Financial Services & Promoting Access to Finance" (2006) IFSL noted that "Financial services have a crucial role to play in accelerating the development of emerging economies. This is because properly functioning financial markets help to connect businesses with lenders and investors with funds to put into ventures along with sharing of risks. However, inadequacies in finance create barriers to opportunity and increase costs for small and large enterprises. According to the World Bank "Government interventions frequently have made matters worse, as financial markets have been repressed and distorted by state ownership, monopolies, directed or subsidised credit and

other policies appealing to the short-term interests of politicians and favoured groups". The IFSL Report highlighted a number of arguments in support of the positive relationship between financial liberalisation, financial development and economic growth:

- Higher interest rates on deposits are generated through introduction of market principles and competition in financial markets.
- Tighter margins contribute to a lower cost of capital which facilitates investment and growth.
- Lower overhead costs, improved risk management and development of new financial services contribute to improved efficiency, higher returns on investment and to faster growth.

4.3 The Report also noted a literature review indicating that 15 out of 23 studies had found a positive relationship linking financial liberalisation with growth; four found a neutral relationship and four a negative relationship. The disadvantages of liberalisation in the minority of studies showing a negative relationship included:

- Lack of information on borrowers, with a potential reduction in relationship lending, which reduces the efficiency of lending.
- Banks becoming less risk averse as profit margins come under pressure, leading to excessive risk taking under pressure of greater competition.
- Capital flows becoming more volatile with capital market liberalisation.

4.4 IFSL concludes that, as far as financial services are concerned, the best way for EU trade policy to help developing and least developed countries reap the benefits of global trade is seek to encourage them to make their financial markets more open to international firms. But any such policy must be accompanied by alertness to possible negative impacts and to the need for "sequencing" (matched by capacity-building) aimed at developing adequate regulatory regimes as the financial services market expands.

4.5 The European Union should also ensure that there are no unnecessary restrictions on financial services businesses from less developed countries doing business in the EU.

Question 5: Is there still a need for Trade Defence Instruments, and if so, how can these be designed to ensure that their effects are targeted and proportionate?

5.1 IFSL has little comment to make since the EU's use of trade defence instruments is not of particular relevance to the financial services sector (although in principle IFSL believes that economic openness is almost always the most effective policy option).

5.2 That said, IFSL takes this opportunity of stating its opposition to the concept of a GATS-based "Emergency Safeguard Measure" (ESM) which certain WTO members are seeking to develop for services, analogous to the trade defence instruments for goods that are permitted, subject to conditions, under the WTO Agreements. IFSL's reservations apply particularly in the case of financial services. The "Prudential Carve-Out" in Article 2 of the GATS Annex on Financial Services already allows a WTO member to take emergency measures for prudential reasons (which include the protection of investors, depositors, policyholders and others, or to ensure the integrity and stability of the financial system). Given the wide ambit of this provision, IFSL does not believe that there is any need for a further trade defence instrument in the field of financial services, and believes that the EU should oppose any such proposal.

Question 6: What is the best approach for ensuring that Intellectual Property Rights are protected? Do these rights hinder development goals—and, if so, how can an appropriate balance be struck?

6.1 IFSL has no specific comment to offer on this question, narrowly interpreted. IFSL takes this opportunity to note that many of its largest international member-companies have business names that carry worldwide brand recognition and which they need to be able to protect. In certain countries they are not permitted to proclaim their commercial presence using these worldwide names, being required instead to use a less well-known local name (eg the name under which they first operated in the country concerned). In IFSL's view, a globally-known brand name is an important asset, and its members should be permitted to use, in any market, their chosen name under which they are generally known.

Question 7: *Services represent 77% of European GDP and employment. What are the best mechanisms to remove barriers to trade in services? Is the GATS still fit for purpose?*

7.1 As the question notes, services account for over three-quarters of European GDP and employment—which should make the services sector a top priority for the EU in international trade negotiations. The fact that little progress appears to have been made on services in the Doha Round is therefore a matter for concern. Whilst appreciating the difficult negotiating environment and the obstacles facing services negotiations, IFSL believes that EU negotiators must continue to press for a materially higher level of ambition towards liberalising services. IFSL endorses their efforts to do so, and welcomes the steps recently taken by the Commission, as the EU's negotiator, in the wake of the publication (12 February 2008) of the Report on the WTO Negotiations on Services by the Chairman of the WTO Committee on Trade in Services in special Session.

7.2 As has been said, IFSL strongly supports multilaterally negotiated approaches to liberalising services. They are admittedly difficult and time-consuming. They involve changes to countries' domestic laws and regulations. There are a number of other avenues that should also be considered. In the field of financial services, these include:

- *OECD Codes, related instruments and working groups*: the Organisation for Economic Cooperation and Development (OECD) has long been a force for financial services liberalisation. Its longstanding work has been concerned with Codes on Capital Movements and Current Invisible Operations. More recently it has been active in the pensions field, where its International Network of Pensions Regulators and Supervisors gave rise to the International Organisation of Pension Supervisors (IOPS). Further work is being undertaken by the OECD's Insurance and Private Pensions Committee (IPPC, in which Israel and Russia are observers) and its Working Party on Private Pensions (WPPP, in which Brazil, Colombia, Estonia, Israel and Russia are observers, with Chile and India requesting observership). Since at least 2004 OECD enlargement has been under consideration, with the prospect of raising OECD membership from the current 30 to about 40 countries. If there is agreement within OECD on new accessions, an expanded OECD could give scope for greater use of OECD Codes, particularly if these were broadened to incorporate forms of mutual recognition agreements among financial services supervisory authorities.
- *Regulatory convergence and regulatory dialogue*: there are already moves towards an enhanced degree of regulatory convergence through the work of all the main international regulatory bodies (the Basel Committee, the International Organisation of Securities Commissions (IOSCO), the International Accounting Standards Board (IASB) and the International Association of Insurance Supervisors (IAIS)). There is also a growing degree of regulatory dialogue between different countries and groups (examples are the EU/US regulatory dialogue and the US/China Financial Services Dialogue) which provide opportunities for finance ministries and regulators to discuss regulatory treatment of financial services. In the UK case, such processes might be used to promote specific UK interests such as distinguishing clearly between wholesale and retail financial market regulation, or the disapplication of certain kinds of regulation between markets with "sufficiently equivalent" standards of regulation.
- *Mutual recognition agreements*: given their potential usefulness, these have been relatively little discussed. But mutual recognition agreements between regulators have an obvious role in freeing flows of financial services business, the more so as underlying convergence between regulatory approaches permits them to become an increasingly realistic option
- *More coherent collective approaches to capacity-building*: there is no shortage of current work on financial services capacity building by national and international agencies, as well as by private sector projects. There have been huge projects (including the EU-China financial services project of a few years ago, worth some €8 million), the Chancellor's Financial Sector Scheme and a plethora of small training projects and consultancies (some, in the UK case, involving the Financial Services Authority (FSA) and the Department for International Development (DfID)). There perhaps needs to be more evaluation or follow-through to determine both their usefulness and the extent to which they have alleviated market-failure and created conditions for economic growth. They are a key part of the process for developing healthy financial services markets, and the outlay on them means that they should be critically appraised for their coherence and effectiveness.

IFSL welcomes steps taken to bring greater coherence to UK efforts in these fields, such as the creation in the UK of the International Centre for Financial Regulation.

7.3 As to whether GATS is still fit for purpose, IFSL takes the view that it is. Even if negotiations in the Doha Round have been slow and difficult, in other areas negotiations in the GATS framework have produced some substantial gains during the GATS' its relatively short life. The Fifth Protocol on Financial Services (1997) is one example in the financial services field: another is the commitments to financial services liberalisation secured in accessions to the WTO (China, Vietnam and, most recently, Ukraine). Outside the financial services area, the Basic Telecommunications Agreement (1998) is a significant testimony to the success of the GATS negotiating process. The GATS system of commitments is moreover peculiarly well suited to the financial services sector: financial services providers, perhaps more than most other service sectors, attach importance to binding commitments under the GATS. Uniquely among services sectors, the financial services sector provides products that may continue as long as forty years or more, particularly in the case of life and pension products. Financial services providers therefore need the guarantees of a stable environment that bindings in the GATS are designed to provide. In these terms, IFSL has no doubt that the GATS is still fit for purpose, even if it may need to be supplemented by other, parallel approaches to securing the full potential of financial services liberalisation.

Question 8: *Is there still a role for the WTO in the 21st Century?*

8.1 The essential role of the WTO lies in its long-standing legitimacy as the guardian of the multilateral rules-based system for international trade, backed by a dispute settlement mechanism that has few if any equals among international treaty organisations. There will continue to be a need for this role in the 21st century.

8.2 For financial services, the GATS is the key component of the WTO's architecture. As a route to high-quality, long-term, liberalisation on a universal basis, the multilateral GATS process will remain a keystone of the financial services liberalisation edifice. It brings an unequalled range of advantages—both practical and in terms of welfare economics—both to the countries involved in GATS negotiations and to businesses in the sector under negotiation. In particular it offers:

- reference principles and rules, concerning market access for foreign market-entrants and non-discriminatory equality of treatment (“national treatment”) once the market has been entered;
- a system of binding commitments which allows a government to augment domestic reforms (designed to encourage growth and development) with international undertakings to maintain its level of liberalisation;
- a standard of comparison by which the degree of liberalisation in different markets can be compared;
- a negotiating process, allowing governments the reassurance that negotiated liberalisation will maintain a degree of parity between trading partners; and
- a clear system of liberalisation undertakings in a framework that is understood by commercial enterprises, providing business with a guarantee that commitments, once scheduled under GATS, will not be rescinded.

In IFSL's view, these advantages should give the WTO an abiding role in the current century.

29 February 2008

Memorandum by British Bankers' Association (BBA)

The BBA is the leading association for the UK banking and financial services sector, speaking for 228 banking members from 60 countries on the full range of UK or international banking issues and engaging with 35 associated professional firms.

Collectively providing the full range of services, our member banks make up the world's largest international banking centre, operating some 150 million accounts and contributing £50 billion annually to the UK economy.

1. The British Bankers' Association welcomes the opportunity to give evidence to the inquiry. This initiative of the Sub Committee is judged to be extremely timely in view of recent developments and the current situation in the trade policy arena.

2. Trade liberalisation in financial services is a high priority issue for the banking community in Europe. This is particularly the case for the UK where banking and financial services account for approximately 10% of GDP, contribute around £25 billion to the balance of trade and are responsible for a quarter of all UK corporation tax receipts. The international orientation of many firms in the City of London and elsewhere in

the UK has been a key factor in the sector's success and so in the major contribution that banking and financial services makes to the UK economy as a whole. The further opening up of financial markets internationally has an important part to play in maintaining this momentum.

Question 1: What are the future prospects for multilateral trade negotiations? What effect will the rising number of bilateral agreements have on the existence and further development of multilateral agreements?

3. We are very supportive of the multilateral trade negotiation process. The key feature here is that liberalisation is extended, through the "most favoured nation" provision, to all WTO members resulting in unrivalled economic welfare benefits. Estimates of the annual global GDP gains accruing from the most recent multilateral agreement, the Uruguay Round, vary somewhat but a figure of \$100 billion is probably on the conservative side.

4. It is acknowledged that progress with the Doha Development Round has been far from smooth. There are various reasons for this. To begin with, it was perhaps to be expected that the rapid growth of WTO membership would make the achievement of consensus a more challenging undertaking. In addition, it seems that progress may have been hampered by there being different interpretations of the term "development round"—leading to inconsistent expectations as to the intended balance of give and take between more and less development jurisdictions. But perhaps the main reason why more has not been achieved so far has been the overriding priority accorded to agriculture and the shadow this has cast over other elements of the Round.

5. It is very disappointing that relatively little attention has been focussed on the services sector in the discussions, despite the fact that services account for close to 70% of global GDP. At the time of writing, few specific offers have been forthcoming and substantive negotiations are still awaited. The continued absence of a breakthrough on services would call into question the possibility of the ratification of any DDR settlement.

6. Looking to the future, both the DDR endgame and beyond, it would be wrong to despair of achieving further liberalisation through the multilateral route—particularly in view of the massive potential welfare gains that can accrue from this channel of engagement. Whilst the political and logistic obstacles to be overcome should not be underestimated, we believe that multilateral discussions are still capable of yielding positive results.

7. It is widely acknowledged that in an ideal world the multilateral approach would be optimal channel of choice for further trade liberalisation, But in circumstances where progress at the multilateral level is not possible, or offers only limited prospects for progress, the bilateral route provides a valuable alternative way forward. Moreover, it is not necessarily the case that progress at the bilateral or regional level should hinder the prospects for further WTO success. In some ways, the two channels can be complementary. For example, a feature of bilaterals and RTAs is that they often require domestic reform, so preparing the ground for further multilateral advancement.

Question 2: What role can European trade policy play to stimulate growth and create jobs in Europe?

8. Energetic pursuit of the trade liberalisation agenda is essential for the wellbeing of the European economy. This applies not only to the EU's offensive interests but also the legitimate aspirations of our trading partners. Protectionist tendencies, whether on current or capital account, discourage domestic reform, erode competitiveness and invite reprisals.

9. To stimulate growth and create jobs it is imperative that the EU's stance in international trade negotiations plays to the strength of the European economy. This means recognising that the services sector, including financial services, is the engine of economic growth in Europe and reflecting this in trade policy prioritisation. Whilst the political realities are acknowledged, the fact nevertheless remain that if the EU continues to place a disproportionate emphasis on agriculture in future trade discussions the European economy will be the loser.

10. As to means, it is clear that the EU can no longer adopt a policy of self denial when other major trading partners have been pressing forward with RTAs and bilateral FTAs in parallel with the DDR. The BBA warmly welcomes the Commission's decision to open FTA negotiations with India, Korea and ASEAN and, if these are successful, would press for the opening of talks with other emerging markets.

Question 3: *What should be the relationship between European trade policy and policies on development, climate change and depletion of natural resources?*

11. Turning first to the relationship between trade policy and development, we believe strongly that trade liberalisation is a positive force for economic development—and there is ample evidence to show that the more outward looking developing countries tend consistently to grow faster than other developing nations. We would echo the recent statement by the European Services Forum that for “developing and emerging economies in particular access to the world class infrastructure provided by European financial and telecommunications companies, as well as, for example, transport, logistics, water and waste management and energy related services companies and many others is crucial for their future growth and development”. In the case of our own industry, there is a wealth of evidence which demonstrates that opening up to international financial institutions makes a real contribution to development. In retail markets such firms can increase competition and choice and broaden the services menu, leveraging on their experience in a variety of other jurisdictions (both developing and mature). Restrictions on international banks’ retail operations in many developing countries are typically the result of pressure from vested interests, with the cost of such patronage falling mainly on domestic consumers and businesses. In the wholesale area too international firms are ideally placed to make a difference, for example in the development of liquid capital markets which are often essential for the financing of critical infrastructure.

12. As to policies on climate change and sustainable development, we strongly support actions to curb carbon emissions and to assist in the provision of such essential services as clear water and sustainable power. Many BBA members are deeply involved in financing such projects as well as other development friendly initiatives, including the provision of microfinance to sole traders and small businesses. There is a place for co-operation that combines elements of trade and investment liberalisation with measures to protect the environment—the extractive sector is a case in point. That said, we do not think that trade agreements should be coupled with environmental, or social, accords as a matter of course. In fact we believe that as a general rule trade liberalisation is sufficiently important to be pursued in its own right, with other public policy issues being addressed separately on their merits. First and foremost this is for practical reasons. Trade negotiations are typically challenging enough in themselves without the need to bolt on non-commercial matters which add further layers of complexity. It is inevitable that if trade talks are bundled together with broader political issues progress will be slower and the risk of failure greater, to the detriment of the developing countries concerned. Trade stimulates economic growth and the evidence suggests that as poorer countries get richer they usually invest heavily in environmental improvements.

Question 4: *Have developing countries benefited from multilateral trade agreements? What steps should European trade policy take to help less developed countries reap the benefits of global trade?*

13. We believe that the last completed multilateral trade agreement, the Uruguay Round, was beneficial for developing countries—as reflected in the rise in their share of global exports between 1995 and 2003 from 26 to 31%. It is, of course accepted that there were differing outcomes for different groups of countries. This illustrates that fact that trade openness is a necessary, but not a sufficient, condition for development. Other factors, including the willingness to embrace domestic reform and the conduct of economic policy, are also very relevant.

14. As far as banking and related services are concerned, it is considered that the best way to help less developed countries reap the benefits of global trade is to encourage them to make their financial markets more open to international firms—for the reasons set out in our response to Question 3. An important consideration here is the rapidly shifting patterns of trade and investment. We are now witnessing rapid growth in trade between emerging market economies (as opposed to more traditional trading relationships). International banks are particularly well placed to help SMEs in developing countries exploit these new opportunities. Local banks simply do not have the networks required.

15. Also, Europe must ensure that there are no unnecessary restrictions on financial firms from less developed countries doing business in the EU.

Question 5: *Is there still a need for Trade Defence Instruments, and if so, how can these be designed to ensure that their effects are targeted and proportionate?*

16. This issue is of limited relevance for banking and financial services.

Question 6: *What is the best approach for ensuring that Intellectual Property Rights are protected? Do these rights hinder development goals—and, if so, how can an appropriate balance be struck?*

17. This issue is of limited relevance for banking and financial services.

Question 7: *Services represent 77% of European GDP and employment. What are the best mechanisms to remove barriers to trade in services? Is the GATS still fit for purpose?*

18. As the question notes, services account for almost 80% of European GDP and employment—and services exports globally are growing more rapidly than trade in goods. This should make the sector a top priority for the EU in international trade negotiations. The fact that little progress appears to have been made on services in the DDR discussions is therefore deeply disappointing. Whilst appreciating the difficult negotiating environment and the obstacles facing EU negotiators, it is considered that a materially greater level of ambition is essential for the services discussions.

19. One of the difficulties in achieving further liberalisation on services concerns the nature of existing barriers. Unlike NAMA, where it is possible to agree a single across the board formula for tariff reductions, service industries such as banking face a plethora of different restrictions, particularly in emerging markets, which need to be addressed in detail on a case by case basis. Such detailed consideration has not been accorded any political priority in the DDR.

20. As noted, we believe the Commission was right to launch the FTA discussions last year alongside the DDR negotiations. In the prevailing circumstances all avenues have to be pursued. Despite their “second best” status, bilateral trade talks have a number of obvious merits. Not only are they less cumbersome and time consuming than the multilateral channel but they also allow for greater focus and prioritisation both in regard to specific trading partners and key offensive interests. There is also evidence that major emerging markets are sometimes more comfortable with such specific deals rather than global WTO settlements.

21. We also attach great importance to the regulatory dialogues that the Commission is having with the authorities in a number of jurisdictions (including the US, China and India). In the case of financial services, restrictions rationalised on prudential or other regulatory grounds can be just as damaging as overt trade barriers in limiting the business opportunities open to European firms in many foreign markets. In some cases the restrictions in question are little more than thinly veiled protectionism but in others they do reflect genuine (if sometimes misguided) regulatory concerns. As the EU-US Transatlantic Dialogue has illustrated, provided there is goodwill on both sides the dialogues can offer considerable scope for constructive engagement.

22. As to whether GATS is still fit for purpose, we refer to our observations on Question 1. Despite the difficulties being faced in the current WTO discussions, we think it would be a serious mistake to give up on the multilateral route to further liberalisation going forward. That said, it is recognised that if the DDR effectively ends in failure, it could be quite some time before the players involved could summon the energy and enthusiasm to try again. As matters stand, there is already a sense of frustration in the financial services industry that the time devoted to the trade agenda has not so far yielded tangible results.

23. Clearly the key problems for the DDR have arisen with the substance of the negotiations. But with over 150 countries now members of the WTO there have also been major logistic challenges. Once the dust has settled after the DDR it may be worthwhile to review the structure and process for multilateral trade negotiations to explore the scope for efficiency gains that might facilitate progress on substance.

Question 8: *Is there still a role for the WTO in the 21st Century?*

24. Following on from the above, we consider there is still an important role for the WTO.

25. Also, it should not be forgotten that in addition to facilitating multilateral trade negotiations the WTO has other important functions: trade dispute resolution, overseeing implementation of trade agreements, technical assistance and training, and research and analysis.

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Examination of Witnesses

Witnesses: MR JOHN COOKE, International Financial Services London and MR ROGER BROWN, British Bankers' Association, examined.

Q296 Chairman: Welcome, Mr Cooke and Mr Brown. I ought to issue the conventional warning. You are on the air; you are being broadcast throughout but you will get a transcript of whatever you say so that any infelicities can be revisited. We always ask witnesses whether they would like to make an opening statement or whether they would like us just to launch into questions—it is your choice.

Mr Cooke: We felt that we had given you written evidence, so we are quite happy to be launched into questions.

Q297 Chairman: Thank you very much. In which case, I will start. Nobody has told us a great deal about services so far, really because progress on services has not been enormously strong, so we are particularly interested in how you see the prospects right up to date for liberalisation of trade in services? In short, where do you think we are in the negotiations; do you remain hopeful or do you think it is very difficult? And why do you think that the progress has been so appallingly slow?

Mr Brown: I think there are two main elements to this. First of all, there is the state of the Round generally and, as we all know, it has been slow, it has been difficult and the outcome is uncertain, and that is true for services as for the rest of it; and we will need to see what happens at the Ministerial, which has been called for 21 July. I understand that they are going to devote at least one day, possibly more, to a services signalling exercise. But services has been dragged down by the general problems with the Round. The other element is that services has been very much overshadowed by NAMA and agriculture, despite the fact that services accounts for over 70 per cent of European GDP and offers the greatest prospects for welfare gains. It was decided that agricultural tariffs, subsidies and industrial tariffs were the gateway issues and that services would be slotted in later. So the fact is that in the Doha process there has been very little serious negotiation on services; so you have the general problem and that specific difficulty.

Mr Cooke: I would add two things to that. One is that in general I see the prospects for liberalisation of trade in services as quite good. Leaving aside the Doha Round a lot of countries have been and are gradually liberalising trade in services and see good reason to do so. Certain services like financial services are part of the bedrock infrastructure for economic growth and they see the need to gradually liberalise those. As for the difficulties in the Doha Round, I think—particularly if you have not yet been introduced much to the question of negotiations on trade and services—it needs to be recognised that

negotiating liberalisation of services is simply much more difficult than negotiating liberalisation of trade in goods. With trade in goods the negotiations in the many past GATT round negotiations have been about tariff reductions. There are two things about that. One is that there can be a calculus if you reduce the tariff by X per cent do you expect to increase trade by Y per cent? So it is possible for countries to take a view of what they are offering and what they expect to get in return in terms of trade. Negotiating on services is not subject to any kind of formulae or calculus of that kind; one is really negotiating about regulatory barriers to free trade in services and these regulatory barriers are parts of countries' domestic regulation; they can be politically sensitive legislative issues so they are completely different prospects to negotiate. With that, I think, goes the fact that the domestic regulators who have to be involved in each country in liberalising trade in services may be marching to a completely different drum—different timing from the trade negotiators in Geneva—so that any country that is participating in such a negotiation has quite a difficulty in rallying its own forces to produce results that involve trade ministers, other ministers, regulators and so on in a timescale that leads to making an offer in a negotiation.

Q298 Chairman: Are you saying to us that the prospects for liberalisation in the Doha Round may not be that great, but the prospects generally for the liberalisation at least of financial services are better?

Mr Cooke: I think in the long run that they are positive, yes. I am also hopeful about the Doha Round.

Q299 Lord Moser: If I may, is there also a problem about the data, the statistics on services being less hard? Are you implying that it is a slightly more wishy-washy area for negotiation data on services, or are you not implying that?

Mr Cooke: I think the data has always been more difficult to assemble.

Q300 Lord Moser: That is what I am implying.

Mr Cooke: And the data on services flows, whether it is cross-border services, financial services via one country to another, or whether it is financial services provided at a retail level by a subsidiary of a firm from one country in another country—there is a lot of intra-corporate transfers and so on that get involved in the statistics. So, yes, for that reason too, any country has a problem trying to make a calculation of, if you like, what concession by another country will yield what increased trade flow in services.

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Q301 Lord Watson of Richmond: I am interested, Mr Cooke, in the relationship as you see it practically between trade negotiations and financial services negotiations. You seemed to imply earlier on in your remarks that countries may wish to use concessions or gains on financial services as a bargaining counter within the wider trade negotiations; is that the reality?

Mr Cooke: It is certainly the theory of a WTO round in which there are many different bargaining chips in many sectors. Whether it is the reality I think is a much more difficult question, partly for the reasons that I have already given that the different areas of negotiation—and indeed as Roger Brown has said—have proceeded at different paces. So it is not at all an easy question to answer. We thought, for instance, when we had a negotiation that was confined to financial services that led to the Fifth Protocol to the GATS how much easier it would be if such a negotiation could take place as part of a wider round. In practice it has not proved that much easier; we have found ourselves held hostage to agricultural and non-agricultural market access. So you are right, it is very difficult. I do not know whether Roger Brown has more to say.

Mr Brown: I agree with that and also the fact that you have two types of dialogues; you have the international regulatory dialogues, which would be DG Markt and the trade with DG Trade, and I think in fact it is fair to say that the Commission are pretty joined-up, and that is clearly very important because a lot of the ostensible trade barriers are in fact regulatory barriers. But we work closely with the Commission and we think that they are doing a good job there.

Q302 Lord Haskins: Following on from Lord Watson's point, in goods we constantly measure the benefit and dis-benefits of any movement in WTO and clearly there are big trade-offs on that. In the case of services you have to go through the same exercise; in other words, you have to demonstrate the benefit or, a person who does not agree with you, a dis-benefit. Would you like to summarise the sorts of benefits liberalisation of services would apply right across the piece?

Mr Cooke: I think the arguments about the benefits that come from liberalised trade apply as much to services as to goods. The classic argument is about comparative advantage range of choice for consumers, and the efficiency gains that there are from freer trade in services. But I think it is much more difficult to say that a particular result of a negotiation is likely to lead to a particular increase or, for that matter, decrease in services. In goods there tends to be a fairly well-established economic theory—I am not an authority on tariffs and optimum tariffs—there is a good body of theory that

governs expectations of whether if a tariff is reduced you can expect your exports to the country reducing the tariff to rise. I think there are two difficulties about services. One is that it is that it is more difficult to be sure that you have actually removed a regulatory barrier in services, partly because the removal of one regulatory barrier may actually reveal another, such as tax or something, which had not previously been taken so much into account (and countries may find it very difficult themselves to judge whether they have removed a barrier). The other is that it takes longer to see a result; one is not just dealing with a trade flow across the border, but also with commercial decisions of particular enterprises as to whether to set up a retail subsidiary in another market, or to offer wholesale financial services cross-border. So the results take longer to show.

Q303 Lord Haskins: Is this not foot dragging because in the EU itself in this particular area the evidence on this is that actually getting a single market to work in services has proved much more difficult than getting it to work in goods; therefore, you almost despair of the WTO making progress.

Mr Brown: If I could interject briefly? One of the most important elements of the debate for us is getting better access for European financial institutions, for example in emerging markets, and we believe—and we think there is a lot of evidence to support it—that having international institutions in those developing countries is good for them domestically, and the recent World Bank Report came to a similar conclusion. It is things like increasing the access to finance to credit constrained firms and households, expanding the range of services, providing a spur to competition as domestic banks have to compete with foreign entrants; and there is evidence that where international banks are present that interest rates margins decline. I know it is a long and complex debate but that is the thrust of where we are coming from and we believe that there are major benefits for those countries.

Q304 Chairman: Could I pick up a quick supplementary? You said that 70 per cent of European GDP is in services. Do you know how much of that is financial services?

Mr Brown: I think we will have to come back on that.¹

Q305 Chairman: I would be grateful because it is one of those useful facts.

Mr Cooke: For the UK it is about 10 per cent, not of the 70.

¹ *Note by Witness:* Financial Services' share of EU GDP in 2006 was 5.8%.

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Q306 Lord Trimble: In your evidence you note in the last decade there have been some 200 regional trade agreements that have been notified and of the original trade agreements that are currently in operation something like 140 are purely bilateral. How do you account for the growth in bilateral and regional trade agreements? Are we going to see more of these now than of the multilateral universal rounds?

Mr Cooke: It is a very good question. There are three ways in which one could account for them. One is the slowness of the multilateral process. Another great restraint on the multilateral process is the unwillingness of a good number of countries to give completely across-the-board Most Favoured Nation concessions because of their fears of competition from the most competitive of the hugely growing emerging markets: that is the second reason. The third reason is the wish to establish bilateral relationships: and that, I think, is more complicated. On the one hand it is asserted that large and powerful trading partners, for instance the United States, are moving countries into having such agreements. On the other hand, there is a certain amount of evidence that small countries actually wish to protect themselves against the protectionism of larger trading partners by taking the initiative in offering themselves for such agreements. So I think there is quite a range of circumstances and motivations at work.

Q307 Lord Trimble: With the difficulties that were discussed a moment ago in just identifying barriers and identifying the benefits that come, would they be another factor too why people prefer to move on a more modest bilateral or regional basis?

Mr Brown: Certainly the industry provides the UK Government and European Commission country by country with a list of the barriers that, *de facto*, make a difference. So we feel that negotiators are aware of our concerns of, as I said, what would make a difference.

Q308 Lord Trimble: You mentioned earlier that what appear to be barriers are very often regulatory matters. There does seem to be a certain convergence taking place with regard to regulation; is that a way in which the problems can be resolved?

Mr Brown: I think it can certainly help and I draw a distinction between convergence and harmonisation on the one hand and liberalisation. It is a fact that many international banks do operate in a variety of jurisdictions which have different rules; it would be better for them if they were more converged, but the banks can cope with that. What the banks object to is where there is overt discrimination in the treatment of the foreign firms. So that is really the main barrier

to get over, but certainly more convergence would be nice to have.

Mr Cooke: Put another way, you could have at a theoretical level total convergence of regulatory principles and practices, while at the same time maintaining discrimination against foreigners or not liberalising market access. That does not often happen because the purpose of convergence is usually to free up market access. But it points up the difference between regulatory convergence and trade negotiations on market access.

Q309 Chairman: What, in both your view, would “good” look like in terms of an outcome to the Doha Round in relation to liberalisation of services? What, as it were, would you regard as satisfactory to good?

Mr Brown: I think if we could get (a) binding of existing market openings and (b) material new market access opportunities. Essentially, I suppose, we are looking for something that would be on a par with the sort of progress that hopefully would be made in agriculture and NAMA.

Mr Cooke: Logically in some ways it has to be on something of a par, because it is not easy to imagine a settlement on agriculture being acceptable to certain countries unless it is matched by some concessions on services at a level that can be recognised as comparable. But I would agree with Roger Brown that whatever level of ambition proves to be possible the two elements would be binding of existing liberalisation plus something genuinely new.

Q310 Chairman: The other question that is close to my heart, which I wish to sweep up at this point, is are we confident that the unique interests of the City of London are being considered and discussed with trade partners and the WTO?

Mr Brown: I think from our perspective we do not think that enough attention has been devoted to services, clearly. As I said before, services accounts for close to 80 per cent of European GDP and employment and we think that this should be reflected in the positioning of the EU in trade talks and that has not happened. We recognise that it is a very difficult negotiating environment, but nevertheless we would like to see a greater level of ambition. That is not, let me add, a criticism of the European Commission—I mentioned before that we work closely with them and have a good relationship with them—it is rather the broader European political situation and the, we would say, excessive emphasis on agriculture.

Mr Cooke: I agree with everything that Roger Brown has said. It is very regrettable that in the Doha Round as a whole there has not been enough attention to what is the biggest part of world GDP. If by your question you meant “Does the EU pay enough attention to the interests of the City and recognise

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them for all financial services in the UK as a whole?" I think that within those constraints, yes, it does. I think we have made a good deal of progress in getting it recognised in the European institutions that the UK interest in financial services is very important to the overall EU negotiating position, and that the City of London and the financial services hub that it is, is an EU resource. That is much more readily recognised than it was, say, 10 years ago.

Q311 Lord Moser: In your written evidence—this is from IFSL—you say that the primary objective of European trade policy must be to promote economic growth and prosperity, and then you refer to effects on domestic welfare and so on, which is obviously incredibly important, and in all the evidence we get it is always the macro judgment of the benefits. Can you talk a bit about the benefits or otherwise from the point of view of the labour situation, the labour markets? Can one say, not from economic growth but from the point of view of enhancing the situation of domestic labour markets it is always good news for any kind of country? And also from the point of view of migration? I do not know how much we know about the specific effects on labour?

Mr Cooke: It is clearly a very difficult question. At one level it is impossible, I think, to say that the immediate effect of trade liberalisation on a domestic labour market must be good. People may obviously lose jobs if sectors become open to increased competition and have to find new jobs. I do not want to sound unsympathetic at all about that; one of the difficulties in this area, which is always reflected, I think, in the domestic debate on international trade, is that the prospect of job losses and the sectors in which they will occur is always much more apparent in the short term than the prospect of job gains in new sectors over the longer term.

Q312 Chairman: But some financial services jobs must by their nature be new altogether. I suppose I am trying to direct the question towards financial services.

Mr Cooke: It is a general economic question.

Q313 Lord Moser: Being a bit more specific.

Mr Cooke: On financial services, yes, there are a great number of new jobs. I think there are also jobs that with globalisation move to other countries, in the form of call centres and so on. Roger Brown may have more experience of this from the banking side.

Mr Brown: Yes, one can point to examples where having foreign firms in gingers up that industry—more trading opportunities, et cetera. It is important to note, I think, that many jurisdictions in Asia have ambitions to become international financial centres or at least regional centres and to do that they do need international firms to be based there.

Q314 Chairman: We do not know a lot about levels of migration. There was a certain amount of evidence at some earlier stage in this inquiry that financial services, for instance, arriving in Africa enabled growth in a way that probably nothing else did in the simple terms that people could borrow money for the first time.

Mr Brown: Very much so, yes. A number of our members have been instrumental in developing micro finance, initially in Asia but also in Africa, and the more access they get, the fewer restrictions on branches, the more of that they can do.

Q315 Lord Moser: My interest as a statistician is in what are the best criteria for judging whether something is good news or bad news? So more trade, liberalisation in financial services trade—good news, bad news? We are assuming it is good news because, to quote you again, it is good for economic growth; and is that the way you would want to leave it with us? That is the way to judge it, which means GNP per head.

Mr Brown: It is a good proxy and there are a variety of studies, a number of which were referred to in the IFSL research, which show that the relationship between financial services liberalisation and economic growth is positive. So one could take various metrics but I think economic growth is a good place to start.

Q316 Lord Watson of Richmond: Approaching this from a slightly different angle, when people discuss globalisation and where it is going and what its likely shape is to be, an important part of that is the judgment as to where major new financial centres will coalesce, and will they be rivals, what will the role be that they play? So discussions about Shanghai and all sorts of other places. Do you believe there is a relationship between multilateral financial services agreements and the development of new financial centres?

Mr Cooke: Gosh! Between multilateral agreements and their development? I am really not sure about that. I see a much stronger relationship between the development of regional financial centres and the steps taken by the host countries of those centres. I think it is interesting to look at India—

Q317 Lord Watson of Richmond: Relating to tax and other things?

Mr Cooke: Relating to tax and particularly to not having the kind of false segmentation between one financial service and another. In India a lot of work has been done on this in relation to Mumbai and its development as a financial services centre. The Mistry Report and the Rajan Report have both in

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different ways focused on this, and in particular I think they have focused on the fact that if domestic regulation leads to segmentation of what ought to be a seamless financial services market and range of financial services instruments it is more difficult than otherwise—

Q318 Lord Watson of Richmond: Because it is much harder to reach a kind of critical mass?

Mr Cooke: It is difficult to reach a critical mass and also it is difficult for participating firms to perhaps offer the full range of services they would wish to offer.

Q319 Lord Watson of Richmond: The controversial area inevitably is the role that financial services in practice can play in the acceleration of economic development with particularly rather poor developing countries being fearful and others being more ambitious. So my first question under this heading for you would be how rapidly in your view should less developed countries be asked to open their markets to international organisations? How much should the argument be made? In particular, what about the position of the most vulnerable—the smallest and the poorest?

Mr Cooke: I do not think there is any one answer to “how rapidly?” It is clear, I think, that market liberalisation of financial services has proved to be a component in many successful developed and developing countries, but everything depends critically on local circumstances. I do not think that we would ever argue that in all circumstances liberalisation has to be right. We, I think, would always take the view that there needs to be what is called sequencing; that before a financial services market can be opened—certainly a retail financial services market for ordinary consumers as against a wholesale one for business clients—there needs to be in place an efficient law of contract, a reasonable law of property if people are taking out a loan and offering property as a security on it. There needs, of course, to be a level of financial sophistication among consumers—not necessarily a high level, it depends on the kind of financial service that is being offered. If it is micro-finance the contractual relationship may be fairly easy to understand. If it is some very complicated instrument it will be more difficult. So we do very much see that all of those features need to be present or be developed, and I think in the line that we have taken we have always tended to be descriptive rather than prescriptive—we describe what has worked for us, or in our IFSL research what appears to work for certain countries, but we do not say, “You must do this.”

Q320 Lord Watson of Richmond: Do you also describe, though, what has not worked? When you were laying out just now the conditions for successful services—particularly retail financial services—I was thinking of the development of the equities market in China where people were clearly buying vast number of shares without having the resource or the knowledge. In your descriptive approach are you willing to warn?

Mr Cooke: Willing to warn?

Q321 Lord Watson of Richmond: Yes.

Mr Cooke: I think definitely, yes.

Q322 Lord Watson of Richmond: And are your warnings heeded?

Mr Cooke: That is always much more difficult to judge. Do you have a view on that, Roger?

Mr Brown: I think it is interesting to look at the international institutions that do advise emerging economies—the World Bank and the IMF. They clearly have an important role to play and I think that lessons have been learned in addition to the points that John made; we also need an effective regulatory structure in those countries, before they liberalise too far, as part of the sequencing process. Certainly for some of the less developed countries you will find that organisations like the Financial Services Authority do a fair amount of work with local regulators, so I think they are playing a role as well. But I think it is important not to underestimate the importance of a sound regulatory structure.

Q323 Lord Watson of Richmond: Is there real evidence now, after quite a long period of high volatility in the financial markets, that that very volatility is making particularly smaller and less well off countries more cautious?

Mr Brown: I think it is something that will be on their radar screen; it would be strange if it was not. My own feeling is that the benefits of liberalisation are becoming increasingly apparent. I mentioned the recent World Bank study and the other point I would make is I think that regulators and politicians in those countries can take some reassurance from the response to the troubles we have had in the financial markets. In the banking system we have seen significant de-leveraging; we have seen re-pricing of risk; we have seen strengthening of balance sheets, and I think at the end of the day though it is a very uncomfortable period this should put the international financial system in a better place. As well, of course, as the many initiatives of organisations like IOSCO, the Financial Stability Forum, and in particular the Basel Committee.

Q324 Lord Watson of Richmond: So stronger coming out of this than we were?

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Mr Brown: We hope so, yes.

Mr Cooke: Just a factor to add to that is that over the last decade or so some of the international regulatory institutions are in a quite different place from where they were 10 years ago. For instance in the area of insurance, the International Association of Insurance Supervisors is now a completely open and multilateral body in which any country's supervisory authority can take part. That is quite a strong instrument for not just sharing best practice—that phrase that is always used—but also for genuine debate in which supervisory authorities in emerging markets are able to interact with colleagues in much more developed ones and actually discuss methods that work best.

Lord Watson of Richmond: It is quite enjoyable to be given an upside on the present situation—not many people do!

Q325 Lord Haskins: Are you actually saying that liberalisation of financial services adds to financial stability or reduces instability, so that actually we should be pressing on more vigorously because of the circumstances in which we are now?

Mr Brown: I know that one of the studies that John's research compendium referred to does examine that question and John will probably know better but I think a brief summary would be that liberalisation can cause more volatility in the short term, but in the medium and the long term it reduces volatility and there are some numbers there that give the extent of that.

Q326 Lord Watson of Richmond: You were saying earlier, Mr Cooke, that your approach is descriptive rather than prescriptive. What organisations, either private or public, are really in play to advise developing countries, particularly weaker developing countries on the pace at which they should move?

Mr Cooke: There are quite a number—the IMF: the World Bank: OECD has an outreach programme; the European Commission does work in this area, particularly towards candidates for accession to the EU; there are other bodies that do so. The ways in which they work tend to vary; sometimes they second staff to a country or a central bank and at other times they employ private consultants to undertake a whole range of activities—workshops for middle-ranking regulators to acquaint them with, say, European practice.

Q327 Lord Watson of Richmond: Clearly critical to this is if a meaningful dialogue is going to take place then there have to be the people on the other end in a poor and developing country who will fully be able to comprehend what they are actually being told.

Mr Cooke: Yes.

Q328 Lord Watson of Richmond: How do you ensure that that happens without, in effect, usurping the decision-making process on the other side?

Mr Cooke: It is partly by ensuring knowledge-transfer and I think for the least developed countries this is always difficult because their resources are so limited. For developing but not least developed countries there is certainly knowledge to be transferred and an increasing number of recipients to transfer it to.

Q329 Lord Watson of Richmond: And this is happening?

Mr Cooke: This is happening. Turning to the other part of your question about usurping their own decision-taking, I cannot think of an example where advisers—perhaps I am on dangerous ground here—I do not think I can think of an example where advisers have usurped local decision-taking. We certainly would not wish, I think, for there to be any instruments by which local decision-takers were forced into or had pressure put on them to do things they did not wish to do.

Mr Brown: I think a lot of European regulators and US regulators and central banks will often second someone to developing countries and the idea basically is to help and to say, "This is how we do it and this is why we do it." It is a process of education. But I do not think that those secondees or their masters would seek to usurp local decision making.

Q330 Lord Watson of Richmond: It requires a certain cultural sensitivity?

Mr Brown: Quite right.

Q331 Lord Haskins: Mine is an apocalyptic doomsday question, which I am not sure that I want to ask, but the question is: is there a future for the WTO going forward in the 21st century? This is against a background of, I can only conclude, in the great depression of the 1930s the world moved towards protectionism, with disastrous results, and one of the great achievements was the creation of GATT and probably this underpinned a huge amount of prosperity of the world in the last 60 years. Are we at a real crisis or is this just newspaper headlines when we get American presidential candidates questioning a lot of the fundamentals about global free trade, and French and German Presidents making noises which are of this sort. Are we really at a crisis that might make the whole WTO process irrelevant in the 21st century, or is this just a blip?

Mr Brown: The mutterings we are hearing on protectionism, dressed up in other words sometimes, are concerning. As you say, we saw the result of what

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happened in the 1930s and we hope that wiser counsels prevail. I think the UK is in a good place on this; you find that the UK Government and the private sector, certainly the City of London, lose no opportunity to talk up the importance of free trade. With regard to the WTO, we certainly think that the WTO does have an important role to play for all sorts of reasons. At the same time we believe that there are complementary channels, including the bilaterals and the international regulatory dialogues, but even if the outcome of Doha is not as we would wish we think it would be a mistake to give up on the multilateral route because of the massive welfare gains it can bring.

Q332 Lord Haskins: There has been a huge growth in multinational companies, particularly in financial services, and I always remember Denis Healey many years ago saying that governments were no longer going to be able to control the financial flows, it was all going to be in the hands of these great financial organisations, and he said that 20 years ago. Is there any truth in that forecast? Is the current crisis a result of big multinational companies moving their business around the world in a reckless way that has got us into some of these difficulties that protectionists might point to?

Mr Brown: My personal view would be no, that that has not been the case. It will be interesting as we see India and China growing and becoming—they are important already—even more important on the world economic scene, there will be more multinationals from those countries, and one would hope that in that situation this would underline the mutual interest in freer trade.

Q333 Lord Haskins: The fact that Barclays now are quite happy to have a Chinese partner taking up a big chunk of their equity, is that the world that we are going to see in the future, that Chinese companies are going to own big chunks of American banks, which I understand that the American Government would be quite relaxed about because of the crisis they are in at the present time?

Mr Brown: Certainly the various wealth vehicles from Asia and elsewhere are taking stakes in European and US companies and it is happening very much in the financial sector, and I think that is recycling. That is good, it shows that our markets are open and hopefully will encourage liberalisation in other jurisdictions. Our members who have, for example, sovereign wealth fund investors, say that they are extremely supportive shareholders, and the UK authorities and the BBA in the debate on sovereign wealth funds have always felt that it would be wrong and self-defeating to impose arbitrary restrictions on them.

Q334 Lord Haskins: But you might argue that, for example, an American bank with a lot of employees in London would choose to fire the employees in London before they would fire the employees in New York; is there any evidence that that is happening?

Mr Brown: I think it would be a commercial decision based on the balance of the business of the firm, to be honest.

Mr Cooke: If I can just come back to your doom-laden question about the future of the WTO and so on, I think there are some definite questions about what the future multilateral structure needs to look like. The answers that Roger Brown has given illustrate the difficulty that any country has in understanding what is happening to it in the global economy. The GATT was largely built on the idea of individual countries with jurisdictions out of which or into which goods flowed across borders. I think what we are now seeing is a change. It is a good thing that the WTO has grown in size; it is a good thing that developing countries are participating so much more in the decisions on trade than they were. But of course the increase in size of the WTO has made the multilateral process much more unwieldy to manage; and it is interesting that some of the biggest liberalisation dividends that the WTO has produced have been from accessions—notably the accession of China, which was the biggest liberalisation of a big country ever, I would say, and the gains from that. So there is to my mind a question what will be the future direction here? Will the WTO become a very large institution binding in a great many members and responsible for maintaining the rules-based system rather than the instigator of major new liberalisation initiatives through multilateral negotiations? I do not have an answer to that but managing the process as the organisation has grown in size is challenging.

Q335 Lord Haskins: Is it manageable?

Mr Cooke: Is it manageable? Yes, we do not yet despair of the Doha Round. There are aspects to the WTO's future management that perhaps will need attention. For instance, the Secretariat has been very much the facilitator of whatever the Member States wish to do in the WTO rather than an initiator itself. It may be that as an organisation gets very big that is no longer a possible balance and we will need some change.

Q336 Lord Watson of Richmond: There is a fascinating comparison, is there not, for the development of the European Union?

Mr Cooke: A Reform Treaty for the WTO?

Lord Watson of Richmond: Absolutely, yes.

Q337 Chairman: There are a couple of questions that I am very much left with, having read your papers. There are some sectors where if the present

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Mr John Cooke and Mr Roger Brown

Doha Round collapses it is very difficult to see how progress can be made. I have the impression from your papers and from the tenor of your answers that were the Doha Round not to turn out particularly promising at a minimum level you are still very hopeful about the future for liberalisation of financial services. Is this right or am I putting words in your mouth?

Mr Cooke: Personally I feel that the arguments for liberalising financial services as a key part of the infrastructure for economic development, will remain—certainly the arguments for developing financial services, and, as financial services tend to be capital intensive, I think that will mean liberalisation so that inward investment can be attracted from richer markets to developing ones. But of course if Doha fails one of the principal losses will be that agricultural reform—which, whatever its deficiencies is already tied in to the various offers from the EU and the United States—will come back off the table. That of course could lead to a situation where, rightly or wrongly, certain countries might say, “We failed to secure any liberalisation of agriculture, so we will not liberalise our financial services markets.” In Ricardian terms I think that is to cut off one’s nose to spite one’s face, but it is a possible reaction.

Q338 Chairman: I suppose what I am fishing for, there have been some suggestions in our evidence that the Doha Round, whether a failure or a success, may be the last time that people can tackle a multilateral negotiation with 152 countries, and that the way forward will have to be other bilateral regional trade agreements. Do you share that view? Or if the WTO did not exist how would financial services be doing in terms of liberalisation? I have this feeling, particularly in banking, that we may be talking about a special, rather different sector from some others, either of services or indeed of goods and agricultural.

Mr Brown: I think the fact that in financial services so many of the barriers are regulatory and there are both bilateral and multilateral debates on convergence and related matters, and that in itself holds out some hope for financial services making quite reasonable progress even in the absence of a more general multilateral trade round.

Q339 Chairman: Largely, of course, Mr Cooke’s argument that if the agricultural round fails people may be less inclined to liberalise financial services?

Mr Brown: That is quite possible; I would agree.

Q340 Lord Watson of Richmond: If I may, I think the question that you have put has not entirely been answered. Is Doha in your judgment the last time that this huge organisation can attempt a negotiation of this kind? In other words, would there be a successor to a failed Doha or would we be into different methodology and different formats?

Mr Cooke: A successor to a failed Doha?

Q341 Chairman: We are asking everybody this.

Mr Brown: I would say that certain lessons would need to be learned. With Doha you have two types of issues; you have the negotiating substance and you have the logistics and I think everyone recognises that the logistics are difficult and one would expect that even if Doha was successful it may be that they would want to look at the architecture of multilateral discussions. It is not an easy one; nobody has a ready made solution.

Q342 Lord Watson of Richmond: There is no blueprint.

Mr Brown: But I am sure a lot of thought will go into that.

Mr Cooke: I think personally that there would in the long run be multilateral rounds—but just how big would their scope be? I think issues will build up where countries begin to say in discussions “it would be worth having a round about these”. What I think would not happen will be another development round because I think that has been extremely difficult to deal with and has led developing countries to suppose that they need not be involved—that they need only offer best endeavours undertakings or need not liberalise—when in fact the benefits for development may come with liberalisation. So there is an internal contradiction in terms in the phrase “development round”.

Q343 Chairman: Yes, we have met that argument. Thank you very much both of you, it was most interesting and very helpful. I should have started by reminding Members and witnesses alike that I am on the Board of the London Stock Exchange, but at least let me do it now. We are not much involved in development rounds, but certainly my question as to whether the City’s interests are being protected should have been prefaced.

Mr Cooke: We were aware!

Chairman: It is on all published lists but I should have reminded you formally.

THURSDAY 10 JULY 2008

Present	Cohen of Pimlico, B (Chairman)	Moser, L
	Haskins, L	Trimble, L
	Kerr of Kinlochard, L	Woolmer of Leeds, L
	Maclennan of Rogart, L	

Memorandum by International Trade Centre

Please refer to your letter dated 30 November 2007 calling for the written evidence as part of the inquiry on the European Trade Policy being conducted by the House of Lords, European Union Committee.

The International Trade Centre (ITC) is the technical cooperation agency of the United Nations Conference on Trade and Development (UNCTAD) and the World Trade Organization (WTO) for business aspects of trade development.

ITC's three objectives are (i) to strengthen the international competitiveness of enterprises; (ii) to develop the capacity of trade service providers to support businesses and, (iii) to support policy-makers in integrating the business sector into the global economy.

ITC's responses to the questions asked in the public call for evidence have been provided from the vantage point of view and interests of the small exporting enterprises of developing countries.

INQUIRY INTO EUROPEAN TRADE POLICY

ITC INPUTS¹

Q1. What are the future prospects for the multilateral trade negotiations? What effect will the rising number of bilateral agreements have on the existence and further development of multilateral agreements?

1. The hallmark of multilateral trade negotiations in GATT/WTO has been the exchange of reciprocal trade concessions amongst members. The degree of reciprocity is roughly aligned to the size of the market and the stage of development of Members. As a result, the concessions made by developing and least developed Members reflect less than full reciprocity to the concessions made by developed Members.

2. The Doha Development Agenda (DDA) has not progressed well because of the mismatch between the demands of all developed countries for tariff cuts on industrial products, which are driven up by the extent of unilateral reform in developing countries and the political economy considerations in developing countries. Moreover, the agriculture trade negotiating strategies pursued by the United States² (US) of balancing their interests between concessions on domestic support with the gains on market access is not politically viable in their major developing country trading partners and even perceived as unfair.³ In reaction, developing countries have questioned the extent and relevance of concessions promised by US and EU in agriculture and perception has gained ground that the principle of less than full reciprocity has been jettisoned. These positions on exchange of reciprocity of trade concessions have trapped the DDA in the vicious circle resulting in lack or slow progress of the round. Least developed countries are out of the equation of reciprocity, as they are not obliged to undertake major commitments. Many of them will, however, experience erosion in preferential trading margins. Aid for trade initiative is expected to respond to their call for assistance on trade development to help them integrate in the global economy.

3. Favourable developments in the global economy and the projections of minimal additional contribution to the global economy by the expected outcome of DDA has made Members reluctant to put extra negotiating capital behind these negotiations. Robust agriculture commodity prices may further dampen the motivation to conclude DDA rapidly.

¹ The views reflected in this note are based on the comments made by private sector representatives in the various ITC sponsored public – private dialogues.

² The US Government's agriculture negotiating strategy is that it seeks much greater market access abroad for US farmers and in return US farmers would have to accept lower levels of domestic support.

³ Governments of many developing countries including India, China and Indonesia fear for different reasons that substantial lowering of agricultural tariffs will put overly large and unfair burden of adjustment on their poor peasantry.

4. However, the relevance of the WTO in providing stability to the international relations in the field of trade and keeping the protectionist sentiments in check have driven Members to continue to strive for conclusion of the negotiations. Therefore, as soon as some of the political economy considerations change, and other parameters that determine international trade relations turn favourable; Members are expected to seriously engage in these negotiations.

5. Leaving aside the yet inconclusive debate, whether bilateral/regional agreements are trade creating or trade diverting, the following description summarises the views expressed by private sector representatives in our engagements with them on the reasons for rise in number of bilateral agreements and their effect on the existence and further development of multilateral agreements:

- (i) Bilateral/Regional agreements, such as, the US African Growth and Opportunities Act (AGOA) and US FTAs with some Central American countries have been concluded in reaction to the implementation of WTO agreements (the end of textiles quotas). One of their objectives is to maintain some preferential access to beneficiary countries.
- (ii) The preferential trade arrangement between the European Union and Asia, Pacific and Caribbean (ACP) countries is a well-known feature of international trade. The ongoing negotiations on Economic Partnership Agreements (EPAs) are attempting to align this historical relationship with the multilateral trading system, though many ACP countries are concerned about the reciprocity demanded of them.
- (iii) Regional integration in East and South East Asia is proceeding quite rapidly independent of the progress in multilateral negotiations,—as they are mainly concerned with facilitating integrated production through “components trade” and finished products destined for exports. The access of finished products to other parts of the World continues to be dependent on the WTO system. Strategies for regional integration are also being tried in many sub-regions of Africa. These are aimed at achieving enhanced competitiveness through economies of scale in production and luring foreign investments into integrated markets.
- (iv) Negotiations on bilateral agreements between EU-India, EU-ASEAN etc. are attempts mainly to go deeper into the regulatory aspects, which are not yet in the purview of the multilateral trade talks.
- (v) Some agreements truly reflect the slow progress in multilateral trade liberalisation. US-Korea and US-Singapore FTAs are some examples.

6. ITC's clients in general—the representatives of the small and medium enterprises from developing countries—favour multilateral trade negotiations as they believe that their countries can collectively negotiate a better deal at the multilateral level. They considered that the above categories of regional/bilateral agreements may not a priori pose a threat to the multilateral trading system. They can in fact be seen as building blocks of a deeper and more robust multilateral trading system as they act as a model which gives them time for adjustment before undertaking commitments at the multilateral level. Furthermore, the exporters and investors are definitely suffering from the problems caused due to varying rules of origin used in bilateral/regional agreements. They, therefore, firmly believe that the complexities caused by what is called the “noodle bowl” phenomenon will eventually lead all countries to pursue the multilateral route more vigorously.

7. In these circumstances, ITC is of the view that the governments are taking a politically easy route of bilateral/regional agreements in the short run to express their faith in the process of globalisation but at the same time respond to the adjustment needs of their private sector. They are perhaps also treading cautiously in the wake of negative perceptions about globalisation amongst some of their stakeholders.

Q2. *What role can European trade policy play to stimulate growth and create jobs in Europe?*

8. No comments.

Q3. *What should be the relationship between European trade policy and policies on development, climate change and depletion of natural resources?*

9. European Union has been increasingly focussing trade related technical assistance towards poverty reduction. Developing countries on their part are responding by striving to mainstream poverty and gender issues in their trade led development strategies. In this endeavour many developing countries are struggling to build their supply side capacities to benefit from the duty-free and quota-free market access provided under the EU's Everything but Arms (EBA) initiative and Economic Partnerships Agreements (EPAs).

10. The small exporters from these countries, however, are concerned with the rising incidence of non-tariff measures in the EU, which, in their view, nullify the benefits promised under EPA and EBA initiatives. For example, many small exporters from Swaziland reportedly opted out of the EU market as the cost of implementing increasingly stringent non-tariff measures made them un-competitive. They view any attempt to increase the regulatory requirements on environmental considerations as yet another protectionist measure aimed at preventing imports from developing countries.

11. The current debate on the issue of “food miles” in UK is a case in point. The total carbon costs associated with production of foods etc in the colder, energy intensive farming systems in Europe may, in fact, be more than the total carbon costs associated with food produced in many developing countries and transported to Europe. Therefore, any such decision, if ever taken, should be based on complete and certain scientific knowledge and not on the presumption made on the basis of incomplete knowledge. The prospect of blocking imports of air freighted organic products from Africa into U.K. prompted ITC Executive Director to react:

“Organic production in Africa has been an export success story. ITC is disappointed that the Soil Association will make it harder for African companies to enter lucrative markets. African companies and cooperatives want to trade internationally. To get value added organic foods into retail shelves, they have an overwhelming amount of standards to meet. Meeting these standards costs money -laboratories, audits and more. Too many standards will hurt African farmers”.

12. European trade policies as they impact less developed countries should not be the instrument of achieving environmental objectives. Such policies will more likely thwart the efforts being made by developing countries to get out of the vicious circle of poverty and environmental degradation. EU should rather try to achieve the environmental objectives through provision of technical and financial assistance to developing countries which will help them move to the virtuous circle of increased trade and poverty reduction leading to environmental sustainability. EU Member states may be made aware that emergence of private standards is nullifying many of their well-intentioned pro-development trade policy initiatives.

Q4. Have developing countries benefited from multilateral trade agreements? What steps should European trade policy take to help less developed countries reap the benefits of global trade?

13. Developing countries have benefited from multilateral trade agreements. Otherwise, more and more developing countries would not have clamoured to obtain the membership of WTO. Above all, the multilateral trade agreements give them the security and predictability of the international trading relations and the freedom from facing unilateral trade sanctions especially from the major markets of export interest to them. It is an open secret that developing countries find it more convenient to negotiate at the multilateral forum as it gives them strength through collective bargaining with their more powerful counterparts.

14. Some of the specific issues in European trade policy identified by the private sector in developing countries, that need to be addressed, are:

- i. The complexity of EU legislation on Sanitary and Phyto-sanitary (SPS) measures: It is alleged that the EU legislation covering SPS measures is complex and commodity based. Moreover, existing rules allow each Member State of EU to have its own SPS requirements. The complexity and variation in application in different parts of the European market put onerous financial and capacity burdens on small and medium size enterprises in developing countries to export to the European market.

Restricted rules of origin in preferential trading arrangements:

Restrictions prescribed in rules of origin of products on accumulation of “value added” across very limited number of countries or with the EU alone or prescriptions on “two or three stage conversion” in clothing sector make it difficult for the undiversified economies of developing countries to take advantage of EU’s preferential trading arrangements.

- iii. Temporary movement of natural persons to provide services: Easing of the regulations on temporary movement of service suppliers from developing countries is considered by them an important issue which has a bearing on their economic development.

15. More generally, the private sector in developing countries is of the view that A4T should be aimed at facilitating exports by small, medium and micro-enterprises and communities, especially those which benefit women and generate new jobs and incomes. In this respect, “Aid for Trade” should:

- i. Aim at helping governments to bring business interests into policy determination eg by fostering more public-private dialogue. National governments in many developing countries can do more to facilitate exports through beneficial policy and regulatory reforms.

- ii. Encourage governments to allow the private sector to participate financially and managerially, wherever appropriate, to undertake trade facilitation and infrastructure projects—the functions previously exercised exclusively by the public sector.
- iii. Assist exporting enterprises to develop business plans to (a) enhance their credibility for accessing new resources and (b) constantly enhance their products and services offers and diversify markets.
- iv. Assist small enterprises in developing clusters to enable them optimally allocate their limited financial resources and human resources to seek and supply their target markets.
- v. Assist exporting enterprises to readily access information and develop skills to utilise trade intelligence for seeking niche markets.
- vi. Assist enterprises to meet sanitary and phyto-sanitary requirements and international standards of product quality, design and packaging.
- vii. Assist the communities and informal sector to integrate into global markets by developing supply chain linkages.

Q5. Is there still a need for Trade Defence Instruments, and if so, how can these be designed to ensure that their effects are targeted and proportionate?

16. ITC programmes have revealed that small mall exporters from developing countries consider trade defence instruments applied by EU as “relatively fair” compared to the practices in some other jurisdictions. It is illustrated by use of practices, such as, the lesser-duty rule, absence of “zeroing” in calculating dumping margins, considering the overall community interest and not limiting its analysis to the impact on local producers only. However, they feel that making these rules and practices more predictable, legally certain and transparent, with simpler procedures for small and medium-sized exporters could further improve the system. Some suggestions given in this respect are: provide unambiguous definitions of important concepts, such as, community interest, “analogue country” (used as a reference to compare manufacturing cost) to improve legal certainty, enhance transparency by making more information publicly available, allow access to all relevant information including analytical documents, provide longer deadlines for submission of information and undertake review of the information asked for currently with a view to reducing the burden of providing very detailed information especially on small and medium enterprises.

Q6. What is the best approach for ensuring that Intellectual Property Rights are protected? Do these rights hinder development goals—and if so, how can an appropriate balance be struck?

17. After much debate, which at times is mired in acrimony, developing countries are striving to come to terms with the Trade Related Intellectual Property Rights (TRIPS) Agreement that was negotiated during the Uruguay Round. The concerns raised on its implications on availability of affordable medicines to the people in developing countries. was addressed through the Doha Declaration on TRIPS and Public Health and a subsequent amendment to the TRIPS Agreement. Developing countries are also seeking a clear relationship between the TRIPS Agreement and the Convention on Biological Diversity and the protection of their traditional knowledge and folklore. The best approach is that the European Trade Policy should set credible standards for addressing genuine concerns and implementing decisions already taken in WTO, such as, the TRIPS and Public Health in a manner that reflects the spirit behind these agreements. Furthermore, it is important that these decisions and such other flexibilities as are contained in the TRIPS to address concerns of developing countries are not overridden by bilateral or regional agreements between the EU and their trading partners.

Q7. Services represent 77% of European GDP and employment. What are the best mechanisms to remove barriers to trade in services? Is the GATS still fit for purpose?

18. The peculiarities of trade in services obliged WTO Members to devise a new GATS framework during the Uruguay Round. The strengths and weaknesses of GATS architecture for liberalising trade in services while maintaining the flexibility to pursue domestic policies in accordance with their national imperatives are quite well documented. Before deliberating on the changes to the GATS, which may be necessary to enhance trade in services, it is worth looking at the root cause why multilateral negotiations have not delivered to the desired extent in services:

- i. Developing countries have been reluctant to make binding commitments in the mode of supply of services requiring commercial presence (so called GATS Mode 3) in the absence of effective capacity

to implement new pro-competitive regulatory systems. The private sector in these countries is, however, pushing to introduce pro-competitive reforms in infrastructure services like banking and insurance, telecommunications, transport etc—efficient functioning of which is essential to foster competitiveness in the economy.

- ii. Developed countries have been reluctant to make commitments in reforming the domestic regulatory system in the area of temporary movement of service providers (so called GATS Mode 4) in spite of experiencing shortages of manpower in certain sectors.

19. These factors have made the principle of reciprocity in trade negotiations unworkable. Therefore, these issues should be addressed up front by providing technical assistance to less developed countries to enable them to put new pro-competitive regulatory systems in place. Since the private sector is adversely affected by inefficiencies of the existing monopolies, they should be taken as the champions for reform and their capacities built to enable them to engage in policy making with their governments.

20. The need to strike a balance between liberalising trade and keeping adequate flexibility for countries to achieve myriad policy objectives is considered especially important in services. Therefore, only evolutionary (as opposed to revolutionary) changes to the GATS architecture are likely to succeed.

Q8. Is there still a role for the WTO in the 21st Century?

21. International trade is increasing faster than the rate of output. Trends towards globalisation will increase as more and more countries are adopting strategies aimed at integrating themselves into the world markets. Therefore, economic interaction among nations will be closer than ever before. Furthermore, any cooperative arrangement in a rapidly changing trading environment will remain incomplete, which will necessitate resort to the disputes settlement mechanism. In these circumstances, the relevance of the WTO in providing stability to the international relations in the field of trade will be even more.

22. Having said that, all institutions will have to adapt to change. The WTO is already adapting to the realities of integrating the developing and transition economies in a manner that is responsive to their development perspectives. The WTO is also faced with the challenge of dealing with increasing bilateralism/regionalism. It will have to find innovative avenues to promote equity and fairness of the international trade relations by specifically focussing attention on the continued need of its smaller Members to benefit from predictability, legal certainty and transparency provided by the multilateral trading system. The negotiating agenda has continued to adapt and evolve in the face of exigencies of international trade in successive rounds. It is already possible to reflect on some of the challenges that the organisation will face in future. Efforts at reducing tariffs in the last 60 years have raised the importance of other measures that determine trade flows and conditions of competition. The so-called non-tariff or behind the border measures including private standards will assume greater prominence in future. Trade in services, which has already increased manifold in importance, will further focus attention on the need for international regulatory cooperation. Environment and climate change has attracted much attention of the international community. The discussion on amicable relationship between the objectives of international trading arrangements and environment will undoubtedly follow.

23. The issue, therefore, is not whether there is a role for the WTO in the 21st Century but how the organisation evolves itself to respond to the future challenges.

26 February 2008

Examination of Witnesses

Witnesses: Ms PATRICIA FRANCIS, Executive Secretary, and Mr RAJESH AGARWAL, International Trade Centre, examined.

Q344 Chairman: Ms Francis, Mr Agarwal, thank you so much for coming to see us, it is very good of you. This is a House of Lords inquiry for a report which means that we do take a transcript of everything that is said, but equally we send you the transcript so any infelicities can be removed. What I would like to start with, for the record, is for you to tell me a bit about the work of the ITC as well as anything else you would like to say by way of an opening statement.

Ms Francis: Thank you very much. I am very honoured to be here and very interested in the subjects that you have presented to the ITC. In fact, the outcome of your recommendations going forward will certainly have a very potent impact on our constituency, who are small and medium-sized enterprises in developing and transition economies. Clearly the ITC, which is a product of both the WTO, in its genesis the GATS, and the UN system is the third part of a process: one, policy development,

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which is done by an organisation called UNCTAD; two, which is rules-based, which is the work of the WTO; three, ours, which is implementation, which is the realisation of opportunities that have been presented as a result of the global trading system. In a nutshell, that is what ITC is about. We are about helping people to realise the business opportunities which exist in front of them. Because we are both a UN and WTO institution we are also guided by the principles of the UN and the Millennium Development Goals. In making decisions about what it is that ITC does, we qualify things that are in front of us to ensure that we focus our attention on those who have the least opportunities and where poverty is the greatest. We are currently allocating about 45 per cent of our resources to least developed countries and are trying to reach a target of 50 per cent of our expenditure to least developed countries. We focus very much on landlocked and small island developing states because those also have peculiar issues. I have provided you with a couple of documents here. Within the context of trade, ITC is very much focused on “export”. We have focused our attention not just on export, but export which has an impact and results in some kind of good. The slogan—Export Impact for Good—that the organisation holds on to and the thing that I challenge my staff with when they come forward with projects is, “Yes, but what is the outcome of this intervention? What is going to happen at the end of the day after you have spent these resources?” This document, to a large extent, speaks to what the goals and objectives of the organisation are. It talks about our role in Aid for Trade and there is a specific question on Aid for Trade so I will hold any elaboration on that for when we speak about that. We try to ensure that we are sensitive to the needs of the people we are working for, that we are providing them with solutions rather than some kinds of activities. We are focused on what are the solutions and can we understand what the real needs of our clients are. Partnering is very important for us because we are a small Geneva-based organisation and, therefore, it is only through partnerships and integration with other organisations that we can truly have an impact. We have five areas of competency or business lines, and they are: 1. Business Trade Policy. Because we are focused on small and medium-sized enterprises it is about helping the private sector to elaborate their issues in a way that can be understood by policymakers and to help them put that in a context so they can benefit from what is happening in the area of trade policy. 2. “Export Strategy” is very much about helping governments and the private sector make choices about where they place the emphasis, where the greatest levels of opportunity are, helping them to distil through a public-private dialogue how they can focus their attention and set priorities

because, generally speaking, when we go into a country, and I have just returned from the Caribbean where we were talking about EPAs, there were 22 priorities and we said, “How can we move forward on 22 fronts? I am sure we will fail. Let us see if we can focus”, it is through a process of public-private dialogue where one can come up with that. That is what export strategy is about. 3. “Trade Support Institution Strengthening”. We cannot work with every small and medium-sized enterprise in developing and transition economies so we work through what we call trade support institutions, which are trade promotion agencies and also chambers of commerce, sector associations, those kinds of organisations that have a membership or clientele. We try to ensure that once we are out of a country there is an institution which is empowered to deliver the same service that we are trying to deliver. It is about capacity building. 4. “Trade Intelligence” is where ITC started with during the GATT days and it is about the trade data, market information, market analysis, understanding trade policy and putting that in a form which allows people to make decisions on their own based on the knowledge which they are able to gather through this data which we produce and assimilate. 5. “Export Competitiveness” at the end of the day is about producing a product which can be sold in a marketplace somewhere, it is not just about production but can we actually sell it and what does it take to do that. In the rest of the brochure we talk about how we connect people and build capacity. We are thinking of the long-term benefits of the work that we do, very much focused on community-based work through linking them with other people and, of course, at the end of the day it is going to result in an impact. That would be where I would want to start. I would be happy to come back to some of these other issues as we go along.

Q345 Chairman: Thank you very much, Ms Francis. I have a couple of supplementary questions just to get sight of your organisation clearly in my mind. How many people do you have and what is your budget?

Ms Francis: We have a complement of about 250/260, mainly technical people within the organisation because we are a technical organisation. We are not a policy organisation, we are a technical organisation. Our budget from the UN and WTO, which is our regular budget, is approximately \$30 million-plus a year and then we have an additional \$30 million-plus which we raise in what we call extra budgetary resources from various donors. That is what we spend on our interventions in various countries.

Q346 Chairman: If I may just go on, what is the view in the trade and support institutions you work with of the Doha Round? How do you feel about that? The

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media is starting to say in various places we have a poor deal for the LDCs. Do you agree?

Ms Francis: In the way that the Doha Round is constructed, there is a guaranteed outcome for the LDCs basically, so regardless of what happens one could say that perhaps they do not have a negotiating position because they negotiated their position beforehand. To the extent that they perhaps could have got something more, maybe they have lost, but just based on what our knowledge is of LDCs there is currently, if one looks at the trade data, very little participation of LDCs in trade. That they have been given market access means there is an opportunity, an opening for them and that they are able to take advantage of. This is where the real challenge is if we look at the reality of what it is that we are talking about. What they may be worried about is, "How do I actually move from an agreement to reality?" The discussion you hear is always about supply side and the question is, "I am going to get market access, but how am I going to realise the opportunity?" That is where the discussion on Aid for Trade comes in. That is where Enhanced Integrated Framework comes in. That is where the understanding of the reality of what is taking place in an LDC and their capacity and capability to take advantage of those supply side capabilities is the big challenge. It is like stepping into Wimbledon without having had the first lesson in tennis, so you are allowed on the court but who is standing on the other side? If it was Venus Williams I would tremble, even though I used to play on my team at school.

Q347 Lord Haskins: Following on from that, since the Uruguay Round 15 years ago, in many parts of Britain, for example, there is quite a strong feeling that the less developed countries have not benefited from these multilateral agreements. Would you agree with that? What would your response be to that?

Ms Francis: If we look at the trade numbers they probably have not because their percentage of world trade has actually declined. The fact that world trade has increased in the dollar value—I cannot bring the numbers to the table, but the percentage of world trade has moved from six per cent down to less than one per cent—begs the question why in the Doha Round we are talking about the Doha Development Agenda, not just a Doha Round. The Doha Round was supposed to be about development in recognition of the fact that after the Uruguay Round there was not the commensurate increase and response from LDCs. I think sometimes we forget that this is supposed to be a Development Round.

Q348 Lord Haskins: Do you think the reason for that is the comment you made earlier that we put

them on the tennis court but they did not have the strokes to play Venus Williams?

Ms Francis: Absolutely, definitely.

Q349 Lord Haskins: Following on from that there are two specific issues. Have the Special and Differential Treatment provisions been relevant to real development needs and Aid for Trade, and I think we know the answer to that one? On the first one, the Special and Differential Treatment, has that been real Aid for Trade for developing countries?

Ms Francis: I think there is a challenge here and it is first one of capacity, which is the Venus Williams versus Patricia Francis, or Venus Williams versus John Brown who has never picked up a tennis racket in his life. There is a capacity issue. The second issue is if you do not have congruence between what your development objectives are with your financial objectives, and also with your trade objectives, then the limited capacity that you have will get skewed in a particular direction. What all of us have been doing and the development partners have been focused on is macro-economic stability as being the first pillar that can have economic development taking place. There has been a lot of effort in establishing a base on which good governance could actually take place and the first pillar of that was macro-economic stability. In terms of good governance, we hear talk about the business environment, corruption, and so on, and you have the other pillar which is health and education. A least developed country faced with these very large issues, and in some cases security because that is the other piece, when all of these things are not working then security becomes the big issue, asks "How do I divide up these resources?" Everyone is an advocate for their particular issue, and health, security and education have had the largest voice in any development arena. Trade and trade ministers have perhaps been the least recognised in the developing world. What power does a trade minister actually have? When he sits at the table with health, education and security, and the development partners are saying, "Health, education and security" and nobody is saying, "trade", then the minister of finance is making the decisions on health, education and security. For us to actually see economic development taking place, all of those stars need to line up and choices have to be made about where resources are going to be placed. If we could ever have a mechanism, which I hope is what Aid for Trade is trying to do, where all three sets of people—development, finance and trade—begin to talk together to see how we move the development agenda on but also bring the trade agenda on, perhaps we will see a different outcome. That is what we are trying to accomplish. I do not know if I have answered your question.

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Q350 Lord Haskins: Do you actually think that multilateral agreements have damaged the development of less developed countries? Have they damaged or just made less impact than they might have?

Ms Francis: I do not think they have actually damaged. They have a bad reputation. Politicians, and I know I am speaking to politicians so I will be careful, are faced with the domestic community and the domestic community are looking at the impact of agreements, so if there is reciprocity in an agreement and there is not the mechanism in-country to help the country realise the potential and deliver on these things then you are going to have a negative outcome. It is a circular reference I keep coming back to. If you are not focused on building the capacity of countries to be able to trade then, of course, if I sign an agreement and do not have the infrastructure in place to be able to deal with it, the years that I have negotiated on Special and Differential Treatment run out and if I have not put in place the infrastructure then all of a sudden I am exposed and the easy thing for a politician to do is blame it on the WTO. That is very much the case. What you hear politicians and trade negotiators talking about is, "Can I have some policy space within which I can manage?" If you take the discussion a little bit further and begin to look at things like customs reform, taxation reform, trade facilitation which would then allow for this business environment to improve, and if resources are put into those kinds of things, that is what we hear our small and medium-sized enterprises talking about, "I see an opportunity but can I realise it because there is not the sanitary and phytosanitary organisations in my country to certify my products. I may be able to find the resources to invest, but is the Ministry of Agriculture's veterinary division able to put a system in place which can allow me to take advantage of that opportunity? Is the refrigeration there at the airport for me to be able to get my product out?" It is practical, pragmatic implications of things that have been negotiated that need to be looked at if, indeed, this potential of being in heaven can be realised.

Q351 Lord Kerr of Kinlochard: This is extremely interesting. I am struck by the range of things that you and your organisation are trying to do, some of them advising on very, very big issues, good governance, security, export strategies, some of them on very finite, very concrete things, like marketing strategies or the refrigeration at the airport, and you are trying to do it with a smallish budget of \$60 million. What would you feel the EU could most do to help the least developed countries that you are trying to help with up to 50 per cent of your effort? Is it at the big end, the big factors, or is it at the very concrete end, the small factors? Take your example of refrigeration at the airport. If you were advising a

small Caribbean country that was a natural banana producer, how would you do it? You might find Geest, Fyfe and Dole looking over your shoulder and not very keen to see you encouraging indigenous export capacity, but it might be a very good thing to do. Can you make it concrete for us? If that is a bad example, give me another example.

Ms Francis: Let me correct something, and I hope I have not left this impression. We are not involved in good governance. We partner with other entities. When we go into a country and we see there is work being done on trade facilitation, what we try to do is bring the private sector voice to that discussion. Generally speaking, what we find is those discussions are happening outside of the private sector or of the small and medium-sized enterprises. The big guys are always at the table, they have their lobby groups and are able to have influence. Where the real opportunities are, those people do not have that access and that is our constituency. We are there preparing them, helping them to make sure their voice goes into this kind of discussion, but we are not involved in big projects related to good governance. We are very much involved in helping people to understand the issues, in market development work, market analysis work, those kinds of practical, pragmatic, on-the-ground kinds of things. I will have to ask not to answer the banana question because I am from a banana family which is perhaps in competition with Geest and so forth. Actually we are partners with Dole. I will take another example. If we look at some other agri-business opportunity, let us take that for example, if we are looking at the European Union, and currently the EPAs offer a level of opportunity which should not go begging, here is an opportunity and this is the time for the European Union to have a real impact and be able to be a real partner, because that is what we should be talking about, a real partnership, on certain objectives. I think it makes life simpler and easier if we go to the OECD document which has the diagram about trade development and so on. Trade policy and trade regulation, trade development, building productive capacities, trade related adjustment, trade related infrastructure, all of these things are critically important if you are going to be successful. For example, let us say we need refrigeration. The way to decide whether or not you need refrigeration is to do a level of analysis to see what is the value chain, how we can develop it and is there an opportunity for private investment, because in my experience private investment has been extremely good because it brings business and much more commitment to the table than aid does. If we were able to find a private investor to come and invest in the refrigeration he, she or the entity would have a vested interest in making sure that there is throughput and would be engaged in the process of ensuring that this

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happened. What would be the role of the EU in this regard? It would be offering some kind of insurance or guarantees in what might be perceived as a risky environment in which the private sector to engage. What is much needed in all of these countries is to facilitate a mechanism where more private sector is engaged because where more private sector is engaged I believe you will begin to see things happening in a real way. It is facilitating the process where one looks at what these opportunities are, bringing real partners to the table which is very important, real partners who are going to invest in the country, who are going to become partners in the marketplace, because again that is going to be critical. If we are going to find a way to realise this potential then it has to be good business for both sets of partners, that is the only way it is going to be sustainable. At the end of the day if we just build productive capacity without having the proper infrastructure in place, or if we build the infrastructure without the capacity in place, then we have a white elephant and nothing which will run through it. It is a complex thing and if we have trade support institutions, both public and private sector, who understand what the opportunities are, what the building blocks are to make this happen, then you can find a way to build consensus on setting these priorities. If I was in charge of a small Caribbean country and I was looking at these issues I would certainly be looking to the EU to say, "We would like perhaps a relationship with UK Trade and Investment which contribute to the dialogue for people to understand where the opportunities are and to bring real business people from the UK to discuss the opportunities. We would certainly want to see the infrastructure in government as well as in the private sector to build on opportunities presented. Today with tariffs going down to nothing it is going to be your non-tariff barriers, which we are already seeing, which are the things which inhibit trade. If you do not have the SPS infrastructure in place it will still be this opportunity which will never be realised. I cannot stress more the importance of this ability for the capacity building of the trade support institutions both in the public and private sectors. Many of the challenges that we are facing are based on a lack of understanding of the issues. If we could find mechanisms to increase the level of knowledge and understanding then I believe we could get closer to finding where it can be a win-win for everyone.

Q352 Lord Kerr of Kinlochard: Thank you very much. I have one supplementary. You mentioned, and of course I agree, that although they are both necessary and complementary, trade is more important than aid, and you talked about the role of the private sector and investment. Is it a mistake that

there is so little emphasis on security of investment in Doha? Was the Singapore decision a mistake?

Ms Francis: I think there are huge opportunities for the comfort level of both trade and investment to take place. If one is able to have proper functioning organisations there is very important work that can be done in terms of legislation and regulations because legislation is one thing, but what about the administrative procedures and how do you promulgate those down and get change management. We have seen and experienced in Customs Unions where rules have been changed but they are not promulgated, so you talk to the customs officer and he says nobody has told him anything about that new rule and he is going by the rule that he knows. It is all very well doing things at a high level but you have to find a way to have them trickle right down to the operational level, and that is critical for success.

Q353 Lord Maclellan of Rogart: You talked about the importance of identifying private investors to participate in stimulating trade in least developed countries. Do you look to the European Union at all to assist in that process of identification? You have explained how you would look to the Union for terms of trade or the circumstances of a regulatory background, but do you have any direction from the Union? How do you approach that?

Ms Francis: We partner with a number of organisations in the European Union who are what you might call outward investment or outward export support organisations, or ones that help import products into the EU. Basically the function of these organisations is to work with us and our partners in developing countries to establish what are the products that could potentially enter the European market, who are the potential buyers and is there a way we can construct a relationship to make that happen. We would select a number of products within a sector, look at how product development needed to happen, whether it was a question of packaging, of certification, and we would work to make sure that the various institutions which are necessary to create compliance would actually come up to speed and then be certified to have these exports go out. It may be something simple like packaging where we would work with a packaging institute in a European Union country in order to make sure the local producers of packaging are producing packaging material to the standards necessary to go into the European market. In the case of organics, say, it may be that we are working with a number of institutions to set up a traceability mechanism and training various people in order to do that. Yes, we have key partners in the European Union who provide that kind of service and it is very effective because at the end of the day what we have are business-to-business meetings or we may be just

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going for a trade show. You are identifying the kind of product, making sure that you can actually produce it and then taking it to the market through the trade shows, having meetings and having it sold.

Q354 Lord Maclennan of Rogart: Does the European Union itself provide any kind of intermediation between those sectoral partners and yourselves, or is it a private enterprise by you, in a sense, to find these partners?

Ms Francis: It is really country organisations. It would be the Netherlands, et cetera. It is state driven more than European driven. We also have several European Union programmes funded by the European Union, for example, in Asia where they are building the capacities of the organisations, they are working to ensure that, indeed, the intermediary institutions, like the standards organisations, et cetera, are built. The European Union is very much working with us in that regard in quite a number of areas. They are also working with other partners. Clearly ITC is not the only organisation involved in this business. We have also been working through the Enhanced Integrated Framework which has been created specifically for LDCs and there the UK is one of the bigger players involved. That is an excellent mechanism in the LDCs because there is a process by which the trade priorities are agreed and that distillation process is done and the resource is put behind that and countries can go after it. The EU is a player in that as well, I think.

Q355 Lord Maclennan of Rogart: Can I move to another question which arose earlier in our inquiry about the European Union's bilateral trade agreements. It was alleged and argued by some of our witnesses that the European Union, in a sense, was picking off trading partners within groups which could be positively disadvantageous to those left out and it was a sort of divide and conquer pattern. What is your response to that allegation?

Ms Francis: The big challenge in bilateral agreements is the multiplicity of Rules of Origin. That is why I think the multilateral trading system is preferred and multilateral agreements much preferred. When you think about the capacity of countries to comply, it is not possible for a small and medium-sized enterprise to understand all the different rules that they have to meet to go into different markets. If everybody has a different rule, it is just not possible. They can barely administer the accounting of their organisation, much less figure out is it 20 per cent or 25 per cent of value added to X product which allows them to get into Y market or Z market. I would say that clearly our constituency is not disposed to the multiplicity of agreements because generally those will also be WTO Plus and that will probably impose some obligations which are even greater than they would normally

have. If you have to deal with different Rules of Origin it becomes what they call a noodle bowl. It is just not possible. It is not possible to actually look at what would perhaps be your natural markets. It is very market distorting. I think that is what you will find from small and medium-sized enterprises.

Q356 Lord Maclennan of Rogart: If you cannot get complete regional participation in a trade agreement, is it not better just to go for those who can reach agreement? I am thinking perhaps of the example of West Africa where it has sometimes proved difficult to involve Nigeria in some of these bilaterals. What is the disadvantage? It is obviously preferable to have a regional agreement, but if you cannot get it as a not bad second best, why not?

Ms Francis: If you look at the trend, certainly there is a level of pragmatism which is brought to the table and governments then realise if the regional trade agreement is not going to happen they will respond to the pressure of their business people and will go ahead with bilateral agreements. From our experience, we have seen that it can be used as a stepping stone. Is it the optimum situation? It is not, but it can be used as a stepping stone and some governments make the decision from a very practical and pragmatic point of view that they will move ahead. I can give you a bizarre example. A free trade agreement between Central America and the US on garments where the garments can be made of fabric from various places, however the pockets must be made in the United States, so you have to import the pockets and stitch them on in Central America. That was because of some particular lobby in some place where there were factories and the compromise was that they were to make pockets. Some of the things that are put into these agreements are ridiculous. That is why our constituency wants to have more of a multilateral environment which then has more of a level playing field and these anomalies are not introduced at that time.

Q357 Lord Kerr of Kinlochard: I do understand your preference for multilaterals, I am sure we all do, but I would like to press you a little on your answer to Lord Maclennan's question because your answer was about Rules of Origin. Is it not the case that the European Union is, in fact, pretty liberal in its Rules of Origin rules in relation to LLDCs? You do have to have some Rules of Origin, otherwise an enterprise in a country that does not have duty-free access to European markets could send, allegedly for final assembly, but in fact for repackaging or labelling, goods to a country that does have such access to Europe. You need to have some sort of system.

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Ms Francis: Yes.

Q358 Lord Kerr of Kinlochard: I thought, maybe wrongly, that we in the European Union, say by comparison with the United States, were quite liberal, particularly in relation to LLDCs? If that is not true that is important. This does seem to me to be the way the world is going to go, there are going to be more bilateral agreements and if the major objection to them is the complication of conflicting and illiberal Rules of Origin, then we, on this Committee, ought to think about it.

Ms Francis: The European Union has, indeed, had more flexibility in its Rules of Origin than many other people. You are moving in the right direction and are far more exemplary than other countries. If there are complexities then the complexity is what is difficult for countries and some people have opted for MFN because it is simpler rather than going through complex preference arrangements which means they have to prove certain things.

Q359 Lord Kerr of Kinlochard: Do we allow cumulation in respect of goods from a particular region, contiguous very poor countries? I think we do.

Ms Francis: Yes, that is something new. In fact, the Bangladesh Ambassador was saying something very positive to me the other day about this accumulation. We saw some factories in Lesotho where they were getting fabric from Bangladesh, going into Lesotho, product being produced and going out. That is very positive.

Chairman: Because we are slightly running out of time, I am going to jump to a question about services which Lord Woolmer wants to ask.

Q360 Lord Woolmer of Leeds: You talked about the importance of infrastructure and some of the witnesses before us have talked about the positive impact of liberalising financial service markets in developing countries to have more competition in providing financial services, and legal services and so on. Do you agree that in the area of financial and other services this is an area where liberalisation could be of assistance to SMEs to help encourage both their domestic and export production?

Ms Francis: I think it is more than financial services because in our experience we have seen that something like telecommunications is critical for the competitiveness of enterprises. When we look at the infrastructure which is necessary we have seen huge improvements where infrastructure has been put in place and the services associated with trade facilitation actually allow for greater levels of efficiency. I would want to go beyond financial services, but I would want to put a caveat on that. Financial services which are liberalised without a

proper regulatory environment are doomed to failure, and we have seen many examples of this across the world where there have been huge investments in liberalised financial services, no regulation and then the normal greed syndrome comes into play and all of a sudden financial institutions are in businesses that they ought not to be in, and then you have a collapse. It is important that before any huge liberalisation takes place, a proper regulatory environment is critically important for the functioning of a good financial services sector. That is a prerequisite, to have the prudential mechanisms in place to be able to ensure the financial sector functions well, whether it is banking, insurance or whatever other mechanisms. It is also important in any liberalisation process to have good competition policy in place, to have a mechanism where consumers can have some recourse. All of these things are critically important. It is not, "Let's liberalise and tomorrow everything will be rosy". Liberalisation is great and our small and medium-sized enterprises are pushing for it, and in many cases pushing without understanding you also need these other safeguards. It is only when the bank has crashed with their money in it that they realise maybe they should have had the safeguards in place first and then put the liberalisation on top of that, or in parallel. These things take time to work.

Q361 Lord Woolmer of Leeds: That almost sounded like saying, "Yes, SMEs would like this, but there are lots of reasons why we should not liberalise".

Ms Francis: Oh, no.

Q362 Lord Woolmer of Leeds: Let me push you on that. As you said, you are a very practical organisation. How do you get the kind of improvement in financial, legal and other service areas that SMEs really do need in many of the countries in which you work? How do you get those improvements and work to ensure at the national level that the arguments about, "It must not be done too fast. Be very careful, you could have crashes", and overcome strong domestic objections to any liberalisation at all? In many a country in which I have worked, frankly, there have not been big issues of big crashes and that kind of thing—you used very dramatic language—there has been strong resistance to getting any kind of liberalisation of services at all and SMEs have not had the kind of access to facilities and services they need.

Ms Francis: If I gave the impression that I did not believe in liberalisation, it was certainly the wrong impression. I would like to correct that. Not only do I personally believe in it, but the organisations that we interact with very much desire to have this competition in the marketplace because in many cases what you are dealing with are cartels and

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pricing becomes exorbitant for the entities that we are dealing with. Access is non-existent for many of the entities we are dealing with. We believe that the two things need to happen in parallel. It is ensuring that we have the kind of public-private dialogue that we have that does always bring out this question in most of the countries that we are working in. In most of the countries we are working in, access to finance is one of the biggest issues. I just want to make sure that liberalisation does not take place without regulation. That was the point I wanted to make.

Q363 Lord Woolmer of Leeds: Absolutely.

Ms Francis: I was involved in a process, unfortunately it was against a British company, Cable and Wireless, which had a huge monopoly. I am from the Caribbean and I was involved in an advocacy role to try and break the monopoly in telecommunications. At the end of the day everybody, even Cable and Wireless themselves who came to the table at the end of the day and voluntarily agreed that liberalisation was important, posed all the arguments as to why this was important. We spoke about what was happening in other countries, what the pricing was in other countries, what it would mean to jobs and competitiveness. From everywhere we have been able to see liberalisation of services has had a huge impact on the competitiveness of the economies that we have been working in. In fact, from one of the dialogues that we have been involved in, which is fostering trade through public-private dialogue, moving goods, services and people across borders, one of the things that came out of that was a liberalisation of delivery services, having the private sector involved, and what opportunities that provided immediately for the private sector. That is something we put 100 per cent of our weight behind. Basically, we have these public-private dialogues on various issues. I would be happy to give you some of these documents which show what comes out of this public-private dialogue. We are teaching people advocacy skills, but advocacy skills based on solid research so that when governments are made to listen on solid numbers, they cannot refuse to listen. It is building that skill set in the public and private sector organisations to be able to fight the oligarchy, so to speak, which is where we think the emphasis should be, because it is only through broadening the public voice that you can finally whittle down, whittle down and break the monopolies that exist.

Chairman: Thank you very much. Ms Francis, I am conscious that we are trespassing on your time. If you have another five minutes, Lord Haskins has another question and I would like Lord Trimble to ask a question.

Q364 Lord Haskins: It seems to me the gist of what you are saying all the time is that the world trade agreements are important but only part of a much more complicated pattern. I am a farmer, so I think I understand a bit about this, and one example I give is a farmer in Africa who wants to take advantage of new markets, open markets, and the high prices that exist for food at the moment, but he cannot do it because he cannot borrow the money to buy the fertiliser to put in the ground to get the crop, he does not have the asset base to do that. Some of these countries actually disapprove of this fertiliser being applied, so it is even more difficult because he may be working against the system. It is all about banking and financial services. How do we create a basis upon which those types of businesses can borrow?

Ms Francis: It is a long process. I did not answer part of your question about the legal framework. If this farmer were able to actually find a buyer then in most developed countries you would have a factoring mechanism and he could discount in some kind of legal agreement, purchase agreement, and would normally be able to do that in a place where banking was properly developed. In the absence of that kind of thing, and Ethiopia is a good example, the last time I was there we were meeting with the Chamber of Commerce and the banking regulations there mean you have to transfer 100 per cent of the money before they give you the export permit. If you have had a longstanding relationship with a company and they trust you then, indeed, they will be happy to wire transfer the money for you, but can you imagine some of the little companies we are working with, it is absolutely impossible, so they cannot make the sale. They have the orders, they can produce it, but how do you make this transaction happen? We are working with the African Development Bank and a bank called Ecobank which has branches in many countries across Africa and we have been trying to train the people in the banks to understand risk because, of course, understanding risk is one of the first steps in being able to lend. While we might be able to have some impact in a few countries where there is a borrowing mechanism, a little organisation like ITC cannot be the solution for the person in Ethiopia. However, consistently putting the discussion on the table in a coherent way in a forum where these issues are being discussed, if it is said over and over again, eventually there will be some movement on it. A country like Ethiopia coming into the WTO is a huge step in the right direction for the private sector because all of a sudden there are obligations which have to be put in place. I recall at one of our annual meetings there was someone there from the Oman Export Development Agency and he said that joining the WTO was the greatest thing because it was an excuse to move forward on all of the business environment things that they had had on the

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agenda for a long time. Before they had been blocked but because the government had to sign up to the agreement, had to step up to the table on all of these issues and sign off on them, it then allowed the private sector to push and cause these things to move faster than perhaps they would have.

Chairman: I think that is phenomenal. We have seen that with people joining the European Union, in fact.

Q365 Lord Trimble: There is a lot of pessimism with regard to the Doha Round. If it fails, what next? What impact would failure have on the World Trade Organisation?

Ms Francis: The WTO has demonstrated that in many of these disputes that we think about that have happened around the world, they have an effective mechanism to deal with these. If we think about the US and steel, that is probably a very good example of where they have been very effective. There are many more that we could go on and speak about. The Doha Round is a hugely ambitious Round. It is talking about cultural change, behavioural change, things which are really quite radical for the people both in the developing and developed world. It is asking

people to make certain sacrifices for the good of all. If it were to fail then there are certainly many things which the WTO would still be very relevant to and trade disputes is one of them. I do not think globalisation is going away, let me put it that way, and therefore the relevance of the WTO is still important.

Q366 Lord Trimble: I take your point about the dispute resolution in which the WTO has a very valuable role, although some people worry that if Doha fails in some respects that might undermine the dispute resolution procedures. Has the WTO reached a position with regard to its size and the complexity of the issues that the sorts of Rounds we have had in the past are no longer possible, or is that too speculative?

Ms Francis: That sounds like a lengthy discussion.

Chairman: Since Ms Francis has already been with us for ten minutes longer than we asked, perhaps we will leave it for discussion later. Thank you very much for coming, it has been enormously helpful, and the kind of evidence we have not heard before about the detail of getting trade to work, which I am very glad to have heard. Thank you very much.

THURSDAY 10 JULY 2008

Present	Cohen of Pimlico, B. (Chairman)	Moser, L.
	Haskins, L.	Trimble, L.
	Kerr of Kinlochard, L.	Woolmer of Leeds, L.
	Maclennan of Rogart, L.	

Examination of Witnesses

Witness: AMBASSADOR BRUCE GOSPER, Permanent Representative of Australia to the WTO and Chair of the WTO General Council, examined.

Q367 Chairman: Ambassador, it is very good of you to come. Welcome to the meeting. You have seen our list of questions and we understand that you will be answering in your capacity as the Chair of the WTO General Council. We are taking a transcript and all evidence will, in fact, be published. You will be provided with a copy of the transcript, so any infelicities can be ironed out at that point. We know you have had a copy of the topics we would like to discuss but is there anything by way of a general statement you would like to say first, or would you rather we just started?

Ambassador Gosper: No, thank you very much, my Lord Chairman. The questions are fine. Some of them ask for a response as Australian's Ambassador, of course, and Australia's aspirations, so I will try to be clear in what general capacity I am giving a response on some of these questions. They are fairly wide-ranging and give scope for some responses on issues of significance for the WTO and of importance for Australia.

Q368 Chairman: Thank you very much. In which case, I will start by asking you is there a Plan B if the Doha Round fails?

Ambassador Gosper: Well, at the moment, of course, we are two weeks away, or less than that, from ministers coming here to seek to establish modalities, that is the basic framework agreement for agriculture and NAMA. There are open questions about whether or not we will be successful on this occasion. We may not be successful but that does not, of course, necessarily mean that the Round will not succeed at some point. It may be that if we are not successful on this occasion, there is a further work programme ahead for the WTO to try and bring the Doha Round to some sort of conclusion. This is by way of me saying that I am reluctant to talk about Plan Bs at the moment. People have a variety of motives for talking about Plan B. From my perspective, as Chair of the General Council and as Australia's Ambassador, the immediate objective is to conclude modalities on agriculture and NAMA. There is a reasonable prospect that can be done with

some goodwill on the parts of all. If it is not successful on this occasion then ministers will have to consider the implications of that for the Round, whether there is a further process that they should indicate is necessary to enable modalities to be concluded or whether there are some more fundamental problems with the mandate for the negotiations or the way we undertake the negotiations, but that is an issue yet to be addressed.

Q369 Chairman: One issue that we have heard really very little about from anybody is services. Do you have much hope for the Round on services?

Ambassador Gosper: I should say that services is quite important, not just for the trading system but from an Australian perspective it is an important part of these negotiations. Like most developed economies, services is by far the largest component of our economy but an increasingly important part of our top ten exports. Currently, all of them are resources or services. There are no manufactured goods or agricultural items currently in our top ten exports. We are a large exporter of education services, tourism services, professional services, mostly to countries within our region, the ASEAN countries, China, India, who do not necessarily have very liberal regimes. We do see an important outcome from this Round on services. That being said, of course, I think, somewhat unfortunately, services has been left in the vanguard of these negotiations. We did not take advantage of the inbuilt agenda on services and now it is following along behind, to some extent, the agriculture and industrial tariff negotiations. We also have an architecture for services, the GATS architecture that was negotiated in the Uruguay Round, which is not particularly conducive to producing new market opening or new market access as a general architecture. That is an issue that the trading system will need to discuss and in some fashion address over the coming years. We have to be realistic about what we can actually secure in the negotiations in the Doha Round. That being said, we have been reasonably encouraged over the last couple of months about the sort of process we have had in

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Geneva and some capitals. As you might know, we have had this process of developing so-called plurilateral requests where members come together, both *demandeurs* and recipients of requests, to discuss specific areas and something akin to a bilateral request offer process which has been reasonably encouraging. We have found when we step back from broad public rhetoric on these sorts of issues and talk more specifically with neighbouring countries on the restrictions they have in place on, let us say, the movement of business people, whether it is architects, lawyers or doctors, or on some of their commercial presence restrictions or the like, we can get some practical results. Certainly on the services side we see that we will get something out of these negotiations, particularly on neighbouring markets. We also have a general perspective that what we bring to the table is just as important as what we bring from the table in services. Generally we have a quite open services regime at the moment. We have full commitments in more service sectors than almost any other member, I would say. Certainly our expectation is that we will keep up that general stance, that we will be making further offers of interest to our trading partners. For instance, we have made it very clear that areas of interest to the EU in areas such as postal services will be part of new commitments we will make in services. We will be making new commitments in Mode 4 areas. We have already indicated that we will be bringing more to the table and we already have a very liberal Mode 4 regime in Australia. We have good standing in terms of our existing commitments, the offers that we have already brought to the table and the improved offers we will bring. We will ensure that we remain at the front of the services negotiations in terms of the level of commitments that we have. That is an important perspective because we are asking others to make a contribution in this area. Certainly when it comes to assessing the outcome of this Round we will be focused on what comes out on market access as well as the Rules area. Market access for Australia is very much driven by agriculture and services.

Q370 Chairman: That is very interesting. Do you see the negotiations on services perhaps as a way of assisting or unsticking some of the negotiations on agriculture or NAMA? I do not quite know where, but anywhere in the negotiations is this likely to be helpful?

Ambassador Gosper: Certainly in a general sense it will be helpful because they bring more to the table that is of interest to more members, and some key members of the negotiations, whether it is the EU or US or India, that certainly have a strong interest in the services outcomes. There are others, of course, who are important parts of the trading system, important trading partners, who can bring some

important things to the table in the area of services. I am thinking in particular here of China, but also some of the other major emerging developing countries. This is one of the things we are grappling with now, the product of the sequencing that we have adopted which puts agriculture and NAMA at the front. This is one of the reasons why we have got to this signalling conference, so that we can give all members a reminder of the meaning of the single undertaking and of what is on the table at the end of the day across market access, including not just agriculture and NAMA but services. It is meant to provide a reassurance to *demandeurs* in this area, but also a reminder to others that what they contribute in that area is an important part of the package ultimately.

Q371 Lord Haskins: Is not the problem with services compared with goods, and the European Union has struggled with the same thing, that the single market has been remarkably successful except in this area? Does not the WTO have the same problem in that the barriers here are not tariff barriers, they are regulatory barriers, and is the WTO, and indeed the European Commission, in a position to tackle those regulatory barriers under its remit?

Ambassador Gosper: That is a very fair question because we are dealing with issues beyond, at and behind the border in the area of services. We all know that it is a complex part of the negotiations. Whether or not you have mixed competences in this area it is a very difficult question. You usually find in most economies that a very small number of ministries have responsibility for what they are negotiating, whether it is trade rules, tariffs or even agriculture, but in services, of course, you are asking people to change regulations that are applied domestically, not necessarily even at the border. For instance, during the course of next week we will have a series of bilaterals with many other members where we seek to cover professional services, tourism, telecommunications, financial services, postal services. For all of the different domestic agencies which are responsible for the legislation policy, and in many cases, of course, that is a shared jurisdiction with states, each of whom may or may not have a mutually consistent regulatory regime, so the problem for negotiators, governments, to be at a negotiating table and negotiate concessions and packages across services and with other parts of the negotiations is very difficult. It takes time and, frankly, it takes a lot of buy-in from domestic agencies many of which, even in economies like Australia which are relatively outward oriented, still need encouragement from trade ministries and industry groups to come to the table to dedicate resources to international negotiations where the benefit that might be gained is a benefit for an

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industry in another market which the domestic agency might not otherwise have a particular role in. It is certainly much more complex.

Q372 Lord Haskins: Almost too hard.

Ambassador Gosper: I would not say that. It is hard work definitely, but not too hard.

Q373 Lord Moser: Ambassador, on a very general issue, there is obviously a sort of competition, if not a conflict, between bilateral and regional negotiations on the one hand and multilateral negotiations on the other. One is conscious that there are more and more of the former bilateral regional negotiations. Do you personally see them as an impediment in the multilateral progress, which is what everybody prefers, especially in the WTO context?

Ambassador Gosper: I am not sure I would describe them as an impediment. They are certainly a feature of the system, an explosion of activity in recent years, and Australia itself has been a part of that. Successive governments have made very clear that their primary focus is on the multilateral system but, nevertheless, a couple of decades ago we negotiated an agreement with New Zealand, the CER, which is very much a blue ribbon agreement. Since then we have had free trade agreements with the United States, Thailand, Singapore and, most recently, Chile. We are negotiating FTAs with Japan, China, the ASEAN members, the Gulf Cooperation Council, and have exploratory discussions with India, Korea and some other members. We have been quite involved in free trade agreements. Whether or not the Round is successful, I am not quite sure that that broad global interest in free trade agreements will dissipate. It may slow down a little bit, but a lot of it is driven on the part of the global system by broader interests than just commercial interests. At the same time, often these agreements are driven by specific commercial interests. If your car industry has interest in access to a particular market that can often be a pretty important driver of what happens. We are generally concerned with what is happening with the proliferation of FTAs and more particularly, of course, those FTAs which we think are not strongly trade liberalising or which merely entrench some protected interests. We are trying to grapple with what that means for the global trading system. Certainly there did seem to be an opportunity in this Round to look at the rules that relate to regional trading arrangements, and in particular to look at whether the disciplines that apply to the comprehensiveness of those agreements could be strengthened. There does not seem to be much support for that. We used to be in good company. Australia had good support from the likes of many other middle economy, export oriented countries,

but we do not sense that sort of strong support at this point for tackling those who are resistant to some stronger rules, whether in the United States or elsewhere. We understand how hard it will be to strengthen the rules that relate to RTAs in these negotiations. There is a big agenda that lies out there still that the trading system has to grapple with in coming years. There is still a lot of analytical work that needs to be done. Ultimately, in a very broad sense we have to find a way to multilateralise the trade gains, the access improvements, the openness that has been secured through a variety of trade agreements. This is a broad concept that we are beginning to develop and think about. It is certainly true that if you look at many FTAs, patchy though they are, there are some areas of significantly deeper discipline than is currently available in the Multilateral Trading System. Finding a way to bring the benefits of those agreements to the global community, to the multilateral system, through some multilateralisation of those sorts of agreements is a medium to longer term objective that we are beginning seriously to think about.

Q374 Lord Moser: Presumably from the point of view of an LDC trying to negotiate in both directions simultaneously it must be easier to go the bilateral or regional route in the context of what you have just said. Do you see that as a bit of a threat to the WTO's central objectives?

Ambassador Gosper: I am not quite sure what you are asking there, but there are a variety of views amongst the LDCs. In more openness of the trading system some are beneficiaries of particular preferential agreements, for instance, with some of the major economies and they worry about the competitive threats from developing countries. For the LDCs these are very difficult questions, but they are difficult questions for all of us because we want the LDCs to prosper and develop.

Q375 Lord MacLennan of Rogart: Looking beyond Doha to the role of the WTO in the years ahead, how do you see it possibly developing? It seems from what you said that there has been an explosion of bilaterals, we have got very, very slow progress on Doha, and it does raise questions about whether universal consensus, if you like, is the only way to have plurilateral agreement. I wonder if you have any views about possible structural changes that might make liberalisation more attainable on a wider scale. Are we, by insisting on universalism, if you like, allowing the best to be the enemy of the good?

Ambassador Gosper: Perhaps the issue you are getting at there is the single undertaking and a broad Round that encompasses a wide range of market access and rules issues.

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Q376 Lord Maclellan of Rogart: Yes.

Ambassador Gosper: This is a perspective that has been talked about in many places. Certainly there is a view that whether or not this Round is successful it might be the last Round, as such, or last single undertaking, that because of the complexity of issues that governments are dealing with now, because of the near universal membership of the WTO and the range of interests and capacities of the members that a Round of this sort is perhaps not the appropriate way to do trade liberalisation in the future. It seems to me that there is some sense in that perspective. When you view the problems we have had over the last seven years in negotiating this Round it does seem to me that the membership will need to look at alternate ways to undertake trade liberalisation in the future, whether it is through critical mass agreements, sectoral agreements of the sort that we had in the late 1990s with telecommunications, financial services and information technology, or some other mechanism. I think when this Round has been completed, however it is completed, there will need to be quite a bit of thought given to catch up, frankly, with the broader agenda that policymakers in capitals are addressing and what that means for the institution, catch up with the institution itself in the way it conducts its day-to-day business and the way it manages itself, and probably some reflection on how it next tackles the broad subject of trade liberalisation and what sorts of mechanisms and approaches would be best. Personally, I do feel that these sorts of critical mass sectoral agreements are probably an important part of the future of the Organisation.

Q377 Lord Maclellan of Rogart: That is very, very interesting indeed; very interesting. Do you think it is conceivable that the Organisation could then have a policing role or dispute settlement role in respect of agreements which were not universal agreements?

Ambassador Gosper: I am talking mostly about market access here, and market access commitments. When it comes to rules there will be a function for the dispute settlement body in ensuring adherence to those rules. There are challenges to the dispute settlement system itself, of course. People often refer to the general support for the implementation of dispute settlement findings if, of course, there is not some strong trade liberalising component to the Round. Even more to the point, there is a sense now that after 13 years of operation of the dispute settlement system there are some enhancements, refinements, modifications that we should be considering in the way the system operates. It has operated very well but it is now building what is beginning to be an impressive body of international jurisprudence and has a quite remarkably successful record of findings and implementation. From my

experience, I do not think you would find that in any other international area, but all things require improvement and refinement after a period like that and I think that is one of the challenges we will have to address in the coming years.

Q378 Lord Trimble: I appreciate with the meeting that is coming up in a week or so's time that you do not want to contemplate failure, nonetheless there is not a great deal of optimism in many quarters for a successful conclusion of the current Round. There are a lot of elements in the international climate at the moment, particularly with the present uncertain economic situation, where it does look as if we might be heading back towards protectionism, a retreat from the liberalisation that has characterised the World Trade Organisation. In that eventuality, and I appreciate you are reluctant to comment, is there a future for the WTO in the event of the failure of Doha in the context of the present climate?

Ambassador Gosper: Well, can you imagine a future without the WTO and without a system of rules or process to ensure adherence to the rules? I find that a very troubling prospect myself. There are certainly challenges to the WTO if the Round fails, particularly if the Round were to fail in a way that was—how can I describe this—divisive. That would have its costs, if not to the Organisation at least to the way in which for some period of time members are engaged in the Organisation. The system is there, it has been remarkably successful, whether you look at the dispute settlement system or the fact we are now in our ninth round of trade negotiations over 50 years. It is remarkably enduring and it is because people have self-interest in the maintenance of the Organisation.

Q379 Lord Trimble: There has been a general commitment to trade liberalisation which may not continue to be the case. Some others have put to us what they call the bicycle theory of the institution, that it has to keep going and if it ever stops then the whole thing might fall apart.

Ambassador Gosper: Of course, there has been a continued commitment to liberalisation and liberalisation has continued. Members unilaterally make decisions to liberalise trade every day. What we talk about in these negotiations, and it has been true for successive negotiations, is often capturing what people have done unilaterally, particularly on the part of the major players I should say, and extending it wherever possible, of course. I do not mean to diminish what is achieved over successive Rounds which have often cut tariffs, bound tariffs by a third and a third again and a third again. Logic tells you that has an effect. The Organisation is not the custodian of trade liberalisation; trade liberalisation occurs globally every day. What we talk about in the

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WTO is capturing that, ensuring that the benefits are extended to all, that it is implemented in a way that is non-discriminatory and, of course, as an adjunct to that a system of rules that ensures in areas like trade remedies that the capacity for people to reverse engines, to move into protectionist mode, is limited in some fashion. You are quite right, having a trade liberalising component to the WTO is important for the political support that the Organisation has, particularly in places like the United States, but not just there. Let us not imagine that if the Doha Round fails trade liberalisation is going backward by any means, which maybe does not answer your question I must admit. I agree with your general proposition that a failure of the Round and the uncertainty it creates over the capacity of the Organisation to produce market access improvements, lower bindings on tariffs, improvements to rules that affect day-to-day trade is a problem. Whether that manifests itself in enhanced protective activity is a different sort of proposition.

Q380 Lord Kerr of Kinlochard: Before asking my question I should declare an interest and warn that I am a director of a Melbourne company called Rio Tinto Limited.

Ambassador Gosper: Congratulations on your price increase!

Q381 Lord Kerr of Kinlochard: Can I take you into the area of what is, in your view, the desirable link, if any, between trade issues and first, social issues, labour standards, migration, social standards, against a background of certainly a more Democratic party-dominated Congress in America, very keen on attaching labour standards and social conditionality to any trade liberalising deal, and second, the Mode 4 negotiation which clearly will be problematic for probably any American administration concerned with homeland security. What is the right relationship between the trade dossier and these dossiers?

Ambassador Gosper: I think the Mode 4 question is a little bit different than the trade and social condition issues because, at least as I understand the Mode 4 question, it is not about the movement of labour per se but the movement of professional or semi-professional people, which is not to disagree with you that it is a politically charged issue in some places, particularly where there are broader immigration debates and concerns about the migration intake, if I can put it that way. It is a difficult question. We had the experience around the 1996 Singapore Ministerial about trade and labour and the push that was then underway to have some explicit discussion of these issues, and we saw that surface again in Seattle through statements that were made by political leaders about these sorts of issues. We saw the

reaction that was had from many developing countries which feared that would simply be a guise for protectionist action on the part of domestic constituencies in some economies. That is still very much the perspective of many about this sort of issue, I think. It is difficult. It is hard to escape the broader consequences of globalisation for trade and more particularly for economic policy in our economies, it is a much more complex field now. Whether it is trade and environment or trade and labour, or general regulatory approaches to commerce, these are much more complex issues for the governments now, much more complex also for the WTO which has to deal not just with a narrow set of rules but much broader expectations about those rules and how they relate to the broader community. Where this is going to come into clearest focus for the Organisation over the coming years will be in the area of trade and environment. Already all of our economies are dealing with a variety of demands for things like labelling products, lifecycle assessment, a whole lot of regulatory changes domestically that derive from community expectations, business practices. How the WTO system deals with that, how members choose to engage in the WTO on such issues, is perhaps the most challenging of the sorts of issues for the Organisation over the coming years. Where that will be probably most sharply in focus is on the question of climate change.

Q382 Lord Kerr of Kinlochard: That is a very diplomatic descriptive answer. You would not want to say in a personal capacity what you think would be the right position for trade negotiators to take on these issues?

Ambassador Gosper: I -

Chairman: Perhaps that's a question we can discuss informally I'd like to move on but I think Lord Moser wanted to come in.

Q383 Lord Moser: Just a quick supplementary on labour markets. It is always assumed in newspaper articles that liberalising trade is good for employment. Asking as a statistician, I wonder whether you find that argument easy to deploy, whether the evidence that comes to you at WTO is fairly uncontroversial, that liberalisation is good news for labour markets.

Ambassador Gosper: It is not a difficult question to answer for an Australian at the moment. We have had more than a decade of strong economic growth. We have high levels of immigration and temporary visa holders. We have low levels of unemployment. It is an extraordinary situation. Of course, it is all built on productivity improvements in the economy, most particularly China and what is happening in China, increasingly in India as well, the giant sucking sound of commodity imports. I began my career 20-odd

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years ago working in the resources area and I can remember \$40 a ton coal prices. Rio Tinto, which negotiates for iron ore, in one year had a 97 per cent increase. Our two big resource states, Western Australia and Queensland, have been growing very quickly. Our infrastructure is straining. I am associating what is happening in China with an open global trading environment and to some extent that is true, of course. The access that China has in the US, EU and other places and the strength of its own economy does reflect an open global trading regime and that has immense benefits for Australia. We have firsthand practical insight into all of this. I can remember 15-20 years ago the sort of public debates we had in Australia about foreign investment, for instance. When I think about the sort of debates we used to have about Japan investing in beef feedlots, for instance, it seems like another age. The way in which people have accepted the benefits as well as the costs of globalisation is extraordinary. That might not be true in every place, of course, and I am sure it is not, but for an Australian overall it is a pretty convincing answer to your question.

Q384 Lord Haskins: Following on from that, you could argue, therefore, that Australia, like many other countries, has benefited over the last 60 years in the global case from low food prices, relatively low energy, increasing trade liberalisation, all of those things, and in the last two or three years fundamental questions have been asked on all three points. Food prices have accelerated, energy has gone out to the world, Rio Tinto prices are rising and the global economy is slowing down. I have two questions about that. First of all, if it is a blip what does the WTO do about it? Secondly, if it is a longer term issue, and there are all sorts of tariff obstructions coming in now, export taxes on food and that sort of thing, are we entering a global phase in the global economy which may affect the fundamentals of the WTO?

Ambassador Gosper: There are certainly issues there for governments and policymakers. Slow economic growth globally, hints of increased protectionism, but we have yet to see manifestation of that too much, and, of course, you have got fuel and food price rises. The OECD research on food, if you look at a longer period of time, shows a downward trend in food prices. There was a significant spike recently, but in the sense as analysed and projected by the OECD it is stabilising, maybe at a somewhat higher level than previously and still on a relatively flat trend. As an agricultural exporter we have been as conscious as anyone of the trend in prices for agricultural products over a period of time. On this issue we have to be careful to understand what the medium and longer term dynamic actually is and what the required policy response is. Certainly if you

look at what has happened with food prices recently there is obviously a need for an aid response that the global community has been addressing. The trade response is a little bit more difficult to see. Sometimes I fear that the immediate response to the food price rise is one that is a bit dubious from the trade perspective. Because of the price rises and concerns in local communities people see that they need to increase the productivity of their agricultural sector, to modernise it, enhance it, and sometimes they also seem to suggest that means they need to protect it or increase protection in a different way. There are different answers for different national economies, of course, but I have been quite worried that the immediate response we are seeing on this issue just in the WTO context has been to suggest that we should increase tariffs or raise levels of protection for food, and I am not sure that is the right policy response because generally, if accompanied by the right sort of governance, the right sort of investment, the right sort of technology, a lower trade regime over a course of time is a better way. Certainly for the trading system overall the appropriate response to food shortages, or at least food price rises, is one that increases the openness and flexibility of international markets.

Q385 Lord Haskins: Yes, I can see that. In 30 years' time some people say that Australia will be a net importer of food if climate change takes its course. There is a long way to go but there are huge changes taking place which on the one hand suggest that food should be traded more liberally across the world and, on the other hand, we had a witness this morning saying trade is one aspect of developing countries' economies, the other is in agriculture and whether those countries can develop their own agricultural systems at the present time without resorting to protectionism. That is the dilemma, I think, that there would be pressures from those countries.

Ambassador Gosper: I think you have neatly encapsulated the dilemma of how people increase their productivity and the strength of their own agricultural sectors but at the same time support an open trading regime for food. We just have to be careful that we do not reach for a short-term solution which is counterproductive either for the country concerned or the trading system overall.

Q386 Lord Haskins: You do not think people are going to take short-term silly decisions?

Ambassador Gosper: That is what I worry about. As for Australia, we might be the smallest continent but we are a continent, so we have a variety of regions and climatic conditions. There are certainly some parts of the country that with global warming might be fundamentally changed with respect to their agricultural capacity.

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Q387 Lord Kerr of Kinlochard: Like rice in the Murrumbidgee.

Ambassador Gosper: Yes, and some of the, other irrigated agriculture in some areas of our country. It is a big place, temperate, subtropical, many agricultural sectors spanning across several thousand kilometres, so they will be affected in quite different ways. If you look at the last couple of years it is quite true that in the Murrumbidgee area they have had water shortages but there has been very good water fall in North Queensland, for instance, and the sugar industry is doing very well, and grain after a couple of years is back again. I am not sure that we are going to become a net food importer.

Chairman: You are evidently stunned by the suggestion. Lord Maclennan, you wanted to come in.

Q388 Lord Maclennan of Rogart: Thank you. Ambassador, there has been great apprehension expressed at the United States in particular, and particularly following the Farm Bill, that this would prove to be a spanner in the works at Doha, but, as I understand it, with the rice in food prices which is going on concurrently the prospects of agricultural payouts from subsidies to the American farm community is really quite low. Do you think there is no possibility of getting that message across in the United States and getting them to turn the focus of their criticism away from India particularly, and India to play ball by recognising that they would not have to compete effectively with a subsidised agricultural system which could be described as unfair trade?

Ambassador Gosper: I agree wholeheartedly with your message. We are certainly quite disappointed in the Farm Bill. At a time of high prices like this it would seem an opportune time for much more significant cuts in levels of subsidies and protection generally. We have certainly expressed our disappointment that the US has not taken this opportunity. In fact, we consider the Farm Bill is a step back, and a very unfortunate step back, in what is a necessary process of reform of US agriculture. I think we have made that very clear. It is not the best environment to be negotiating the Round in, of course, with the political signal from the US Congress in doing that. It has to be said that the President has been very clear in seeking to veto the Bill, he does not think that is the right approach for US agriculture and has been very clear that the US is looking for a strong outcome of these negotiations and is prepared to negotiate seriously on levels of agriculture subsidies. We will see where we get to in the next couple of weeks but we are certainly hoping—it is much stronger than hope—and unless there is a good outcome on US domestic support I do not think the Round will go very far.

Q389 Lord Woolmer of Leeds: That brings us very neatly to what I was going to ask you. What would an acceptable deal look like? Put it another way, what are the potential deal breakers?

Ambassador Gosper: For Australia?

Q390 Lord Woolmer of Leeds: No, overall. You are Chair of the General Council, you have an overview, what would be the kind of shape and content, not the absolute detail, that you would regard as an acceptable deal and one could say that has brought this Round in the circumstances to a reasonable conclusion?

Ambassador Gosper: First and foremost, it will have to involve a good agriculture deal and that will have to involve not just the elimination of export subsidies in all their forms but also significant increases in market access, most particularly in the developed country markets, the European Union, Japan and the United States. It will also have to include an appropriate level of contribution from the developing countries, in particular the major emerging developing countries. We are certainly expecting that China, India, Brazil, Korea, Taiwan and others will also make their contribution in the agricultural area. The level of contribution, of course, is proportionate to what is provided by developed countries and will have to take account of the particular flexibilities that developing countries have sought, that in turn takes account of their interests in the livelihood of poor farmers or vulnerable rural communities. That is a level of balance that the membership has yet to find. We know the broad parameters of the balance that is available, the number of particular tariff lines that might have some additional flexibility and the depth of tariff cut that might be employed, but for agriculture that is the sort of broad framework. It is going to involve cuts of around 75 per cent in the current entitlements for domestic support. It will involve cuts of around 75 per cent, maybe not quite that much, for the highest levels of tariff in developed countries and around about two-thirds of that in developing countries. Then in NAMA we are going to have a formula which cuts tariff peaks as much as possible. You are going to have something that produces real market access in the developed countries which generally have tariffs at their applied rates now, so it is going to be a significant improvement in those markets. Where the membership is seeking balance is in the proportion of contribution of developing countries, in particular the major emerging developing countries of Brazil, China, India and some others. In services, which is not subject to a formula or modality as such but bilateral request offer processes, obviously there will need to be an outcome there that produces significant

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improvements in Mode 4 and other areas of interest to developing economies, but also in some of the key service sectors, areas like telecommunications, financial services, professional services and so forth. Then we have the rule making area, which will come later in the process, later than the next few weeks or so, where you have the prospect of some improvement to rules that relate to trade members in particular. Members are still seeking to find the right balance between various provisions. Some relate to zeroing public interest tests, sunsets, lesser duty rules, those sorts of things, but there will be some strengthening and improvement of those rules. There is something which for the first time seeks to present an explicit framework for fishery subsidies, which is quite important for the environmental community, in particular the World Wildlife Fund, Greenpeace and Oceana have been working very hard for that, and it is seen as an important outcome. There will be some important outcomes in the area of trade facilitation which deals with customs and border costs and procedures. That is a very unsexy area of the negotiation but a big dollar item for business groups or those who follow these negotiations. It will produce an important reduction in global transaction costs in these sorts of areas. It has been a little bit underneath the radar, but people will want to ensure there is a good outcome in that area. You have got a couple of other areas. On trade and environment I expect there will be some recognition of the important mutual complementarity of environment and trade regimes and some reinforcement of co-operation in that area. Even though they are not formally part of the single undertaking I expect to see some relatively minor improvements to some of the rules that relate to dispute settlement understanding. Then, of course, we have got some more complex issues, complex politically at the moment, that relate to the TRIPS regime, the intellectual property regime, where we have one mandate to provide a register for wines and spirits which, courtesy of the Uruguay Round, are subject to a high level of protection, and a disputed agenda, disputed among the membership, for some extension of higher levels of intellectual property protection for geographical indications for other goods, so from the EU perspective that reflects concerns such as the Italian interest in Parmigiano-Reggiano and the like, but also an interest on the part of many developing countries for stronger rules on disclosure related to genetic material and patents. Members are still heavily divided on those issues, so it is very difficult to say what outcome will come in that area ultimately. Broadly speaking, it is clear that for the membership a good part of the strength of this Round relies on subsidy reduction for agriculture in the major subsidised developed countries and market access improvement in agriculture, industrial tariffs and

services, and in strengthening of rules in areas like trade remedies, trade facilitation, and there are some other areas of product probably less commercial but of overall significance for members.

Q391 Lord Woolmer of Leeds: You have been living with this for a long time, and your predecessors too, and it sounds as if all the issues are well gone over, well understood, but what is it that, despite the understanding, could prevent an agreement? Where is the political will issue presumably? I presume the issues are not at a technical level of understanding what the issues are.

Ambassador Gosper: The immediate issue is whether the major players can find the right balance in these negotiations. The EU, US and some others will need to make major reductions in subsidies, what we call effective cuts. We are talking about much more than was done in the Uruguay Round where ceilings were set which were never, never at risk of ever being approached. We are talking about ceilings now which either cut beyond or very close to actual levels of expenditure. We are talking about the elimination of export subsidies, which was a path that I think the EU was more or less on, but elimination and consequent changes in export credits, food aid, state trading monopolies. We are talking about improvements in market access. We are not talking about tariff reductions of an average of 36 per cent, we are talking about something much more significant, an average of at least 54 per cent, and with TRQ increases. For the major economies, they argue that they need to see some return, particularly on access to the major developing economies, China, India, Brazil. The exact focus of that interest, of course, will differ from economy to economy. There are other issues which, if not immediately, will certainly play into this negotiation. Rules, of course, even though it has a certain political profile, will have a much bigger political profile later in this negotiation if we get to the next phase. At the moment, as some key members see it we are balancing between subsidy reduction and market access improvement they offer for the market access they see in other markets. That is particularly an American perspective but obviously the EU has that interest as well and we can see that reflected in the current debate they are having on both the agriculture and NAMA texts, and in particular the EU interest in what access it will have for its industrial products in other markets.

Q392 Chairman: Thank you very much, Ambassador. I am conscious we have already kept you ten minutes more than you agreed to be here. It has passed very quickly. Thank you very much

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indeed for coming, that was extremely useful. May we wish you luck, although it may be a great deal more than luck which is required.

Ambassador Gosper: It certainly is. I appreciate it anyway.

Chairman: Thank you very much.

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Present	Cohen of Pimlico, B. (Chairman)	Moser, L.
	Haskins, L.	Trimble, L.
	Kerr of Kinlochard, L.	Woolmer of Leeds, L.
	Maclennan of Rogart, L.	

Examination of Witnesses

Witness: DR SUPACHAI PANITCHPAKDI, Secretary-General, UN Conference on Trade & Development, examined.

Q393 Chairman: Dr Supachai, thank you very much for coming to talk to us.
Dr Supachai: It is a pleasure.

Q394 Chairman: We have sent the topics we would like to cover to you in advance and we have one or two more, which I am sure you will be able to handle very easily, which will be useful to us. The usual procedure is that a full transcript of proceedings is taken. We offer you a copy of the transcript before we publish so you know what is in it. Would you like to make an opening statement or may we start asking questions?

Dr Supachai: Maybe it is better for you to start putting the questions.

Q395 Chairman: My opening question is really to ask you to put on the record a brief statement about the role of UNCTAD, particularly in relation to the WTO negotiations.

Dr Supachai: UNCTAD is a UN organisation that is responsible for UN development activities mainly in the areas of trade, development and related issues, including investment, competition rules and negotiations. UNCTAD's work is organised around three main pillars. The first pillar is our work on research and analysis. We like to think that we are the think-tank of the UN on development economics, particularly with regard to globalisation and the effects of globalisation. The second pillar is technical assistance, which is not the main mandate of UNCTAD but is continually expanding as a result of the demand. We try to link the first and second pillars of our work. The third pillar is what we call the intergovernmental machinery, which is the consensus-building process of UNCTAD. As you know, UNCTAD is a subsidiary organ of the General Assembly, and we report both to the Assembly and to the Economic and Social Council. Because of this foundation we have the unique privilege of having all the UN Member States attending our meetings to seek consensus on whatever topics they choose to debate. Before the creation of the World Trade Organisation in 1994—as you know, UNCTAD has been around since

1964—UNCTAD used to handle some areas of negotiation, for example, in the commodities area, international commodity agreements were negotiated under UNCTAD auspices, as was the General Scheme of Preference (GSP), and in the areas of debt relief, we were the prime mover of the idea behind the HIPC initiative and debt relief programmes. We are the UN body that initially proposed the ODA target of 0.7 per cent of GDP. This is some of the work that we do.

Q396 Lord Haskins: I suppose one of the great concerns of the world at the moment is the rising cost of food alongside energy. There is a concern that may lead to greater protectionism, and there are signs already that may be happening. What is UNCTAD doing to help the less developed countries cope with these problems of soaring inflation, particularly in food and energy, because they are proportionately much more affected than the developed world?

Dr Supachai: We produce a series of reports every year, and one of our flagship reports is called the Trade and Development Report. The Trade and Development Report from 1998 had a few chapters on agricultural development in Africa. I cannot say we predicted that there would be a food crisis in Africa, but what we said was that malnourishment in Africa is part of the development crisis, and it will not go away easily. In 1998 we detected the beginning of a downward trend in ODA for agricultural development. In the past 10 years, ODA for agriculture has declined from more than \$3 billion per year to less than \$700 million per year. I asked some of the donors what the reason was for this decline, why they had reduced ODA for agriculture, and they said it was because they had limited capacity to finance all of this. Since the emergence of the MDGs, there has apparently been a growing preference to allocate more funds to social infrastructure. A lot of funds have been diverted away from what we call productive capacity-building in agriculture towards social infrastructure—governance, health and education. I agree with the necessity of funding social infrastructure, but we predicted that the drop in financial support for

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agriculture would result in less food production in Africa and in the kind of crisis we are now confronting. In the 1980s and 1990s most of the least developed countries, including those in Africa, were told they might not possess the comparative advantages needed to produce their own food because they did not have the seeds or the irrigation systems, they suffered from droughts, they lacked the governance, they had better rely on international markets where cheap food product was available. The so-called Washington Consensus that we tried to follow encouraged countries to be more reliant on markets for their food. Twenty years ago, Africa was a net food-exporting continent. It was only in the past 20 years that Africa had begun to reduce its own production, because of reductions in aid and in the interest from the government, and had become more dependent on the imports. What is the role of UNCTAD in this food crisis? As I said, we warned the world that because of a drop in ODA, because of a lack of interest in African agriculture and because of excessive reliance on the market mechanism, there would be a crisis. We agreed with the FAO's warning close to 10 years ago. At that time there were about 800 million malnourished people in sub-Saharan Africa. The FAO tried to secure some financial support to deal with malnourishment, to reduce the 800 million in 10 years to 600 million. With no assistance, no aid, no ODA, this 800 million has now increased to 860 million people in Africa. We call this a development crisis, and it is only the tip of the iceberg. Our contribution is to ensure that the global community does not lose sight of the long-term development strategy that needs to incorporate agriculture into national development strategies. We are very concerned. I take part in the High Level Task Force set up by the UN Secretary-General in April, and I have observed that most countries are trying to do their best, to alleviate the immediate problem, which is correct at the moment. We need to emphasise humanitarian aid, seeds, and fertilisers to help countries over the next harvest so that people will have enough to eat until the next harvest, and maybe the harvest after next. My own information and forecast from UNCTAD is that because of the abundant water—the rains have been very good in Asia, even in Bangladesh, India and South-East Asia—and because of the support from government and the rising price of food commodities, farmers are reacting very rapidly and there will be a bumper crop this year. At the moment we are seeing the price of rice which has going up 150 per cent this year, from less than \$400 a tonne to \$1,100 a tonne. It has now fallen back to below \$800 a tonne and some farmers in Asia are already protesting about this. A year from now I am sure that the international community will have other more fashionable crises to deal with and they might lose interest because they think they have

fulfilled their humanitarian goals. Our strategy is to try to alert. We have produced a report which I could not bring with me today because I was in other meetings. We have produced a report that proposed a medium to long-term development strategy to help countries in Africa to mainstream agricultural development into their national development strategies. It is also partly to help convince national donors to be mindful that without the right kind of allocations to infrastructure, research, extension services and marketing network, Africa will lurch from one crisis to another. We have also working to help mobilise private investment into Africa for food production, which is new because normally countries do not allow foreign investors into their farm sectors. We have been talking to people in the Middle East—to oil exporting countries with surplus funds, to sovereign wealth funds and I have tried to include the whole region, the Gulf Cooperation Council (GCC)—to interest them in investing the bulk of their oil revenues into agricultural production in Africa, with a sharing of benefits. We have just begun to do this work. I am negotiating on both sides—that is, with potential investors and with countries with agricultural capacity—and we hope to be an honest broker in this process. From our side, we are trying to do more work on the so-called food commodities, because UNCTAD is a focal point for commodity issues in the UN system. We need more information on this, because if you look at rice, there has been a 150 per cent increase in price, with no shortage in rice production. There used to be a balanced supply and demand for rice, but then some countries began to be over-sensitive about the availability of rice domestically, and to impose export bans, tariffs, quotas, and selective trading bans. Because of that, there has been a good dealing of hoarding, and speculators have jumped onto the bandwagon, moving monies away from real estate into the futures market, and rice was targeted in the early days. I would say that maybe half of the increase in the price of rice has been due to speculation. This is currently an uphill fight, because economists do not agree on the role of speculation in the food price hike, but we are quite convinced that there is some connection, and that it has become excessive. If you have speculation in the futures market, that is fine, that is normal, but when you have excessive speculation and a more than 30 per cent increase in funds being channelled into the futures market for food commodities in the past 18 months, this creates the wrong kind of futures prices which have influenced the spot prices. We are now trying to work on the science and technology side. UNCTAD is the focal point in the UN system for science and technology-related issues. We serve as secretariat to the United Nations Commission on Science and Technology for Development (CSTD). We would like the CSTD to

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work on biotechnology so they can help African countries launch engaged in the first Green Revolution for Africa. As you know, the Green Revolution has taken hold in Asia since the 1960s and 1970s, but it never took hold in Africa, due to a number of problems that could not be addressed at that time, although there was a corn revolution there in the 1980s. We would like to see new technology for food grains to provide seeds. Seeds are the most important thing at the moment, aside from water. Seeds will be important, because in Africa you have the very trying conditions of drought, floods and insects; you need hybrid seeds that can be resistant to all of them.

Q397 Lord Moser: Just going back to your first comments in answer to the Chairman, I take it that UNCTAD's focus is on helping developing countries in one way or another.

Dr Supachai: Yes.

Q398 Lord Moser: In your view, do the less developed countries get sufficient help from the developed countries? Even in asking the question I find myself confused about definitions. Some people talk about the developing countries, some people talk about the less developed and then there is the official definition of the least developed. Whatever definition works for UNCTAD, what is your feeling about the present state of play on the substance of support from the advanced to the developing world?

Dr Supachai: Thank you for this question, Lord Moser. UNCTAD has been assigned by the UN system to work on the economics of the least developed countries. In fact, we have a sub-programme on LDCs, landlocked developing countries (LLDCs), and small island developing States (SIDS); the latter are mainly in the Caribbean and Central America. In WTO parlance, all of these country groupings are "vulnerable economies". UNCTAD is responsible for assistance to all of them, and we have quite an extensive annual report on the LDCs' economies. This is the only group, together with the LLDCs and SIDS that is defined officially by the UN system. The UN's Committee for Development Policy determines which countries are going to qualify for LDC status and which will soon graduate from it. I used to joke that we have done ever-increasing work on the LDCs but we should be looking for a way to reduce the number of LDCs. In the 1960s there were only about 20 LDCs; now we have 49. Last year there were 50, but one country has just graduated, Cape Verde. The General Assembly had recommended graduation for Maldives, but that was before the tsunami washed away half of their economy in 2004. Two more countries are on the verge of graduating. Cambodia is doing well and expects to graduate by 2020. Bangladesh is also on

track for graduation. We do extensive work on economic planning and policy recommendations for the LDCs. We help them mainly with the negotiations, particularly under the WTO. The meetings of trade ministers of the LDCs and other developing countries are all supported by UNCTAD. We do the documentation and research, we advise them on the policy options and negotiating positions available to them. Commodities are very important for the LDCs. Most of them are single commodity exporters. Cotton is one area I worked on when I was at WTO, and now at UNCTAD we are doing a lot of work on commodities to help the LDCs. My point on the LDCs, if I could leave this with you, is that there is no lack of interest or donors' funds for the LDCs at the moment. When we convene expert group meetings, funds abound to help the LDC experts attend. But when it comes to those who are a little bit above the LDCs—what I would call the 100 or so middle-income countries—then donors are more reluctant to finance experts, as it is assumed that these countries can afford to pay for them themselves.

Q399 Lord Moser: In your terminology, Dr Supachai, they are already graduates?

Dr Supachai: Yes, they graduated long ago. If you look at Honduras, El Salvador, Guatemala, these are countries with an income per head close to \$1,000, but there are some island economies that are probably \$2,000 per head—mainly because they are small, with populations of a few hundred thousand. They are not doing well because they have advanced in their economic development, but because of the small size of their economies, which is why the income per capita is high. I would like to see not only the concentration of a system for LDCs alone, because if we proceed along these lines, and if we see each other again, I might have to report that we have 60 LDCs and not 49, because the middle-income countries might drop into the lower ranks. This is a real risk. The EU as a whole is less keen to provide support to middle-income countries, but there are some countries, like Spain, which have been supportive of research on middle income countries' economies, and we are trying to do that. Otherwise the work on LDCs has been more than adequate. The point that needs to be made with the LDCs—and I have just talked to a group of donor countries—is that we should not be giving monies to the LDCs so that they are totally dependent on such handouts forever. This is a great risk of total dependence on donations, concessional financing and trade market access. Many countries do not want to graduate from the LDC category and my aim is to force them to graduate. This is the work that UNCTAD is doing, based on our annual LDC report. We are trying to classify them into different groups, what we call converging groups—that is, they are converging on

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the right macroeconomic policy, and with prospects for graduation, those who are showing the potential for sustained growth and graduation in the near future, and those who are the laggards and nowhere near graduation.

Q400 Lord Moser: In other words, at the top of the tree there are the postgraduates, the really well-off ones, and at the bottom of the group are the LDCs, the non-graduates, and some of them are graduating. My question was, are the graduates and postgraduates helping the non-graduates enough. You have answered the postgraduates, yes, but there is the middle ground of a lot of countries which have graduated from the bottom who in your view are not doing their bit. Does that go too far?

Dr Supachai: I was speaking more of the assistance between the advanced countries and the least developed countries. If you are talking about the middle-income developing countries, at the moment it seems there would be increasing economic cooperation within the South—that is, among developing countries. There are developing countries that are now helping the LDCs. For example, the other day India made an announcement during the summit meeting between the leaders of India and Africa that it will give quota-free, tariff-free market access to the LDCs. We are seeing more assistance among these countries from different layers.

Q401 Lord Moser: Finally, very briefly, the Aid for Trade Fund, which is a very big operation, does that cause any problems in terms of the LDCs possibly feeling that they cannot negotiate fairly?

Dr Supachai: The fund that is supposed to be helping the LDCs is called the Integrated Framework. I do not know whether you have heard of that.

Q402 Lord Moser: Yes.

Dr Supachai: At the moment it has been improved and now we call it the Enhanced Integrated Framework, the EIF: enhanced in a way that there will be a larger amount of funds, that they will be more predictable, that there will be greater ownership and more harmonisation work with the domestic development strategy. This is called the Enhanced Integrated Framework. The EIF is directed mainly at the LDCs. Its main task is to help in the mainstreaming of trade policies into the overall poverty reduction strategy. As you know, the World Bank, IMF and donors base their donation of funds on the poverty reduction strategy that mostly has been established by the World Bank. There has been a proposal from our side, from the WTO and UNCTAD, that if you do only development without trade that is not sufficient, so the EIF is supposed to help mainstream trade into development. Aid for Trade came later; it was developed during the time I

was at the WTO. It was agreed when I had just left the WTO in 2005 at the Hong Kong Ministerial. It is now three years without Aid for Trade being operationalised. There has been a lot of discussion on conceptual frameworks. It has very commendable targets to help make adjustments, to help implementation of the trade rules, to help build up supply capacity, to help trade infrastructure and things like that. I would say that most of the things that are incorporated in Aid for Trade, 80 per cent, is work that we are doing under the UNCTAD umbrella. I was part of the effort to help, and the one thing I saw in the Uruguay Round, the Round preceding Doha, was, the Trade-Related Intellectual Property Rights Agreement (TRIPS) for example, which was one of the most difficult sets of rules that developing countries were obliged to adopt, and there was no assistance to them at all. As a result it did not create the benefits that developing countries should have enjoyed from being part of that agreement. So Aid for Trade was conceived to make the participation in the trade negotiation amenable for the poor countries to take up, to feel part of and implement. If they finish the Doha Round this year, there will be maybe 10 new agreements on the cards and it will take a lot of money and resources to implement them all. Aid for Trade is supposed to be for that purpose. At UNCTAD we say that Aid for Trade is something we have been doing all along. If more support can be given to the work we are doing, we can start doing more work on Aid for Trade now, particularly in assisting countries in the ongoing negotiations. They badly need assistance on the negotiations, especially on complicated subjects like services, which is the one of the most intractable parts of the negotiations. Aid for Trade at the moment is not operationalised, and I keep asking about it; it has been three years now. The fear we have—and I do not know whether you should keep it in or out—is it might be linked to the outcome of the Round. It might be used as a sweetener—“If you agree on this, I give you that”—which is not what we want. We have rejected that, and have asked the European countries to reject it as well. Of course, donor countries and advanced countries are saying that this is not the purpose, but if you look at the way this is being approached you must have some suspicions about the reason for the delay. It could have been operationalised a few years ago, right after the Hong Kong meeting in 2005. Maybe the end is in sight, but I am sure Aid for Trade will be targeted to be implemented at a time when the whole single package is adopted.

Q403 Lord Trimble: Obviously issues concerned with UNCTAD, WTO, the meeting here in a week or so's time, are very much our concern, but as a Committee our focus should be on the European

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Union. I wonder if I could ask you to think about the trade policy of the European Union and whether you think there are any aspects of that that are particularly helpful or harmful for the less developed countries.

Dr Supachai: Thank you, Lord Trimble. They have given me long notes. I will not read all of this to you. I would summarise by saying I understand why agriculture policy has to be one of the key policies within the EU, but I hope that the EU also understands that by subsidising production and exporting products that have price distortions—meaning lower prices than the normal cost of production—that results in the destruction of agricultural initiatives. It has created a lot of disincentives around the world for farmers to remain attached to their investment. I would say in all areas of government support—agriculture subsidies, blue box, amber box, price support, price guarantee, export credits, food aid in kind—all of this has resulted in a distorted price mechanism, and this is a major culprit within the EU system. I know that the EU is working towards reforming the whole system to move everything into the so-called green box. The green box is a box in which the expenditures on agriculture are permissible. It is supposed to help in the transportation of food, research, extension services, and so on. Negotiations going on at the moment in the WTO are also engaged on the right definition for the green box, because people are afraid that countries might be taking this kind of action in moving actionable subsidies from the blue box and amber box into the green box. There are other things that have been somewhat harmful to the export potentials of the European countries, mainly in some of the key non-tariff areas, which are also under negotiation at the WTO on both sides, on the technical barriers and also the sanitary and phytosanitary barriers, particularly on food safety requirements. Most of the time all of this standard-setting has been driven by the private sector, and the governments in the EU allow them to do so. All the retail firms have their own sets of rules. This is quite harmful, because they set their own standards, and sometimes the standards in the rest of the world are quite safe but do not comply with these standards. Representatives of the European countries are not always involved in the setting of these standards because these are private initiatives. From UNCTAD's side, we now have a taskforce that deals with the issues of non-tariff barriers, because we would like to see them being tackled more than before. If you look beyond agriculture, in manufacturing the tariffs are very low at the moment. The only problem with a protection policy in manufacturing is the non-tariff barriers, so we would like to deal with that. One area which is neither negative nor positive, but just a warning: I know the

EU is making an effort to finish the negotiations on the Economic Partnership Agreements, the EPAs. I worked a lot with Africa and understand that some of our African colleagues are feeling under pressure, to put it diplomatically. I have attended a number of meetings at which African trade ministers have discussed their role in the negotiation on the EPAs. It seems that EPAs would cover areas that we call WTO Plus, for example in some of the TRIPS areas, investment and government procurement. I told the African ministers it is up to them: "If you want to go ahead, you go ahead but, according to the WTO arrangement, you are not bound to do that". The second point is the way the EU, I think with good intentions, was trying to clinch the deals by the end of last year because a waiver was supposed to have expired then to give special concessions to the ACP countries. Before the end of last year there were, I would say, some contrived agreements for some countries that have resulted in the current divisiveness. If you look at the western part of Africa, only Ghana and one or two other countries have signed the interim agreement but the rest have been very vocal against this EPA agreement. In southern Africa, South Africa has not joined in. In eastern Africa they have all joined in. What resulted in Africa was a threat to the regional integration of Africa, which I know is not the purpose of the EU EPA. The EPA is supposed to help with the economic integration of Africa. My warning is that this may not result in economic integration because the Africans have to reconcile what they have done, and some have acceded to the agreement and some have not. This is a real problem. The few good things that I think the EU has been doing, and probably should do more of, is first in the area of Everything But Arms, the special concession that has been given to the LDCs. I hope that the three commodities which were left out from the beginning, which were rice, bananas and sugar, will eventually be integrated into Everything But Arms. The second is the GSP scheme that the EU has adopted, the General Scheme of Preferences, except that the scheme is under some conditionalities. It used to be explained by the EU that these conditionalities are tied to the labour question, but I do not know. It might be correct from the side of the EU to try to help promote labour rights adoption, but from the recipient countries the conditional concession might not be 100 per cent useful. The third part of assistance from the EU is in the area of standard recognition. I was talking about the problem with NTBs, but at the same time, the EU has been doing a lot of work in helping countries to understand the need for standardisation work and to have mutual recognition of standards to try to upgrade their products so they meet international standards.

Q404 Lord Trimble: On your first point, commenting on the Common Agricultural Policy,

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speaking personally I am not favourably disposed towards that particular policy myself but I have heard it said that if Europe were to abolish CAP the benefit would go mainly to the developing countries, such as Brazil, and very little benefit would actually go to the less developed countries. Would you agree with that?

Dr Supachai: I would say that this would be a correct assessment.

Q405 Lord Trimble: You still think that, nonetheless, it would be a good idea to remove CAP?

Dr Supachai: In the first round, certainly. This is true with everything in economic life in this world. Those who are efficient in car manufacturing would gain from the car negotiations, in textiles they would gain in textiles. This is why trade liberalisation is there, for countries to take action to try to specialise in certain areas and take benefits. Some countries specialise in food production so these are the countries that would stand to gain quite a lot in the first round. As a result of this, in the second round we would see a better pricing system, and this is what we are all aiming for. You cannot avoid having Brazil, Argentina, Thailand, countries like this, gain from this first round from the liberalisation of prices, but when a pricing mechanism is fully free I believe that more countries will join in agricultural production with more investment.

Q406 Lord Maclellan of Rogart: The Doha Round has taken a long time to get to this point and, whatever the outcome, it does raise questions about the effectiveness of this particular mechanism of multilateral negotiations to deliver, and perhaps particularly to the least developed countries, notwithstanding the high reputation of the WTO, for example, in the sphere of dispute settlement. From your vantage point, and with your experience of the WTO, do you consider that post this round, and perhaps I should say even before the end of it if it is protracted, we should be thinking about new structures of decision-making, recognising that also in the context of the explosion, as another witness said, of bilateral negotiations? What is your thinking about the future of the WTO in short?

Dr Supachai: This is a subject very close to my heart. I left this document with the WTO, *The Future of the WTO*. I asked Peter Sutherland to head it. I could not put my name on it as at the time I was the Director-General. This document shows how concerned I have been with the future of the World Trade Organisation. Let me discuss the ongoing round of negotiations. The Uruguay Round started in 1986 and was completed in 1994, so it took us about eight years. It took us from 1994 to 2001, another six years, before we could launch another round. You can see a cycle of eight years to finish a round and another six

years, a cycle of close to 15 years. It is 14 years from the beginning of the launch of the Uruguay Round in Punta del Este to the launch of the Doha Round in Qatar in 2001. If we do it like this for the world, although negotiations last eight years, implementation and going to the next round will take a cycle of 15 years, and I do not think the global economy will benefit from this kind of very long cycle of launching of rounds. When we launched the Uruguay Round there were less than 80 members of GATT, and now we have 153 members of the WTO. During the Uruguay Round there were very few issues, mainly manufacturing. Agriculture was dealt with just a little bit in the Uruguay Round. There were new issues on services and intellectual property rights, the TRIPS. In this round there are more than 15 issues, new and old, to be handled. It has taken about seven to eight years, close to the average for the round to be completed and that is why people think that before too long we will see the completion of the round. The process of multilateralism is long, arduous and tortuous, and this should not be the way for the future work of the WTO. I do not know whether I should place it on record or not, but I intend to write a book on why we should change from a multilateral round to something that is more in line with the new rules of the WTO. During the GATT period you could not have trade negotiations without a round because the GATT was not an institution, it was a general agreement. It was a general agreement on tariffs and trade. They could only launch a round to discuss and negotiate trade. The WTO is a trade negotiation forum. We can do trade negotiation any time at the World Trade Organisation, there is no need to go into a difficult negotiation for a launching of a round and then to finish the whole round. I am very hopeful that this round will end. People keep saying that if there is no end to the round it will be devastating for the WTO, but there will not be no end to the round because every round has an end. You can end a round by coming to a compromise solution. You always start with some level of ambition and by negotiating you find a compromise solution. I hope that the compromise in this round will not bring the level of ambition down too low. This is why they have negotiated for so long, a lot of things are on the table, particularly agriculture. This is the first time we have agreed on the total elimination of export subsidies, which is unprecedented. It was agreed in the July package in 2004, before the Hong Kong meeting even. There are lots of things on the table for this round to produce for the poor countries and also for the advanced countries for the round to fail. I foresee that there might have to be some heroic compromising effort around the world to reach an agreement, because the complications are not only in agriculture: the so-called NAMA also has great complications because of the non-reciprocity

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treatment. There are more complications in services. The first two are dealt with on the basis of formula, the so-called Swiss formula, but the services negotiations are dealt with on the basis of bilateral requests on offer. We have a lot of moves and negotiations that are needed all round. Then you have the rules negotiations. At the moment, while they are discussing agriculture and NAMA, the rules have not started to produce any concrete results at all. If you look at the anti-dumping rules, they can take many months before they will finish it. My suggestion in this report is if we have to manage a WTO with 160 or 180 members—because more countries will be joining the WTO: when I was there there were 140, and now a few more have joined and before too long there will be 160 or 170—it will be unmanageable to finish any round created in the future. Any round that is launched in the future might involve some areas which are new to the WTO. For example, the new issues in this round, which are trade and environment, in the next round, if there is a post-Doha round might involve what I would call beyond-the-border regulations. Normally the WTO is tasked only to deal with border measures, customs measures, tariff measures, but not inside the border, measures like the rules we are seeing now with the services negotiations. In the future there will be more rules negotiations inside the border, and this will complicate the issues. The intention of this report is to request members and provoke members to discuss the so-called variable geometry, meaning do we always need multilateral solutions to all this, which is a perfect solution. First we must go for multilateral solutions, and I still believe in multilateral solutions, but there will be different areas which will become very complicated for all members of the WTO to take the same commitment at the same time, so plurilateral agreements exist under the WTO. For example, the Financial Services Agreement that was concluded in the 1990s is a plurilateral agreement. I do not know how many are party to this, but it is not all 153, it is something like 100 countries. The Government Procurement Agreement is also a plurilateral agreement, and not all countries are bound by it. Based on our discussions with experts, we think that in the future we may need to think more about maintaining multilateral processes, but at the same time strengthening that with plurilateral processes for some issues, while keeping the agreement open for those who can join later. The second part of the concern on the WTO in the future is the things I have just mentioned on the issues inside the border. If you look at climate change which is being discussed at the moment, too little has been said about its trade and development impacts. People tend to say it will have some devastating impacts on development if we do not take care of the level of water and desertification and things like that, but the

real impact when it comes to the trading regime is on the trade rules. From time to time that will be subsumed by the more globally accepted climate rules. People are now beginning to talk about the measurement of carbon footprints in the way you produce things. This is an advanced process, but surely at some time in the future people will think about this. Some countries have already adopted climate policies as a way to inhibit trade. Eco-miles, for example, that has been raised by some farm associations in Europe, has criticised the importation of flowers from Kenya and Uganda because they say you have to fly the flowers all the way from Kenya and Uganda, whereas the WTO has proof that flowers produced in a greenhouse in Europe produce more carbon dioxide than flowers flown all the way from Kenya and Uganda. The WTO has to get engaged in this discussion, and in the future I see that particularly on climate policy and trade there will be a lot of difficult soul-searching exercises with the WTO, so we will have to prepare for that as well. The third problem is on dispute settlement, which you have also referred to. With the increase in competitiveness and the intensity of competition around the world there will be more disputes anyway. Without the Trade Round there would probably be even more disputes in different areas. The disputes that are coming are going to be in different kinds of areas. At the moment we are seeing some of the non-tariff barriers, anti-dumping activities, genetically modified products. There will be a lot of issues that will have to fall back on more scientific confirmation and research which will become very intractable for the WTO and it is getting to be very complicated. My concern for the future of the WTO is that we should not stray too far with the WTO into too many areas at the same time. The best is to keep the responsibility in the well-defined areas that they are operating in and be very cautious and prudent when we allow more negotiations to proliferate.

Q407 Lord Maclellan of Rogart: Just one quick supplementary on your first point about plurilateral as opposed to multilateral. Would you envisage that the WTO would have to have rules, and, if so, what kind, to protect those who did not sign up from bullying or to identify harm that was unacceptable to the non-participating members?

Dr Supachai: At the moment under the so-called Special and Differential Treatment negotiations there would be some agreements that would be subject to different sequencing of implementation anyway. Different sequencing should mean that those who are not capable at the moment of committing themselves should be assisted. That is why Aid for Trade and UNCTAD's work come into the picture. We have always said in various issues, in part of the so-called Singapore issues, investment

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rules, competition rules, these are things that UNCTAD has been doing all along. UNCTAD has been doing a lot of work on competition rules and investment. When you prepare countries to go into some legalistic obligations you cannot force them to do so without the right kind of preparation. This is something that we should do if we have plurilateral agreements, and UNCTAD is always around to do that, although we need more contributions from the donors to be able to perform all of this.

Q408 Lord Woolmer of Leeds: You said that all rounds come to an end eventually and you hope that the agreement this time, if it comes to an agreement, would not be so small and modest that it really achieved nothing. In your view, what would be the key elements of an acceptable package or outcome for the current round?

Dr Supachai: You pose a very good but very difficult question to answer.

Q409 Lord Woolmer of Leeds: Just the main heads.

Dr Supachai: I think the key is agriculture. I was talking about rules, manufacturing and services, but the key is still agriculture. Although I have always said this is a balanced round, it is a round for all things together and not only agriculture, the key to unlocking it—the lynchpin—is agriculture. You need to have a decent agreement on agriculture. The kinds of proposals that are on the table at the moment on agriculture come very close to what I would call the Swiss formula, that for the highest level of tariffs you have the highest level of reduction, and you go down the ladder like that. To have a full elimination of export subsidies, all the amber box, try to limit the blue box that will not have a price distortion but help to support producers, and also try to agree on the escape clause. All the clauses that would give special products, sensitive products, SSM—the Special Safeguard Mechanism—we must try to treat them in a way that does not give countries the leeway to escape commitments. At the moment you can agree on the Swiss formula, subsidy reduction, but there are many escape clauses in this because a lot of countries cannot stand the full competition on

agriculture. There will be a series of discussions on special products, sensitive products, SSM, SSP: many of them are on the cards now, and the final agreement would be the whole package together, and the key is agriculture.

Q410 Lord Woolmer of Leeds: Equally succinctly, what could stop that being agreed? Is it what is secured in the other areas? Is there enough to give in the other areas to agree a package?

Dr Supachai: In my own experience, if you have the bulk on agriculture agreed upon then people can move on NAMA, manufacturing. On services they do not set a very high bar anyway. On the rules, fisheries will be a problem still, but there are some proposals so people can move forward. Anti-dumping is probably a US issue. If the US finds in agriculture, NAMA and services that they can achieve enough they will give in. I still think agriculture is the key and other topics, other issues, will come along. The problem at the moment is even among the G20 countries they do not have all of their differences reconciled, because the G33 is another group of countries, including particularly the European countries, that would like to emphasise the Special and Differential Treatment, the escape clauses. Even among European countries they have net food-exporting countries and net food-importing countries. The key to unlocking, and for the developing countries to be united is for them to revisit the issue of support to be given to the net food-importing countries, and also in the light of the current food crisis. I remember in the Marrakech Agreement at the end of the Uruguay Round we put in one clause that when this round ends and food prices increase, we must put in a special package to assist the net food-importing countries. This will be a major problem for this round because the food price increases this time will be a secular increase, not a short-term increase. If this round ends in a way where we have a lot of reductions on distortions, there will be a push on food prices, so there is a great need for funds to assist net food-importing countries.

Chairman: Thank you very much indeed, that was extremely helpful. Thank you for staying with us, we are most grateful to you for coming.

THURSDAY 10 JULY 2008

Present	Cohen of Pimlico, B. (Chairman)	Moser, L.
	Haskins, L.	Trimble, L.
	Kerr of Kinlochard, L.	Woolmer of Leeds, L.
	Maclennan of Rogart, L.	

Examination of Witnesses

Witness: MR PASCAL LAMY, Director-General, World Trade Organisation, examined.

Q411 Chairman: Mr Lamy, good afternoon. Unless you would like to start by making a statement, I believe you have had our questions and we could just start with those.

Mr Lamy: The only thing I would suggest we do to begin with is to give you these two bits of paper just to introduce the discussion so that the overall framework within which we are working is clear. These two bits of paper are very simple. One is the list of the 20 topics which were put into the bag of the negotiation when the Round started. The other paper is a simple map of the constituency system we are operating within the WTO.

Q412 Chairman: This is fantastic, thank you.

Mr Lamy: There are 20 topics, this constellation of various groups. The whole point of this Round is mixing these two elements together, shaking it for seven years and hoping that an outcome will stem from this process. Any statistician would tell you—

Q413 Chairman: We have any statistician with us, yes.

Mr Lamy: I know you have a very qualified statistician who will tell you that the odds of getting anywhere by proceeding in this way, which is the way we proceed, is nil, which is why we need a bit of politics, a bit of a miracle, a bit of pressure and a bit of media in order to get there. That is to give you a very simple description of what we are trying to do.

Q414 Chairman: Thank you so much. That leads me right into my first question, which is how confident are you feeling about a breakthrough in the Ministerial on the 21st? Who or what do you think are going to be the major obstacles to getting agreement? I was wondering if you would be prepared to say a word about the German attitude within the EU.

Mr Lamy: How confident am I? Enough. When I called the ministers for the week of the 21st in Geneva I was confident enough that the odds of getting there would be over 50 per cent. Had I thought that was not the case I would not have done that. I did this a fortnight ago. Let us say at the time, to be prudent, it was 55 per cent and it is probably 65 per cent today. In other words, the work that has been done from the

moment this was announced to the compromise text on agriculture and industrial tariffs, which we will release this afternoon, is moving in the right direction. That does not take us to 100 per cent, not even to 90 per cent, but it is moving in the right direction. What we are trying to do this time is address five or six of the issues you have on your list, which is not the whole Round but a set of issues we need to stabilise before we move to the final phase of the conclusion of the Round, which everybody still has in mind should be before the end of this year. The issues we have to stabilise in order to get there are agriculture subsidies, agricultural tariffs, industrial tariffs and to some extent services, although the services negotiations operate with a different technology from the three previous ones. So it is agriculture subsidies, agricultural tariffs, industrial tariffs and some progress on the services negotiation which we are trying to achieve during the week of 21 July. What are the main issues? It boils down to a balance, which is a new balance, between developed countries—US, EU, Japan, Australia, Canada, New Zealand, Switzerland, Norway and a few others—and emerging countries. Not that poorer than emerging countries do not have a big stake in this negotiation, but my sense is the benefits and the small contribution which developing other than emerging countries will have to make is already on the table. The balance between these three issues and basically the US, EU, Japan, China, India, Brazil and a few others, is where it has to be found. It is a technical balance. How much does the US finally reduce its trade distorting domestic subsidies? How much does the EU cut its agricultural tariffs? How much does China cut its agricultural and industrial tariffs, how much does Brazil and so on? It is a fairly technical issue but behind this there is a political issue which stems from the origins of the Round where developing countries decided that this Round would be about rebalancing in their favour rules of the game which we inherited from the previous 60 years of trade negotiations. Developing which developing countries as a whole see this as a legacy which needs to be amended because their analysis of the rules of the game is that they have been drafted and agreed by previous masters of this planet, but the landscape is

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changing and they want their own say. That was the view of the whole of the developing countries' camp. Of course, poorer developing countries know that they have less clout than China, India, Brazil or Indonesia, which is why at the moment of truth my answer to your question is that is where the big deal has to take place. As far as the EU is concerned, on agriculture the EU has a price to pay in this negotiation but this has been dealt with already within the European Union as successive reforms of the Common Agricultural Policy were decided in 1992, 1999 and 2003 and implemented. In many ways the Europeans are selling on the WTO market a quantity which they have already paid for among themselves. Of course, they lock into the WTO disciplines what they have agreed between themselves, so it gives a certain value because all the other partners of the European Union know that the EU is a big oil tanker that does not change very often. That is different from the US which has cycles in its farming support legislation which are every five or six years and have been a bit up and down. In many ways, assuming the EU does not do much more, and that is a question of debate between experts, than lock into the WTO what they have done among themselves, it is not a huge issue. Of course, there is still a debate whether reducing the tariff on poultry matches the difference between the reduction in production and the evolution in consumption, and depending on the euro/dollar exchange rate you can have lots of discussion on this, but overall this is the picture. The Americans are negotiating commitments which would and will, if there is a deal, oblige them to change their farming policy. In a way they are in a more difficult political position than the EU in that field. On industrial market access you mentioned Germany, and I am not surprised by this. In this sort of negotiation Germany has always been very crucial. For whatever reason they believe that their main stake is on industrial products' market opening even if they have their own agricultural issues with Bavaria and the former Eastern Germany. Just look at the German economy, at the volume they export and where they export these volumes to: emerging countries. For the last five or ten years emerging countries have been sucking in German exports on things like machinery, machine tools, cars, the high value-added segment of cars, so they have a specific focus on industrial products and precisely on the markets of those emerging countries I mentioned. This is why they have taken a lead in this within the EU trade policy and the EU negotiations which are led by the Commission and the Commissioner. They have a specific sensitivity both sector-wise and market-wise which explains why they take this specific stance. For many, many years now the Germans have been the sort of anchor of EU trade policy. Their mix is there and, as the anchor,

where they finally land on a compromise is extremely important. Everybody knows the Germans have a longstanding preference for open trade and have this free-of-charge model in mind that has been there for years and years, and of course they are preserving their interest, but everybody believes Germany is on the right side and at the end of the day the EC is on the right side. If Germany drifts on to the wrong side then there is a big problem with the European Union. **Chairman:** Thank you very much, Mr Lamy. I was going to ask you about where the fallback position lay, but I think this is the wrong moment, so I will ask Lord Woolmer to ask the next question.

Q415 Lord Woolmer of Leeds: That was extremely interesting and I am sure we will come back to it. Turning to the developing countries, some of the witnesses we have talked with have said that countries like China, India and even Brazil have not enough to get out of the Doha Round now to really engage them. Is that the case? If it is not the case, what is in it for them?

Mr Lamy: In this Organisation the witnesses for Members are the Members themselves. They negotiate, they talk to each other, they talk to me and I talk to them. These countries have been the main promoters of the new agenda which I was sketching. Who has made sure that agriculture is number one in the negotiations? Not the EU, not the US, not Korea, not Japan, not Switzerland, not Norway. They have made sure that agriculture is number one because this is where they have short-term, medium-term or long-term—short-term with Brazil, medium-term with China and long-term with India—important comparative advantages which they want to exploit. What is happening with the food price crisis does not go in a different direction. These countries want (a) more market access in agriculture, (b) fairer discipline because they remain poor countries and basically say they cannot fight with the EU budget or the Japanese budget or the US budget, they can fight with the farmers but they cannot fight with the budget, and (c) industrial market access. Although agriculture has taken a lot of prominence, notably because they wanted it this way, the main benefits of the Round will be in industrial products and for them, notably in the US market which on average is not really protected, three or four per cent, five or six per cent, like the EU. The average is the wrong concept if you talk about tariffs. I can have zero on plenty of my tariff lines where I do not have much trade and 30 or 40 on a few tariff lines where I want to protect my domestic producers. For instance, in the US market on textiles, clothing, footwear, trucks, ceramics, to take a few examples, there are high tariffs and if they go down the way they will if a deal is there, that is a huge plus for countries like China and India in textiles and clothing and countries like Brazil,

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Argentina or even South Africa on agriculture. I have not given public numbers at this stage because I want to focus on the success of the negotiation. If you make a rough calculation in terms of duties foregone, which is very rough because it implies a sort of zero-sum game, which is a minimum quantification of the benefits of the Round, if you take tariff reductions in industrial tariffs, in agriculture, if you convert in tariff reduction terms what disciplines on subsidy would procure, and there is a simple way to do this, and on the basis of trade flows today projected without any increase in, let us say, five, six or ten years from now, what is on the table in terms of purely duties foregone is in the order of magnitude of \$80 billion a year, two-thirds of which is paid by developed countries, one-third of which is paid by emerging countries. Within this emerging countries' camp roughly half of that is paid by China, not that China has high tariffs, it has much lower tariffs because of its recent accession, but because their bound tariff, which is the maximum tariff, negotiated at WTO is very similar to their applied tariff. Because they joined recently, Members of the WTO made sure they would bind where they have applied tariffs, which is not the case in other developing countries, and second, because of trade flows. Duties foregone is a multiplication of a tariff, a quantum of these trade flows. They will be big beneficiaries short-term. If you factor in the increase of trade flows with these countries five or ten years from now, the savings for developed countries' exports are absolutely huge because they will apply to amounts of trade which are much higher. If I took the table today and asked them, "Are you okay with the balance of what is on the table?" they would all say, "No. I pay a lot and don't get much". They would all say that, which mathematically is totally impossible even with a zero-sum game. That is the difference between negotiators spinning their positions. The reality is that potentially on the table there is a huge package, they will all benefit from, they just need to do the few remaining miles to get there. Emerging countries will amply benefit from this deal.

Q416 Lord Kerr of Kinlochard: You are the master, Mr Lamy, of the big package. I think, for example, of "Reussit L'Acte Unique". You are also well-known to be an optimist, and you are absolutely right to be optimistic. I can quite see why you called this session. But I am a gloomy Calvinist, a Scotsman, and it seems to me, although you are doing the right thing, your 65 per cent chance of success does surprise me. In terms of the political cycle it is quite difficult to see the Americans making much of a move, and presumably no move on agriculture from the Americans means no deal. In terms of the economic cycle the threat of recession creates a stronger threat of protectionism and maybe the American political

cycle is relevant here too. Maybe the deal got too big, maybe there is too much in, and yet we see people trying to throw extra issues in: environment, labour, whatever. Maybe the deal has got too small, because bits of it have been taken out in advance, at Singapore or Hong Kong. Maybe it has been overtaken by the development of bilateral deals and autonomous reforms. Look at the Indian tariffs, as you say the Chinese tariffs on accession, or look at the CAP, which is a very different CAP from the CAP of 15 years ago. I am sure it is right to try to bring this big package to a crunch now, but personally I think it will be a superhuman feat if you bring it off. Can you comment on the political timing, the economic cycle timing, whether the deal has got too big, or whether the deal has got too small?

Mr Lamy: I recognise Lord Kerr has an analytical capacity. First, the WTO has no master but its Members; it is a Member-driven organisation. You spent a lot of time in Brussels with machinery which is a Member driving organisation and here it is a Member-driven organisation. Believe me, having been in both universes, there is a big difference. You are right that the political cycles, the economic cycles and the WTO cycles never match. Why is that the case? It is because our cycle is 15 years. From the moment the concept of a Round is elaborated to the moment the results of the Round are implemented, it is 15 years. The Uruguay Round started in 1986 and the implementation period ended 16 years later. This Round started in 2001, maybe we will conclude it in 2008, which is seven years of negotiation, and the implementation period for developed countries which will probably start in 2010 will be five years and for developing countries ten years. That is our cycle. It is inevitable because we are in a mass which is the international system. When I was in the French Government the time cycle I had in mind was next week; when I was in Brussels it was next month; here it is the next decade. Inevitably, because of the spaces of regulation within which we operate, there is a big difference. It does not fit with electoral cycles or economic cycles. The US elections, yes, it is an important Member of the World Trade Organisation, although Indian elections may be just as important today. There are elections in the US, but for the Round this works in a good direction because this administration has made a determination that they want to clinch a deal. There has been enough venting of other views during the electoral campaign up until now and many of the players believe it is better to clinch a deal with somebody you know rather than go into the open. That does not solve the question of whether Congress will ratify an agreement or not, but there is no answer to this question before you have an agreement. The economic cycle is also important, you are right, it is looking bad, lots of dark clouds on the horizon which

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might lead to protectionist surges. Governments know that, but they know they have an insurance policy in the WTO against protectionist surges. Re-investing in this insurance policy today has a huge value for many of them. They will not say that publicly, but when Heads of State and Government come to me they privately tell me sometimes, "I know it is difficult to agree to new disciplines or reductions in tariffs but if I lock this into the WTO I am safe because at home I say we are all abiding to a set of rules and if we start rocking the boat others will do it". There is this element that also plays. On things like food prices it is obvious that reducing trade distorting subsidies or export subsidies by developed countries which have damaged the production capacity of the developing countries becomes crucial. It is true, environment and labour are not there, true in Cancun the notion that disciplines on investment have been dropped and, true, energy questions, investment questions may be in the air, but we have to finish this Round first. Everybody knows there is no way that new issues can be introduced with this principle of the single undertaking. The Round finishes when on each of the 20 topics that I have given you there is an agreement. There are square brackets on some topics, things like geographical indication extension or the convention on biodiversity, where whether or not a negotiation is formally mandated is disputed. My main answer to your question is we have inevitable differences in cycles. Bilateral deals are there. Yes, we have more bilateral deals than we used to have, but the basic reason for that is because countries who had no clue or no interest at all, or with whom others had no interest at all to enter into bilateral deals, have developed such as they are now in the range of possible candidates. If you look at the potential market for bilateral deals this market has increased, which is why the number of bilateral deals has increased. I do not regard it as a sort of fashion, these bilateral deals have many regional and political motivations. They leave us with two problems. Are the rules of the World Trade Organisation that discipline these bilateral agreements clear enough? No. We have rules, but they are not clear enough. Second, their multiplication leaves us with a problem of erosion of preferences because if I enter into a bilateral deal with you this will give you a preference as compared to my MFN WTO status. If in a negotiation I reduce my MFN tariff you have a problem, and the other way around. The big political problem of Free Trade Agreements is they create a sort of anti-MFN vested interest which then weighs on the negotiations. It is something that I think we can cope with. All in all we have reached a state of technical maturation and political determination, including with the US electoral cycle, that makes it a propitious moment. I know that selling trade opening

is more difficult than it used to be and liberalisation creates resentment more than it did five or ten years ago. Let us not saddle trade opening with that. The reasons why the losers of liberalisation are more vocal than they used to be is basically because systems of solidarity which existed before have either been removed or changed in a way that does not provide the same level of security, but that is not because of trade.

Chairman: I think we are now going to ask you to think the unthinkable. I am going to ask Lord Moser to ask his question.

Q417 Lord Moser: I am afraid this is another pessimistic question. I am not a pessimist or an optimist, I am just a statistician. All the papers in commenting on your decision to call this Ministerial Meeting have said you are taking a big risk. Just as a supposition that the Round may fail—it is not what I hope, but just on that supposition—what do you see as the risks for the WTO if that should happen?

Mr Lamy: First, taking a decision in an unknown environment is always taking a risk. What you have to consider is the risk of not taking the decision. Because of this political cycle issue in the US my sense is if we do not clinch these "modalities", if we do not cross this bridge now that will lead us to being able to conclude at the end of this year, then the Round will be postponed for quite a long time. If we have nothing on the table a US administration will want to review this carefully and pick and choose, and we know that a new US administration only comes into the real year after six or eight months, which means sometime by the end of next year. The risk is if we do not get modalities, the agreement we need on the three topics plus the bit of services I mentioned, the rest of the Round will freeze for two or three years which would inevitably be interpreted as a failure. It is not taking a risk if the other option is failure, it is taking a risk between the fact that if we do not do anything failure is more than 50 per cent and if I try I have more than a 50 per cent chance of getting there. What if the Round were to fail? There would be a big geopolitical problem. The huge investment which developing countries and emerging countries have made in the WTO is not by coincidence because they care only about trade, they made it in the WTO because this is the place where our decision making and governance system is the most flexible to their interests. We do not have a security council, veto rights which have been inherited from 60 years ago, quotas, voting rights, we do not have to spend five years to transfer 1.5 per cent of voting rights from Belgium to Brazil. We are in a system where we work with consensus. It is a big problem because getting people to agree takes a longer time but it reflects the reality of the force of this world more immediately. They would be very disappointed, very frustrated,

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and a failure, whatever the rational reason would be, would be that developed countries have not done what they should do to rebalance the world economy. I am not saying that is the right explanation, but that would be the mantra. Think about the chances of getting somewhere on an issue like climate change if you do not succeed in getting anywhere with the Round. A Round is ten times simpler than getting China or India to agree to the sorts of decisions which they would have to agree to if they wanted to limit their emissions per head 20 years from now. That is the big picture. That would be bad news for the world economy at a time when it probably needs more good news than bad news so it can entertain a negative cycle. We know where we are and I do not think I need to comment on that. As far as the Organisation is concerned, of course it would be bad news. We would still be administering the rules of world trade as they have resulted from eight previous Rounds. We have a stock of rules. We would still have a dispute settlement machinery that is fairly sophisticated and reasonably well-recognised and legitimised. We would still be training developing countries to understand what negotiating and implementing trade agreements means. But we would have less clout on an issue like Aid for Trade, for instance, which I have been trying to push since I have been here to complement the fact that we provide developing countries with more market access possibility, but it only remains a possibility and does not translate into reality if they do not increase their capacity to use these trade positions, and there would be a sort of depression, whereas for the moment the two things are reasonably well synergised. It would not bring the WTO down. We have accumulated rules, procedures and know-how over 60 years and you do not drop this overnight, but for sure it would be seen as an incapacity of one of the organisations which has been managing the multilateralisation of the world economy for a few decades and it would be interpreted as where is global governance today if organisations like the WTO cannot do their mission. It would not bring this Organisation down, but it is like not making an investment.

Q418 Lord Kerr of Kinlochard: Would it affect the credibility of your extremely impressive dispute settlement procedure?

Mr Lamy: I do not think it would affect the credibility short-term but it would create a situation where the balance between the legislator and the judiciary would race to be treated on the side of the judiciary. As in any governance system, we have to have a very careful balance. We have a big legislative, a tiny executive and a big judiciary. If rules are not adjusted to the world today this would go to dispute settlement and then the panel and the appellate body

would have to interpret all such rules, some of them from 1948, into today's reality. It is better to adjust the rules—you are legislators, you know that—rather than asking the judge to do it, especially if the judge is operating far away from normal legitimisation processes. For the moment it is okay, but I have heard sometimes, “Why should we abide by the rulings of seven gnomes in Geneva? Who are these people to tell us what is good and bad to put on our plate?” There is a danger if you do that. This danger, which is inherent in any system, especially because we have an extremely specific judiciary in many ways, is of being unbalanced and if it is unbalanced then it is the whole legitimacy of the system that is affected.

Q419 Lord MacLennan of Rogart: Mr Lamy, you said, and I listened very carefully, that you work with the consensus which reflects the realities of the world we live in more immediately, but that might almost appear to be an impossible scenario with your own description of the cyclical decision making. Is it not possible that international trade agreements are taking too long to actually impact, that is universalist multilateral agreements are taking too long to impact beneficially upon the international community? Whatever the outcome of this Round, whether favourable or unfavourable, from your vantage point and the others you have occupied before, is it not arguable that there are less universalist approaches that might deliver more variable geometry, two speeds, a sectorally more limited approach, or do we have to continue to live with this long cyclical, even circular process of change and just accept that is it? This is not to say that there are not other possible beneficial roles for WTO to play, perhaps in respect of other trade negotiations, recognition of implementation of desirable changes that may not have been so multilaterally conceived. Your experience post-Doha would be interesting in this context.

Mr Lamy: If we get to the end of this Round your question will be on the table five months before we get there. I remember the end of the Uruguay Round in 1994 and I was already connected to these issues in the position I was in and the mantra after the Marrakech Conference that formally closed the Round was, “Never again. This single undertaking is terrible. Consensus is too heavy. Never again”. We operate under three constraints, not just two but three constraints, and Lord Kerr will understand immediately: consensus, a heavy way of taking decisions but in international organisations rather widespread; the single undertaking, which is mixing these 20 topics which is terribly complex; third, not to be forgotten, bottom-up. The initiative proposals in this system are with the Members, so if I have an idea I will have to have this idea cleared by my capital, which will make it totally self-serving, and I will table

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this to other Members and say, "I've got a great idea, that's what you should do now", and immediately the 152 other Members would say, "No. I know you, so let's start with three years during which we are going to wash all these self-serving elements from your proposal before it becomes capable of being discussed". That is three years. There are other systems in governments where the legislator of the government can table an initiative. It is no coincidence, because the thing was devised by people who knew the international system pretty well, that in the European system the Commission has the monopoly of the initiative because they know it needs somebody above the domestic national interest to table something which *a priori* can serve as the basis. This debate will come and we will have the various options you have just mentioned, instead of doing 20 topics together, could we not go topic-by-topic and have a negotiation on geographical indications or on fishery subsidies or regional trade agreements. This is what happened after the Uruguay Round, there were a few sectoral negotiations, telecommunications, financial services, between 1994 and 1996. The sectoral way is one potential way. Then there is another way which is, "Can't we get rid of this consensus and go to variable geometry?" We tested this and it happened after the Uruguay Round with the ITA on technology. We had this with the Government Procurement Agreement, which is a plurilateral agreement, not a multilateral agreement. These ideas are there and they may be useful for a next stage. The world has changed since 1994. When there was disagreement, for instance, that basic investment rules should be negotiated at Cancun, the Europeans tried at the time to have this as a plurilateral agreement and this was refused because in order to have a plurilateral agreement you basically need the non-participants to this agreement to agree that you can enter into this. Whether India is ready to be a non-participant in an investment negotiation is unclear because there is a cost to do that, especially in matters of this kind. These avenues remain open, they will be considered and debated, plus, of course, the bilateral or even unilateral way of opening trade, which is what happens every day. If you look at the bound tariff of India on industrials, it is somewhere around 40 or 50 per cent, and if you look at the applied tariff of India on industrials it is probably an order of magnitude of ten, but in WTO we negotiate bound rates. The one thing which you cannot do sectorally, bilaterally, with variable geometry or unilaterally is horizontal disciplines. Take agricultural subsidies, you cannot do that bilaterally, you cannot do that by variable geometry. Take anti-dumping, disciplines on anti-dumping, bilateral, no, plurilateral, people will want everybody to be in the disciplines. Take fishery subsidies, we also have ways to factor in variable geometry although we

do not call it this, it is Special and Differential Treatment for developing countries. In many ways our tariff agreements or tariff structures are not homogeneous. If we are negotiating a totally new, starting from scratch, agreement on discipline in fishery subsidies, will the Irish or European fishery subsidies be treated the same way as Indian fishery subsidies? No, there will be an element of Special and Differential Treatment. Our system is not one-size-fits-all as it sometimes appears and there are avenues to approximate this and I am convinced that this will be the case. Where I do not think we will change is on consensus, not least because finding another system is so terribly difficult. When you look at all the literature and academic proposals that have been made in the international system, the only rational way of getting there, which is a sort of double majority of populations and states, took the European Union 60 years and you are not even there because the Treaty is not ratified. It took 50 years to get to a system where the political determination to create integration was incomparably stronger than in any other non-national system. That is the clever way of addressing it 50 years from now maybe.

Q420 Lord MacLennan of Rogart: If a trade agreement which is not universal is not harmful, surely it might be possible at least, if not easier, to have consensus that it could be, as it were, validated and overseen by the World Trade Organisation?

Mr Lamy: Provided it is MFN. Provided you give the benefit of what you do not only to those who have participated in the negotiations but to everybody. This is what happens in services. In services, within the framework of the WTO GATS system, we will have an agreement, "I am asking you to open your telecoms, okay, you are asking me to open my dredging. Fine, we'll make a deal because I'm interested in your telecoms and you're interested in my dredging but what you give me in your telecoms you will also give to the others, and what I give you in dredging I will also give to the others". Within our system there is a big pillar which is non-discrimination. One can imagine systems with a critical mass. That is what we do, including in the Doha Round, in sectorals, for instance. If you take jewellery or sports equipment, around the table there may be a number of people whose combined weight in jewellery or sports equipment is 80 per cent of world trade and they may deem it of value to do this and give it free to the other 20 per cent of the world. This happens. The ITA, the technology agreement, works this way. China benefited from the ITA although it is not a part of that. It is doable. Again, that is easier for market access than it is for rules. If you take agricultural subsidies, if I enter into an agreement with you and we both discipline our agricultural subsidies but my neighbour does not do

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it, my competitive position will be harmed, and I will not do that.

Q421 Lord Haskins: Mr Lamy, I agree with you that it is probably more likely we will get a favourable outcome sooner rather than later. I am slightly confused and worried that you have an agreement with the Americans which has to be renegotiated with Congress and how we get round that. Assuming we do not get where we want to be this year, there is always next year. In a situation in America where McCain is President and there is a strong Democratic Congress, that would be quite difficult because you would need to get hold of the next President and privately get him into a room to agree that he needs you as much as you need him. That may be an educational process and may take a bit to get. That all assumes that you do not believe the world economy is going through more than another of the cyclical blips that have gone before, but are there fundamental issues here in energy and food which may change all the rules of the game?

Mr Lamy: I think the economic situation we are entering into is more than a cyclical blip. Energy prices is a very complex issue and part of the solution is on the supply side, part on the demand side. In food prices it is not a question of the demand side. As in energy, you cannot say, "Maybe we can consume less food" when the vast majority of people on this planet who consume food are poor and hungry. The answer is clearly on the supply side. On the US situation, let us assume that we clinch a deal, it has to go to Congress as, by the way, it has to go to Parliaments in most of our systems, Congress is no different, there are procedural issues in the EU/US constitutions which gauge the responsibilities of Treaties of Commerce with foreigners and Indians, say, in Article I of the US Constitution to Congress, but let us leave these technicalities aside. What is for sure is that the deal on the table will not be renegotiated. If the 153 Members of the Organisation at that time clinch a deal there is no way people will accept that one of the Members picks and chooses. It happened already in the Tokyo Round and has never happened since. If we get there and the administration takes this deal to Congress, which implies a decision on the administration, there is a deal. The new US administration could take the decision not to take it to Congress, to leave it there, and that would mean refusing the deal with the geopolitical consequences that would have. I do not think a Republican President would do that. Personally, I do not think a Democrat would do that with a multilateral Trade Round which is a Development Round. As you know, the debate on the side of US politics has very much been focused on bilateral rather than multilateral deals, and if you are including Obama's announcements of today that is not the flavour he

gives. Then you have got the problem of Congress, and Congress will be in the same situation, they will have to say "yes" or "no" to a deal. Saying "no" to a deal is a huge geopolitical determination at the start of an administration. That is not the most plausible. I am not sure it will work well but the odds are on the right side. By the way, this is what has happened many times in the past. New administrations have had to take deals to Congress which had been agreed by the previous administration, starting with the Uruguay Round. If you look at China PNTR, which was what Congress had to do to waive formal legislation for limited trade with China when China joined the World Trade Organisation, that was exactly the way it happened. The experience in US trade legislation has always been bipartisan. I know of no trade legislation in the last 50 years in the US that has been passed either by Democrats or Republicans, it is always a mix. The mix can change depending on the circumstances and where members of the Senate or the House come from. Of course, no Democrat or Republican from Michigan would vote in favour of reusing tyres on cars and no Democrat or Republican from Georgia would vote in favour of reducing subsidies on cotton. That is a well-known feature of US politics, but overall it has to be a bipartisan system. At the end of the day if we do clinch an ambitious development-oriented deal where the US have their benefits, and in industry they will have many benefits, in agriculture market opening they will have many benefits and in services market opening they will have many benefits, not to talk about fishery subsidies, we are not there yet but there is a huge constituency in US civil society pushing this and if it is a package it has a reasonable chance to go through.

Q422 Lord Kerr of Kinlochard: I have been trying to think of differences from towards the end of the Uruguay Round and now. It seems to me there are two. There is one similarity, which is the brilliant cabaret between President Sarkozy and Commissioner Mandelson, which reminds me very closely of the cabaret between Alain Juppé and Leon Brittan last time round. The only mistake that has been made, it seems to me, is Peter Mandelson saying he is being "undermined", which must be the reverse of the truth, his position must be greatly strengthened here by this demonstration that it is difficult for him to contemplate a further concession. One of the two big differences, it seems to me, is last time round the multinationals were not silent. Last time round the *Wall Street Journal*, the *FT*, the voice of corporate America, was quite keen on a Uruguay Round deal. I do not know where the voice of corporate America is now, because I have not heard it. That is why I say maybe Singapore was a mistake. If the investment dossier was still on the table—and I do not think the

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investment dossier is just in the interests of the G20, it is very much in the interests of the developing countries, too—it would give the north, as it were, a second demand in the negotiation and, therefore, it might be louder. The other thing that is different is, for some reason which I do not understand, the lobbies in the north, in the G20, for development, have turned against us all. They criticise the EU, they criticise what is on offer here. I wonder whether that is partly because of Hong Kong. Hong Kong did not satisfy the appetite, and it now leads people to say, “And what more are you going to do for the developing countries? This is a Development Round after all, where is the development in what is on the table?” These seem to me in public relations terms to be two great difficulties, and that you face that your predecessor did not face at the end of the Uruguay Round.

Mr Lamy: That is a valid point. It is not for me to comment on the intra-EU debate. You are right, multinationals are less vocal than they were at the end of the Uruguay Round, although if you take solid organisations like the National Manufacturers’ Associations, the International Chamber of Commerce, BusinessEurope, they are pushing very hard. These organisations mobilise their troops, their money and their lobbying capacity when there is something on the table. They are not in this business of 15 years, they are in the business of “They will do it, and I know they will do it when we need this to be done for ratification”. The other reason why international business is pushing less is the technology has changed. If I have a problem with accessing this market or producing in that market I shift, I jump over things, I go elsewhere. There is much more mobility and production shifting, which is the horizontal distribution of labour internationally, which has changed things fundamentally. I appeal to those among you who are statisticians and economists, that what has changed to the point where the way we compute trade flows today does not really make sense, in my view. Comparing trade flows to GNP numbers to measure the degree of opening of an economy is very strange.

The right thing to do is try and compute trade flows to understand where the added value is created. That is how trade statistics should be done in the future. If you take the trade deficit between the US and China, a lot of that is just because production which was happening elsewhere than in China is now happening in China and is re-exported to the US. You have to look at how the trade balance between China and its Asian neighbours has changed to understand that. They have a deficit with them. This is something I will leave aside because it is something we need to think of in the future. Civil society is still criticising the WTO, the Round, there is not enough for developing countries, but in many ways that is a change from where we were five or ten years ago when the problem was to kill the WTO, to get rid of the WTO, to sink the WTO. Having a debate on whether the rules of world trade are enough or not for development is one thing, but at least you understand and accept that you need rules and the WTO is not just a club of hungry multinationals plotting in some sort of black Geneva room. There is a debate about this. We have offered to civil society in many ways a platform in naming this Round a Development Round. They are entitled to say there is not enough for developing countries, apart from the fact that developing countries speak for developing countries. The numbers I gave you some time ago in terms of duties foregone were two-thirds of the deal paid for by developed countries, one-third by emerging countries, basically zero paid by poor countries. That is a reasonably fair Development Round if you try to assess it. I am not saying we are there, but overall it looks reasonably like the right way of sharing the bill. Again, remember the bill which will have to be shared for climate change and think if we cannot share the bill this way on trade how are we going to do it on climate change, on a much larger bill which will have even more profound consequences on what our children and grandchildren will do. I think it is worth trying.

Chairman: Thank you very much, Mr Lamy. You have been very generous and given us more time than you probably have. Thank you.

Supplementary written evidence from the World Trade Organisation

- * Market access agriculture (tariffs reduction).
- * Market access industry (tariffs reduction, non tariff barriers):
 - Market access services (including domestic regulation).
- * Agricultural domestic subsidies (reduction).
- * Agricultural export subsidies (elimination).
- * Food aid (disciplines):
 - Fisheries subsidies (disciplines).
 - Trade defence instruments (antidumping etc: disciplines).

* Non tariff barriers (industry):

Trade facilitation (customs procedures etc).

Environmental good & services (market access).

Interface WTO / multilateral environmental agreements.

Geographical indications for wines and spirits.

[Geographical indications for other than wines and spirits].

[Intellectual property /biodiversity].

Bilateral agreement (disciplines).

Dispute settlement (procedures).

** Special treatment for developing countries (throughout various agreements).

** Recently acceded members (specific treatment).

References

* :agriculture and industrial market access “modalities”.

** :also in “modalities”.

FRIDAY 11 JULY 2008

Present	Cohen of Pimlico, B. (Chairman)	Moser, L.
	Haskins, L.	Trimble, L.
	Maclennan of Rogart, L.	Woolmer of Leeds, L.

Examination of Witnesses

Witnesses: DR MIGUEL RODRIGUEZ MENDOZA, Senior Fellow, and MR TRINEESH BISWAS, Adviser to the Chief Executive, International Centre for Trade and Sustainable Development, examined.

Q423 Chairman: Good morning, Dr Mendoza. It is very good of you both to come and see us to give evidence. Welcome. I would just like to say a few words about the general rules of giving evidence, which are that Sue is taking down every word you say and it will be printed as part of the final report, but you will get a look at the transcript before it is published. This is not intended to cause embarrassment or difficulty. I know that you have seen the topics we want to discuss. Would you rather make an opening statement or shall we start asking questions?

Dr Mendoza: We can start by you asking questions and us trying to answer them. We have seen the questions that we received via the Mission.

Q424 Chairman: Thank you very much. I will start. I was wondering if I could get you to talk a little about what you think Aid for Trade should be spent on and how it should be spent.

Dr Mendoza: Thank you very much. Before making some comments on that, can I say that we are very honoured to be here to provide you with our views on these issues that are of interest to you and to us at ICTSD. Aid for Trade funds should be spent on issues identified by the developing countries themselves. In our view, broadly speaking, Aid for Trade resources should address three types of developing countries' needs. First, the need to ensure a more equitable participation of developing countries in the multilateral trading system. For example, developing countries can receive assistance to enable them to make full use of their rights under the WTO, such as full use of trade remedies, the dispute settlement understanding, and also they should be able to participate more effectively in multilateral trade negotiations. The second need, in our view, is the need to assist developing countries in implementing their WTO commitments, be they past commitments coming from past negotiations, mainly the Uruguay Round, which by now are supposed to be implemented by all WTO members, as well as the new commitments coming out of the current Doha negotiations. In that context, particularly if the Doha negotiations are completed, as we all expect, in the next few months, they should also give consideration

to the adjustments needed for developing countries to go with the liberalisation measures that the Doha negotiations entail. Finally, and I think this is a very important issue, developing countries should be given the possibility of using Aid for Trade funds to increase their supply capacity, their production capacity. This is the main reason behind the whole idea as presented initially of Aid for Trade which was presented by the Director-General, Pascal Lamy. It is good to have developing countries participate in the WTO, good to have them being part of the multilateral trading system, good to have them as part of the negotiating package that is being worked out now, and it is good to have them benefiting theoretically from liberalisation of the market access commitment that will come out of the negotiations. But if they do not have the capacity to produce, the capacity to supply markets, market access will mean nothing to them. That is a critical issue for developing countries. There are many developing countries in the WTO that do not really participate. They are members of the WTO, formally members of the multilateral trading system, but they do not participate in international trade or their participation is very limited because of that. If we manage to direct some of the Aid for Trade funding to these ends that would really help developing countries and make a difference because they would feel more comfortable being in the WTO if they were also active participants in international trade. That being said, and I conclude on this point, the definition of where Aid for Trade funds should be allocated should be done by the developing countries themselves and in this sense they need to prepare some needs assessments. They need to identify what it is that they need and they need to convey these needs assessments to the donor countries, to the donor community, which in that case should be prepared to help. It is a two-way situation. It is not a question of donors deciding where to allocate Aid for Trade resources or for developing countries to do so alone, it is a process of understanding between donors and developing countries that will produce better results.

Q425 Chairman: Thank you. We have not heard a huge amount of evidence about Aid for Trade or the

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least developed countries. I think I could identify by a process of commonsense the sort of countries you are talking about, but of the least developed countries how many would you say are not really participating much in international trade?

Dr Mendoza: It is difficult to give a precise number, but if you look at the global trade figures you will find that the LDCs are a minor part.

Q426 Chairman: All lumped together, tiny.

Dr Mendoza: A very tiny part. They are not very active in international trade. Some of them are. If you take Bangladesh, Bangladesh is making an impact on the textiles trade and doing well, but that may be an exception. Another problem the LDCs face is proportionately they face more tariff barriers in the developed countries' markets than, say, the industrialised countries themselves. In short, I would say that the majority of LDCs are not active participants in international trade, although some of them are. In linking this to Aid for Trade, I would say that the Aid for Trade mechanism as defined by the Aid for Trade taskforce and approved by the WTO General Council puts an emphasis on LDCs, and rightly so, they are the countries that need more help, although other developing countries may find themselves in situations which are very similar to those of LDCs.

Q427 Chairman: Other witnesses have told us that the other difficulties faced by LDCs in terms of production support are lack of technical capacity. If you cannot certify your food exports, for instance, you probably do not make any food exports, the world being what it is.

Dr Mendoza: Exactly. This is applicable not only to LDCs but a situation that you can find in many other developing countries. Many developing countries lack the institutions, the technical capacity, to really make a reality of these commitments agreed at the multilateral level. That is why I said before one of the areas where Aid for Trade resources should be directed is precisely the implementation of WTO commitments, the real implementation. In the WTO, as you know, countries have made commitments to implement an Intellectual Property Agreement, say, but we have to ask ourselves how many countries have the institutions and means to enforce these commitments. The same applies to other areas, such as sanitary and phytosanitary regulations, technical regulations. The capacity of developing countries to handle those issues is very limited and in that sense we see Aid for Trade as perhaps helping us in that regard.

Q428 Chairman: Thank you very much. The question on the paper we sent you now feels to me a bit off the point, but I will ask it just the same. Some

of our evidence suggests that less developed countries have a lack of negotiating capacity and are not capable of giving attention to the WTO while effectively having to talk about bilateral agreements. Is this the least of our worries or is there also a problem there?

Dr Mendoza: There is a problem for LDCs, no doubt, but I must say that they are making progress in that regard in the sense that they are now getting together, working together, defining their negotiating positions, getting help from some institutions. By pulling together different resources from different countries and different institutions they are making a better impact on the negotiating process. That is not to say they do not need help with that, they need to strengthen their negotiating capacity, but they realise that and that is why they are trying to get together and make progress on that front.

Q429 Lord Woolmer of Leeds: Could I turn to the question of the European Union's Economic Partnership Agreements. What do you think is likely to be the impact of the Economic Partnership Agreements on developing countries? What do you think the impact is likely to be on trade?

Dr Mendoza: Most of the EPA agreements are still in the making so it is difficult to make an assessment of the likely impacts. What I can tell you is that we have analysed the agreement between the EU and the Caribbean countries, CARIFORUM, which is the agreement that is being completed and is about to be signed in the next few days. We have compared that agreement with agreements previously negotiated by the EU with other developing countries, like Mexico and Chile. We have looked at these three agreements and tried to identify the coincidences, the divergences and the commonalities. We have done so on areas like market access, trade and services, investment, government procurement and intellectual property. As I said, we have tried to establish the differences between the agreement with Mexico, the agreement with Chile and the agreement with the CARIFORUM countries. Our main conclusions are as follows. On market access, the EPA agreement with the CARIFORUM countries grants deeper and more stable access to EU markets, notably in agriculture, than the agreements with Chile or Mexico. The EPA agreement also provides CARIFORUM countries with more flexibility in dealing with the implementation of their market access commitments in the sense that they are given the possibility of a very large number of permanent exclusions from the agreement, longer transition periods for sensitive commodities and greater access to safeguards. The EPA agreement also adopts a more restrained approach to liberalisation of financial services and government procurement than

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the agreements with Mexico and Chile. On the other hand, the EPA agreement with the Caribbean countries produces more and deeper commitments than the agreements with Chile and Mexico in areas such as intellectual property, services and investment, areas that were practically non-existent in the old agreements with Chile and Mexico. This indicates, in a way, a new direction for the EU in terms of negotiating objectives in these agreements. The EPA agreement with CARIFORUM contains full-blown sections on intellectual property and investment, which did not exist in the previous ones. Also, the EPA contains stronger general obligations on services and investment. It goes beyond the EC agreements with Chile and Mexico in the areas of interest to Caribbean countries, notably tourism services and movement of professionals and service supplies. This is what we found in our analysis of one of the EPA agreements, the one that is being completed with the CARIFORUM countries. We know, however, there are other views on this and some concerns have been expressed regarding the fact that the EPA negotiations were not completed the way they were supposed to be with different groups signing different EPA agreements. The question is whether this may have consequences for the integration processes of African countries which, by the way, was one of the objectives set out by the EU in these negotiations.

Q430 Lord Haskins: Would it be fair to characterise the EU's position in today's negotiation compared with the Uruguay Round as in the Uruguay Round the EU was seen generally to be the villain of the piece in terms of its attitude towards agriculture and access to its markets? I am getting the impression that the EU has moved its ground pretty positively over the last 15 years and is no longer top of the list as villain of the piece.

Dr Mendoza: I would agree with that assessment. I happened to participate in the Uruguay Round and was at the WTO by the time the Doha negotiations were announced. I happened to be in charge of agriculture issues at the WTO and when we look back and see what was the position of the EU on agriculture during the Uruguay Round and their position at the beginning of the Doha discussions and what it is now you can see a lot of change and progress that has been made in the right direction. I agree with that. For instance, we now take it for granted that export subsidies will be eliminated at some point. At the beginning of the Doha negotiations that would have been considered an impossible objective. In fact, countries thought a lot about how to deal with this in the mandate for the negotiations and now it is a fact, that is going to happen. That shows progress in the negotiations on

agriculture. That being said, where progress does not seem to be coming as forcefully is in the area of internal support and one of the main criticisms of the current proposals on agriculture is neither the EU nor the United States are prepared to really cut their internal support in practical terms. They are prepared to cut the bound rates of support, but even by cutting that drastically they are still left with a lot of flexibility to increase the current support they are providing to their farmers. That is why it is one of the main concerns of the developing countries which are asked, many of them but not all of them, to cut their tariffs for industrial goods. They see that they are making an important concession in opening their industrial goods markets whereas in terms of internal support the industrialised countries, the EU and US, are not making an effort of the same dimension. That is one of the issues.

Q431 Lord Haskins: While you have got reservations about the EU's position, you have much more serious reservations about the United States' position because they still have the subsidy element behind their policies.

Dr Mendoza: Exactly. I agree.

Q432 Lord Trimble: I would like to look beyond the present talks that are taking place. Looking at the longer term, what do you think should be the objectives of the World Trade Organisation? Are there any roles that you think it should take on in particular? Do you think there is any need for reform of the WTO? In particular, should there be any changes to its decision making process?

Dr Mendoza: I know that the decision making process of the WTO has been on the table and a matter of public debate for a long time. If by changing the decision making process of the WTO it means it will eliminate the rule of consensus, that would be a very bad idea. The WTO is as transparent and democratic as it could possibly be. Part of this democracy is that countries are able to say "yes" or "no" when they look at new commitments. That should be preserved. Working on the basis of consensus in an organisation of 150 members is extremely difficult, as you will all realise, so there has to be a way to ensure that all countries participate in the consultation process so that when the time comes for a final decision to be made they are fully informed of what is going on and they have fully participated in this consultation process. The consensus formation of the WTO is more difficult today than it used to be in the GATT years, say. It requires more political skills, more negotiating skills from the leaders of the WTO and, after all, that is what we are all looking for at the WTO, leadership and a way to ensure that the decision making process is as

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transparent and participative as possible. Knowing the WTO from the inside, the issue of the consensus decision and decision making process is less significant today than it was in the past. What I see now is a lot of consultations going on, a lot of participation from different countries. As I mentioned before, LDCs are getting together and participating in the consultation process through their leaders that they select. In the last few years I have not seen many concerns expressed on transparency and the decision making process of the WTO. I would say that the way it is working now is okay. It is more difficult today than it used to be to take decisions but that is because of the large number and diversity of members, and there is very little you can do to change that. On the relevance of the WTO, it is relevant. If we do not have the WTO we may have to invent a similar organisation. It is important because the world's problems, including trade problems, require multilateral and not bilateral solutions. The mandate of the WTO is quite large. It has been expanded since the GATT years. Perhaps that is why the WTO is so sensitive to public opinion because it touches on a number of areas that were the domain of national policies in the past. We may have to accept the fact that as large as the WTO mandate is, it may have to be expanded in the future once the Doha negotiations are over. Why? Because there are new issues like the relationship between trade and EU commitments on climate change, for instance. Are they not going to be dealt with by the WTO? Of course, they will at some point, issues like investment. We know we had a big fight in the WTO on the issue of investment and competition policies, but what is now happening is most countries are negotiating these bilateral investment treaties. I do not know how many thousands of treaties are in force today. There is an international system of investment policies that is outside of the WTO and we have to ask ourselves whether this is convenient for countries.

Q433 Lord Trimble: Is that not to some extent a consequence of the complexity and difficulty of operating within a system that has 150 different countries in it? If it is becoming too difficult to get decisions in that context, are you not then forcing people to move into a different context?

Dr Mendoza: This is part of it, certainly. The fact that the investment policies were not included in the WTO at some point may have helped increase this tendency toward the negotiation of bilateral investment treaties.

Q434 Lord Trimble: There is a slightly different aspect to this. A lot of the emphasis hitherto has been on tariffs and tariff reduction and yet the greater part of the world's trade is now in services, and increasingly the valuable area of the world's trade is

in services, and the WTO handles discussions on services in quite a different way from the way it handles discussions on tariffs and the two categories in which the tariffs are considered. Is the slightly different decision making process that takes place with regard to discussions on services more likely to be the model for the future in terms of the increasing focus that there will be on services?

Dr Mendoza: I agree that on services progress in the WTO has been slow and will probably be slower by the end of the Doha negotiations. The services negotiations have an advantage today in a framework of so many members. This advantage is that they allow countries to move forward without necessarily waiting for everybody. Without saying it, it allows variable geometry in making services commitments. This is the way to go with the WTO in the future. It will be difficult to think that the WTO will move at the pace of the slowest countries forever. In that sense this is a good model, but it is not easy to replicate that methodology in other areas and that is the main problem. What we are talking about is the single undertaking, that everything has to be agreed by everybody, it has to move forward or is there a possibility of agreeing on some aspects of the negotiations and then waiting for the others to move. The idea of agreements between significant groups of countries should be made more acceptable by the WTO provided—this is an important proviso—that the agreement reached by this significant number of countries is on an MFN basis, so we will have the problem of the free riders, but if the free riders are not important in the area where the agreement is happening that may not be a big problem.

Q435 Lord Haskins: In your introductory remarks I thought I heard you say that you expect a breakthrough on the Doha talks, but maybe it was a slip of the tongue. What do you think are the major obstacles facing the negotiations over the next two or three months?

Dr Mendoza: In a week's time we will be initiating this new mini Ministerial Meeting of the WTO. I understand you have met with the Director-General, Pascal Lamy, and I am sure he has given you his thoughts about the meeting and the possibilities of success. We all hope that the meeting will be a success. It is perhaps the last opportunity to move forward and make the necessary decisions so that a final deal on the Doha negotiations can be completed by the end of the year. I really hope that this is the case because, if not, if no agreement comes about in the next few days rather than weeks, I guess that the Doha negotiations will go into hibernation for a while waiting for the new leadership in the US, waiting for new elections somewhere else, so we will have a long period of inactivity. If, at the end of the road, the Doha negotiations fail that will be a

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problem for the WTO. A failure of the next Ministerial will cause a problem for the negotiations and the failure of the negotiations will cause a problem for the WTO. If you have an organisation that does not move forward then you start losing interest in it and member countries will start thinking of different options, an agreement between the EU and US, for instance, that has been discussed in several circles, or a more pronounced move to more regional or sectoral agreements. That would be bad. A failure of the Doha negotiations would be bad for the WTO. What are the chances of that? Broadly speaking, I think the papers on the table contain all the technical elements to make a deal. There is very little we can do technically to improve these proposals. The work is there, it has been done over the last few years. There is very little we can invent. The technical work is there and what you now need is political leadership. That leadership can only come from the countries that play a significant role in the WTO and international trade, and that includes the EU, the US and also the large developing countries. There was a time when any decision by the EU and the US would be a final decision for all GATT members, but that is not there any more so the decision will have to come through political leadership in developed and developing countries. In the US trade is not very popular and it seems to be less and less popular as time goes by and the economic situation deteriorates. Many people keep blaming trade for their economic difficulties. Trade is not very popular in the US Congress with the majority of Democrats being very critical of trade deals, particularly bilateral trade deals. The question there is whether the US will have the political ability in the next few weeks to agree to a deal in Geneva and then get this deal passed by Congress. There is a big question mark there. We do not know. The perception in many countries here is in the absence of trade negotiating authority in the US and, given the political environment, there are many people here who are concerned that the US may not be in a position to move forward. I guess they could prove us wrong. In the EU, on the other hand, what we have seen recently is very conflicting statements and comments from the leadership in many European countries regarding the validity of the Doha negotiations, the commitments that the Doha deal would imply for, say, the agricultural policies of the EU, and certainly that is not helping to create a good environment for the coming meeting. On the developing countries' side, as I mentioned before, there are some concerns that the deal that is on the table may impose some important burdens on them whereas the burden on developed countries, the policy particularly in the agricultural sector, will not be that significant. We will have to overcome all of these difficulties if we want to have a successful conclusion of the negotiations.

Q436 Lord Haskins: Would it be a gross overstatement, simplification, to say if the United States and Brazil can agree the rest would fall in behind them?

Mr Biswas: I would say the United States and India.

Q437 Lord Haskins: The United States and India, more critical.

Mr Biswas: No, just because India is more constrained in its negotiating position.

Q438 Lord Haskins: And it has got political problems ahead too.

Mr Biswas: Absolutely.

Q439 Lord Woolmer of Leeds: What if the current government lose the vote of confidence and there is an election?

Mr Biswas: I would be very surprised if the next government followed a different policy economically. The current opposition party followed a fairly liberal economic agenda when it was in government and it only got reconverted to nationalism once it found itself in opposition again.

Q440 Lord Haskins: In the event of the whole situation being put on ice, do you think there is any risk that the dispute settlement system, which has held up remarkably well, might in any way be damaged if there was a failure at this stage?

Dr Mendoza: I would say that the dispute settlement system will go hand-in-hand with the WTO. If the WTO is a strong organisation and keeps moving forward the WTO dispute settlement system will move forward and will continue playing the important role it now is. As you said, it has functioned remarkably well with a lot of integrity and efficiency and this is something we have to preserve. Quite honestly, I do not think that the replacement of negotiations by litigation is an option, it would have serious limitations. A WTO in crisis would imply that sooner or later there would also be a dispute settlement system in crisis.

Q441 Chairman: Much the same point was made by Monsieur Lamy, that it will just stop. If there is no longer a negotiation proceeding but only a court proceeding, the court practice gets further and further away from the reality.

Dr Mendoza: Exactly.

Chairman: That is a very interesting point.

Q442 Lord Moser: You have had quite a lot of experience within the Doha Round. Still looking at the prospects that you have talked about for the next stage, looking at it not so much from the point of view of the USA but an ordinary LDC, et cetera, is there a general problem that people in those countries

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think, “We have been around this before year after year after year, there are no new arguments really. There’s a new global situation, et cetera” and they have just lost their appetite for more negotiations? In your view, would that be a barrier to progress, not exactly boredom but cynicism in a way, “We’ve done all this before”?

Dr Mendoza: There may be something of that. It is what we call here in Geneva “negotiating fatigue” in the sense that after so many years of meetings and unmet deadlines, at some point negotiators start to think they may be wasting their time. I would not characterise the situation at present as one of negotiating fatigue. That happened perhaps a year ago when the situation was really bad and some meetings were convened that did not produce any results, but not now. My understanding is that since a few months ago most countries have really engaged in the negotiations and are firmly engaged in trying to reach an agreement. That is why they have devoted so much time and have had meetings almost every day, including weekends, to try to hammer out these understandings. For the LDCs, a Doha deal should not be a problem, not only because they will not be asked to make any particular or serious commitments but because the understanding will be that they will be helped by everybody in implementing their commitments. The situation of the LDCs is very well-known and all seem to be prepared to help them.

Mr Biswas: If I might add something. I think the proliferation of bilateral and regional trade agreements all over the world increased even before the Doha Round, which has been in troubled times for about five years now. It has been called various things, a spaghetti bowl of overlapping trade agreements in the West and a noodle bowl of trade agreements in Asia. Although this might sound very appetising, apparently it is anything but, especially for businesses and in Asia where the array of interlocking agreements with different Rules of Origin and bureaucratic requirements is particularly dizzying. There are a lot of anecdotal stories about businesses opting to actually export under the WTO MFN tariffs just because the cost of complying with the red tape requirements of a bilateral trade deal are not worth it.

Q443 Lord Moser: I have not quite understood your last point.

Mr Biswas: Say you are a business in the Philippines, and I do not know if this is true about the agreement with Japan, but the Philippines and Japan just signed a free trade agreement which in theory should liberalise merchandise trade. Suppose the bureaucratic requirements for getting your products to qualify for the tariff concessions made by Japan under the bilateral agreement, to prove that your

products qualify for those tariff concessions, might involve filling out various forms that are much more complicated than simply exporting your goods to Japan under multilateral rules and paying the tariffs bound at the WTO. Apparently many businesses are finding this is the case. While there very much may be a loss of appetite for another grand multilateral Trade Round at the WTO at this time, it seems plausible that business leaders might eventually get sick of the alternative as well, which seems to be bilateral deals with Rules of Origin and other arcane requirements.

Q444 Lord Trimble: That depends on whether there are significant variations in Rules of Origin.

Mr Biswas: Very much so.

Q445 Lord Trimble: Apparently it depends upon that, and that may be so with regard to existing bilateral agreements, but it does not follow that will always be the case. The point you make about the complexity and the expense will vary depending on the size of the business, the resources of the business and the nature of the trade.

Mr Biswas: Very much so.

Q446 Lord Trimble: What you are saying is if we get a situation where the large trading partners, EU, the US, ASEAN, deal together bloc to bloc with common arrangements and simplified arrangements for each bloc to deal with, that might avoid the problems that are occurring in your spaghetti/noodle bowls. If that develops, and the large blocs will trade quite cheerfully with each other, the areas that will be left out will be the less developed countries.

Mr Biswas: I could not agree more.

Q447 Lord Trimble: This shows the danger of continuing to create difficulties within the multilateral context.

Mr Biswas: Absolutely.

Q448 Lord Moser: What Lord Trimble has just said and what you have said, how does the WTO deal with this conflict that you are explaining so well?

Mr Biswas: In terms of what Lord Trimble just said, if the US and EU and ASEAN, and a couple of other major traders, were able to actually resolve their differences amongst each other there is no reason why they would not be able to resolve them at the WTO within the framework of a larger multilateral deal. That would be the ideal.

Chairman: Thank you. I find that a very useful point. I had not quite seen the interaction.

Q449 Lord Maclennan of Rogart: Dr Mendoza, I have to confess to finding it really rather difficult to understand what is the impact anticipated of the rise

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in prices of agricultural products and fuel upon the prospects of these negotiations succeeding. I read conflicting advice and information. For example, there was an interesting article a couple of weeks ago by two Indian economists from Columbia University about how the rise in price will render the Agricultural Bill in the United States rather meaningless in terms of the subsidies because actually they are going to be outstripped anyway. On the other hand, there is some risk of increased protectionism in the developing countries in this situation. I would very much like to hear what you think about that.

Dr Mendoza: As you have said, it is a very confusing situation. What we are witnessing now, on the one hand, is countries dismantling their tariff barriers, developing countries, to mitigate the increase in food prices and this is happening in a number of countries. On the other hand, we are also seeing some food producers, developing countries, establishing export controls to somehow safeguard their own populations from the impact of these prices or from the scarcity of resources or food security. The situation is confusing. This is not a new protectionism overall; on the contrary, the food prices are leading to some measures of trade liberalisation but, on the other hand, it may be a new form of protection in cases of the barriers imposed by, say, the Argentinean Government on crops. How that will impact on the current negotiations is difficult to predict. A few weeks ago we had one of the European countries indicating that perhaps the solution would be to implement a common agricultural policy all over the world. That is one view. I wonder whether this is feasible. Certainly a successful conclusion of the negotiations will help in liberalising the food markets and, on the other hand, by eliminating the current distortions to international trade and agriculture making it possible for many developing countries to devote resources to increase their food production. Maybe Trineesh would like to add on this.

Mr Biswas: In reference to that article from the other day, I think all they were saying was that the way US farm programmes work is they pay out more when prices are low and pay out less when prices are high. Right now prices are so high that US subsidy payments to farmers are quite low. They were saying that in theory this should enable the US to offer significant farm subsidy concessions at the WTO. Of course, as all of you know, farm reform is a politically painful thing. In terms of the risk of protectionism, the term bears some examination. Generally, protectionism refers to high barriers, whereas right now in the current food price scenario many developing countries in particular that have jealously guarded their farm tariffs are actually applying zero tariffs and still finding it hard to buy rice. From a

certain standpoint that is not protectionist at all. However, what is happening is panicky policy making and panicky policy making is rarely good for long-term solutions. A lot of countries have thrown up export bans or other restrictions out of their desperation to avoid food riots. I notice that you have copies of the *FT* and surely you saw Nicolas Sarkozy's comments the other day in which he somehow decided that Mandelson's offer at the WTO, which is almost entirely consonant with the CAP reform that EU members have already agreed, would savage European agricultural production, take it down by 20 per cent, increase starvation, God knows what. This is not smart long-term policy making and that is what seems to be happening. What the Indian economists were appealing for was some good sense, that cool heads should prevail when setting trade policy.

Chairman: Thank you very much, Mr Biswas. Colleagues, we have about two minutes if I have managed to suppress anybody's questioning.

Q450 Lord Haskins: Can I just follow up on this. I agree with you on this in the short-term but, on the other hand, behind food prices can be an opportunity, and you have mentioned one, the US Farm Bill becomes less politically contentious than it was. There is another one that if you can make the case for more trade liberalisation in food that is going to enable the world to move food from the areas which have got surpluses to the areas which are short and perhaps bring prices down.

Mr Biswas: Yes, and hopefully create incentives to once again invest in agricultural productivity and water conservation in the developing world.

Q451 Lord Haskins: Is that argument being made here at the moment?

Mr Biswas: The Doha agenda was set in 2001 and modified in 2004. It is notoriously hard to change. I think it was tooled to rein in subsidies. If an agreement can be struck with that alone then I think a lot of people would be grateful and they could move on to tackling other concerns.

Q452 Lord Haskins: Monsieur Lamy yesterday was saying very pointedly that the WTO cycle is a 15 year cycle and the political cycle tends to be four or five years uncoordinated across the world, and the economic cycle can be ten or 12. You are saying that this new situation on food was not anticipated?

Mr Biswas: Very well said.

Q453 Lord Woolmer of Leeds: I come back to your comments, Mr Biswas, about the bilaterals. If I understood you correctly, and I do not know if it is the view of the Centre, the increased number of

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bilaterals is a cause for concern for some businesses, particularly SMEs I would have thought, and eventually this might lead to a backlash, as it were, to a renewed belief and faith in multilateralism, so somewhere between where we are now and that point there may be a tipping back towards the benefits of multilateralism. Given the cycles you have talked about, how do you see the next five or six years post-Doha if it comes around? Do you see any continuing trend towards more and more bilaterals? Do you think that in this 14-15 year cycle of multilateralism within a few years you can see a renewed energy to multilateralise the bilaterals? In other words, will the growth of bilaterals become a cause for going back to multilaterals?

Mr Biswas: I think bilaterals are likely to continue. The WTO is certainly thinking about multilateralising bilateralism. It had a big meeting on the subject last year. It is a plausible scenario that bilaterals will continue and then there will be pressure to multilateralise them. What I would be nervous about is that multilateral co-operation does not seem to be doing very well these days. This is not to suggest that this is an area of global conflict, it is not, it is just that the multilateral problems that we need to deal with are increasingly complex to the extent that multilateral co-operation is increasingly unequal to the task. Climate change is probably a far better example than trade. If bilateral agreements do continue to proliferate in the next 15 years I hope that multilateral rule-making will be equal to the task of integrating them into a more harmonious whole.

Q454 Lord Woolmer of Leeds: The growth could weaken the future of WTO?

Mr Biswas: Yes.

Q455 Lord Woolmer of Leeds: It could do. I was just seeking your judgment, will the growth in bilaterals continue and will it weaken the long-term position of WTO or, in your view, within a realistic timeframe will it be a cause for renewed energy to do something about the bilaterals? That balance was the issue I was exploring.

Dr Mendoza: We have to differentiate between a situation in which bilaterals go on and the WTO gets paralysed and a situation in which bilaterals go on but the WTO is healthy and moving forward. In the latter case I do not see major problems with bilaterals because somehow there will be a way to make them compatible with WTO rules, but if the WTO is weakened because of the failure of the Doha negotiations, if it stops moving forward, then bilaterals will come to be seen as alternatives to the WTO. They are not seen as alternatives today no matter how bad they may be for the multilateral trading system currently. This is a key distinction. Bilaterals are here to stay, regional agreements are not going to disappear all of a sudden, they will stay and may continue to have a role in the future, it depends on what happens in the US in the coming elections. I do not see major problems in bilaterals between the EU and ACP countries, but I would see big problems if at some point there is a bilateral between the US and EU. That would be the end of the multilateral trading system. The WTO would not survive a bilateral or, as you mentioned, a trilateral between the US, the EU and ASEAN. That would be the end of the WTO as we know it. As I said, it all depends on what happens with the WTO.

Chairman: Thank you very much, that is most interesting. Thank you both very much for coming.

FRIDAY 11 JULY 2008

Present	Cohen of Pimlico, B. (Chairman)	Moser, L.
	Haskins, L.	Trimble, L.
	Maclennan of Rogart, L.	Woolmer of Leeds, L.

Examination of Witnesses

Witness: PROFESSOR JEAN-PIERRE LEHMANN, Professor of International Political Economy, and Founding Director, The Evian Group at IMD Business School, Lausanne, examined.

Q456 Chairman: Professor Lehmann, thank you very much for coming to talk to us, we do appreciate it. The rules of this particular game are that Sue is taking a note of every word you say and there will be a full transcript. As soon as you have seen it, and cleared it, we will put it on our website and it will appear as part of the evidence to the report. Would you like to start with an opening statement about anything you like or shall we start with the questions?

Professor Lehmann: Thank you very much for inviting me. It is a pleasure and, indeed, an honour. All the more so a pleasure in that, I feel rather passionately about these issues. I think there is as much importance in terms of the symbolism of Doha as there is in terms of the substance. There was a recent article by Pascal Lamy which appeared in the *Herald Tribune* a couple of days ago where he does raise this question, which I have raised all along, that if we cannot agree to collaborate on what are, after all, relatively straightforward, relatively simple matters on the trade front, and most of which are win-win, then the chances of collaborating on some of the much more challenging issues, climate change, security, et cetera, are not likely. That is where I come from, if you like. I see this not only as an intellectual exercise but an important exercise for the planet.

Q457 Chairman: Against that background, do you believe that we will get a breakthrough during the Ministerial at the end of the month?

Professor Lehmann: No, I do not think so. I spent a lot of time in the Arab region and I suppose I should say, "Inshallah" because it really will be up to him. There would have to be something really quite dramatic happening in the course of the next week between now and 21 July. The obstructionism is very strong on the part of various players. As you know, and as I must confess, I am a citizen of France and my position does not necessarily reflect that of my government, or vice versa. There is quite a lot of obstruction. Moreover, I do not think anybody is willing to push it, to champion it, to champion the conclusion, to stick his or her neck out to try to get a conclusion during the course of July.

Q458 Chairman: Except, of course, Monsieur Lamy. *Professor Lehmann:* Yes, but I am talking about the ministers. Lamy is doing what he can, I guess, in terms of trying to move this forward, but ultimately it is the Heads of State and Government rather than the trade ministers. If you look at the recent meeting of the G8, for example, I do not think there was any particular signal that I would take as being encouraging. There was the usual rhetoric and usual ritual, but I did not see anything that led me to think this could perhaps lead to a breakthrough. Probably of that lot the most favourable to the conclusion of Doha would be the UK Prime Minister. Angela Merkel in a way, I think her heart is in the right place, the problem is they are bogged down in their own political domestic problems and Doha and the WTO is not something you are going to win points on in domestic politics.

Q459 Chairman: Would these difficulties include President Bush who might, after all, wish to leave a legacy?

Professor Lehmann: I am sure he would like to leave a legacy. I have asked American "insider" friends of mine and beyond the rhetoric they do not see him giving Susan Schwab instructions saying, "This has got to go through". I know he tried to veto the Farm Bill but it could be another failure, it does not have fast track or whatever it is called now, trade promotion authority. The risks for him could be that this would not ensure a legacy or a victory in any way and it is not a particularly popular issue in the United States with 60 per cent of Americans, according to the polls, seeing trade as a threat rather than an opportunity.

Q460 Chairman: Thank you. Unfortunately, that does sound realistic. Given all that, do you believe participants would consider an agreement that simply locks in existing tariffs as success?

Professor Lehmann: I used to be opposed to this but I am rather favourable to it now, it probably is important to get an agreement. There is probably quite a lot on the table and it is better to have something that could be concrete in terms of a conclusion. It would be rather good to conclude the Doha Round because it has got mired down in all

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sorts of problems, including the problem of definition from the very beginning, what is a Doha Development Agenda, how do you calculate it, what are the metrics, what are the parameters, and so on. It was really very woolly thinking to have produced this. It would be good not to make it continue on life support, which is what it is now. It would be better to have it declared concluded and take the gains that exist and then quickly move on in 2010 to a new Round.

Q461 Chairman: I guess that would fundamentally be your Plan B?

Professor Lehmann: Yes.

Q462 Chairman: Stop, lock in the gains and start again?

Professor Lehmann: Yes.

Q463 Lord Haskins: On the issue of the lack of political momentum you mentioned, there are two conclusions I come to on that. First of all, unlike Uruguay, the business community is not hugely enthusiastic, whereas the American business community was enthusiastic then, and American Presidents tend to listen to that. The other one is are people making a judgment that if we do not get a settlement this is not the end of the world, as it were, and is that a proper assessment?

Professor Lehmann: I agree with you totally on the first point. The role of the business community has been extremely disappointing. I am one of those, along with Jim Rollo and others, who have tried to galvanise them. The problem has been partly that times have been too good. We have had the last 15 years of high growth, everything goes, low inflation. At the meetings I go to at the World Economic Forum, for example, Davos or others, there has been a sense of bullishness, at least until this year. Who cares about Doha? Who cares about the WTO? One of the things I notice, for example, in Davos is when there are the trade ministers' meetings with Lamy, et cetera, nobody shows up. The business community is conspicuous by its absence. It is partly because it has been very boring, they have been saying the same thing for seven years. The other thing is business has lots of problems. I teach in a business school and I can see this rather closely. There is a lot of short-termism. There are exceptions, including an exception in France. A guy like Carlos Ghosn, the Chairman of Volvo/Nissan, is quite a visionary guy and he speaks up. There are others, Neville Isdell of Coca-Cola and so on, but you can probably count them on the fingers of three hands, not more. There has been an absence of this kind of support. There has also been an accommodation. For example, I am told that the big German Federation of Industry has pushed for accelerating bilaterals saying, "Doha or

WTO, the multilateral system is hopeless. From the German industry point of view what we want to have is good bilateral deals with India, Korea, countries of this nature". There is a lack of constituencies and this is partly due to a lack of understanding of what the issues are and also the fact that the weather has been so sunny over the course of the last 15 years.

Q464 Lord Haskins: And they got a very good deal in 1992.

Professor Lehmann: They got a very good deal in 1992, absolutely.

Q465 Lord MacLennan of Rogart: Professor Lehmann, you opened by saying that symbolism was as important as substance, but is there any one symbolic move that the United States' President could make at the beginning of this Ministerial or in his instructions which would help to unlock responses, for example, from India, which is perhaps a key player on the other side? What might be said?

Professor Lehmann: This is where it gets bogged down. I remember one of the questions is it has to be clear that if we look at the G8 players or the European Union, the US, Japan and Canada, there has really been a quite appalling lack of leadership. On the other hand, it is true that the Brazils, the Indias and Chinas have not been particularly helpful in this exercise. India has been obstructionist. China has been very absent from a lot of the discussion. The Brazilians have been more aggressive and I guess more constructive on many issues compared with the other two. It is the same thing you are getting that you have at the G8 over climate change, to say, "We are prepared to do X, Y and Z but, beforehand, you, China, India and Brazil, have to commit". I do not think that rhetoric is going to get us anywhere. I can see this kind of argument going on until my grandchildren reach retirement age. The heroic thing, or very symbolic thing the United States could do would be to assume leadership and announce unilaterally that it was undertaking the kinds of decisions on agriculture that are being asked for, in other words you would have the reciprocity. I would have to add that some day pigs might fly; I really do not see this happening. What concerns me is I have a feeling that we are not really going to get anywhere. I have a rather bleak view of the future of the global trading system, frankly. I am not happy with what I am going to say now. Short of a crisis, and a rather profound crisis, I do not see getting back on track. If the leadership can be sufficiently persuasive in terms of trying to avoid a crisis then this could be salutary. I have to say in saying what I think President Bush might say, and this is what the President of the United States might do, one has to remember who the individual is and you realise there is very, very little prospect of it happening.

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Q466 Lord Maclennan of Rogart: I tremendously respect your crystal ball gazing and so forth, but what I am really trying to elicit is not whether it is likely he might say something, but what could he say specifically and precisely that would actually get the sides talking?

Professor Lehmann: Agriculture.

Q467 Lord Maclennan of Rogart: Within that? That is a very big subject.

Professor Lehmann: I know it is very big, but I would have to have more details of what is on the table and what is being requested. It would have to go the extra mile in terms of meeting what the Brazilians and others are asking the United States to do in terms of agricultural support and agricultural tariffs.

Q468 Lord Trimble: In your comments a moment ago you mentioned China, India and Brazil. We had evidence given to us at an earlier stage suggesting that the goals and ambitions of those three countries were not being fully accommodated by the current negotiations. Would you share that view?

Professor Lehmann: Yes, I would share that view in the sense that I come back to what I was saying earlier on. It is not just crystal ball gazing but also getting some historical perspective. In a way, Doha should never have happened. There are all sorts of people I respect who may have different views on this. There was Seattle in 1999 and those who were tracking the developments post-Seattle leading on to Doha were pretty unanimous in expecting that Doha would not succeed in terms of launching a new Round. What happened was in the interval there was 9/11 and that had a huge impact and gave Doha, I would say, an unnatural birth. Given the fact that the relationship between the so-called north and south had become very, very hostile in the course of Seattle in the previous years, there was a sense of solidarity which fleetingly existed that led to this Development Round. Subsequently, as I said, I do not think it was properly defined or stated. There are still a lot of anomalies that exist insofar as the conditions are concerned for the developing countries in general, whether it is Brazil, China, India or others on issues that are related not just to trade but things like intellectual property and so on. This Doha Development Agenda, rather than solidifying, improving and creating a greater sense of global solidarity between north and south, has tended to result in the opposite. There is a strong degree of hostility. When we are talking about the political positions that the people in the so-called OECD countries or rich countries find themselves in, the same applies to many of the developing countries, there is a sense that the trade regime is, whatever you want to call it, neo-colonialist or whatever.

Q469 Lord Trimble: I think people use the term “unbalanced”.

Professor Lehmann: You see how things have been exacerbated. For example, we have done a certain amount of work on the Economic Partnership Agreements and this has further envenomed the atmosphere and the environment. Having said that, as I said, this is an unsatisfactory deal, it has not been a particularly fruitful process of negotiation, to put it mildly, but I still feel it would be great if it could be concluded because I do not see it improving over time necessarily. It would be really good if we could conclude it successfully, even if it is with a very small ‘s’, and then move on to something where we would draw the lessons from Doha more properly defined. The south has to be brought into this. It has to be a south-oriented trading regime because the south is going to be increasingly active in trade.

Q470 Lord Trimble: When you say “the south”, do you mean just India and Brazil or something more than that?

Professor Lehmann: Much more. I mean Kenya, Mexico, Bolivia, Colombia, et cetera. This is where there remains a lot of work to be done.

Q471 Lord Trimble: This little constellation of countries, Bolivia, Kenya and all the rest of it, are their interests radically different from those of India and Brazil?

Professor Lehmann: I think the interests of India and Brazil are quite different. If I have given the impression that there is a cohesion in the south, there is not, there are many, many differences. Brazil is very successful as an agricultural “power”, I suppose you could say, and India is not. They are many different kinds of environments. Between Brazil and India there is quite a lot of tension because they have found themselves in different positions on a number of sensitive issues. On services there is a big difference between Brazil and India with the Indians being much more progressive and the Brazilians far less so.

Q472 Lord Moser: You have made it fairly clear that you are a bit gloomy about the chances of a breakthrough, however much you may want it, and you have given a number of specific reasons why there might be obstruction from various quarters. I think I also heard you use the word “boredom”. Doha has been going on year after year, no very new arguments, a new world situation but no new arguments, the same negotiating faces, et cetera. Do you think there is a real danger amongst countries that might otherwise have something to gain that they are just a bit cynical about the prospect and also they might feel that they can do better by dispute mechanisms processes, so the whole thing is slightly discouraging, or is that too gloomy a picture?

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Professor Lehmann: I think it depends on what is going to happen in the general context so far as the world economy is concerned. As things currently stand, I do not think it is too gloomy a picture, it is a reasonably realistic one. When I say, for example, that when the trade meetings take place at Davos there are very few people who show up, I remember on one occasion two or three years ago they were all there, it was a huge hall which was about two-thirds empty, and Celso Amorim, the Brazilian, at one stage was addressing one of his counterparts, I cannot remember which one—they had just had a bit of an argument about some seemingly trivial pursuit—and he looked up and said, “Look, the room’s empty, we are going round in circles”. I think when one attended year after year there was nothing new. It was the last year or the year before when Peter Mandelson said at one point, “There, it took 40 years to succeed in more or less the elimination of industrial tariffs, you cannot expect us to do agriculture in a matter of a few months”. Was it necessary to be engaged in negotiations for seven years to come up with that startling conclusion? I sense there is an enormous amount of cynicism. I have said one way to empty a room is to come in and say, “I’m here to talk to you about WTO or Doha”. This has been exacerbated. There are some criticisms that have been made of the WTO which I think are fair. The PR has been terrible. This is one of the things that the veterans of the negotiations in the past talk about. They talk about the days of the UR, the Uruguay Round, but for most of the Uruguay Round the internet did not exist, you did not have the NGOs, the political awakening and so on. Part of the problem is that politicians now find themselves in a situation where globalisation, global trade or whatever, is not supported by the populations, or at least not to a significant extent, but nothing has been done in terms of selling it. This is the case even with the jargon. I was at a meeting in Washington when somebody was talking about NAMA, and what a very unattractive term to use. There should have been a greater sense of reaching out to the public. One of the questions was what do I think about the rhetoric in the US. A real crisis in US-China trading relations could occur. If you look at the scenarios, things could go very wrong here. There is a sort of underlying tension. That could lead either to a deterioration and potential collapse of the system or to having the kind of impact that would help in terms of getting us back onto the multilateral trading system.

Q473 Chairman: We have got a crisis, have we not? We have got rising food and rising fuel prices. This is not the kind of thing you think would help get us back?

Professor Lehmann: I guess it is not deep enough. It is not deep enough in terms of perceptions. I have not seen any evidence yet, if you like. You have had declarations from leading personalities, eg Zoellick, President of the World Bank, about the world economy, the rise in inflation and all the rest of it, but I do not think it has hit the consciousness yet to quite the extent that is necessary. I agree with you that we have a crisis.

Q474 Chairman: I think that is fair. I am surprised in talking to people in Geneva about the negotiations how much the increase in food and fuel prices is a side issue, it does not seem to bear absolutely directly on what we are trying to do.

Professor Lehmann: This comes back to the question that Lord Moser was asking me about the cynicism. There is a lot of thinking that will need to be done when this is over. One of the things we are going to have to think about is Geneva. This is a very incestuous world. The fact that the negotiators are not necessarily aware of the broader picture is not surprising because they spend all their time together and, the difficulties with negotiations notwithstanding, fortunately they get together for barbecues, receptions and all the rest of it, but they are very, very far from the real world. To my mind, this has been one of the problems in negotiations that have been going on and with a sufficient lack of interest on the part of the capitals, that is why it has always been said at the end of the day it is the capitals that are going to count and not just the trade ministers, it is the finance ministers, prime ministers, foreign ministers and so on.

Q475 Lord Moser: Your point about PR is interesting. It must be quite a challenge to produce sexy PR about trade negotiations, I do not know where I would start! Since you mentioned Peter Mandelson, I have been very struck in all our talks round this table within the last 24 hours that we keep talking about America and how important it is, et cetera, China, Brazil, India, but hardly any mention of Europe. Is Europe important?

Professor Lehmann: There was an article you may have seen in the *Financial Times* a few weeks back by Kishore Mahbubani and the theme was “Is Europe relevant?” or “Europe is no longer relevant”. That was perhaps a little bit hard. My sense, if you like, is the European trade policy is almost an oxymoron. I do not know how long it is going to be able to be sustained. The trade instincts of the south and the north are really quite dramatically different. I am talking about the south of Europe, not the south of the world. I remember the so-called “bra war” in 2005 just after the Multi Fibre Agreement between China and Europe and I think it was very tough for Mandelson because, on the one hand, you had the

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French, the Portuguese, Italians and Spaniards shouting to protect the dwindling number of textile workers they had and, on the other hand, you had the Danes, the Swedes, the Dutch and the Germans, I guess the British also, who were saying that they needed to have access to cheap, good quality garments because of their retail industries being much more important and they do not manufacture any more. This tension is always there, in a sense. Look at how much difficulty he is having now with Sarkozy. This spat is certainly not very helpful. The Japanese trade policy has to take into account various kinds of lobbies and interest groups, and so does the American, the Canadian, the Australian, et cetera, and I think Europe has a common trade policy but not a common trade ideology. This is going to be a major obstacle.

Q476 Lord Woolmer of Leeds: You touched on bilaterals earlier, could I ask you two or three questions on that theme. Why do you think there has been almost an explosion in the number of bilaterals and do you think that will continue? What impact do you think that increasing bilaterals has had on the appetite or necessity to conclude a Doha Round? A second theme, if I may. Do you think the growth in bilaterals is ultimately a threat to the relevance of WTO or will an increased very large number of bilaterals at some stage lead to a desire to multilateralise them all because of the sheer complexity of hundreds of bilateral relationships? There are two different themes there, why the growth and its impact on Doha, and, looking for the longer term, what is its relevance to WTO, is it an alternative and a threat or something that will lead eventually to a desire to multilateralise, or re-multilateralise I suppose?

Professor Lehmann: That is a very critical question. It is implicit in your question rather than explicit, but I think it is important in terms of context. When we are talking about the bilaterals we are usually thinking in terms of, say, US-Australia or US-Israel and these kinds of bilateral deals, US-Korea, US-Colombia, Europe-India and so on. There is a tendency for persons like myself to be very critical of bilaterals. I have consistently been saying that we must focus on the multilaterals and the bilaterals must be a side-product, not the other way around, which is what it has become. I was very critical of the position taken by Bob Zoellick after Cancun when he introduced this term of “competitive liberalisation”, which has not happened and was a problem from the beginning. I do not think it was conceptually correct. There are aspects of his competitive liberalisation that are very dangerous. You can see, for example, that China is now getting into the business of looking at bilaterals and you can see a tension, a competition, a rivalry taking place in the world. Having said that, there are

some bilaterals where if we could get a bilateral between Morocco and Algeria that would be fantastic. This is a little bit self-confessional. One has to be careful, as I have not been, for example, in making it clear that some kinds of regional agreements, bilateral agreements, are very healthy. I mentioned Kenya earlier on because I spent 12 days there recently and I am quite convinced that part of the objectives for that region will be to consolidate this east African community and develop greater trade and so on. The same is true in north Africa. Why has there been an explosion of bilaterals? I suppose there are several answers to that that converge. Some of the things I am going to say are a little bit cynical, but they are correct. One is to keep people busy. This has always been denied but I think it is quite true that in the European Commission office here the number of people working on Doha was reduced because there was very little to do. To have a *raison d’être* for officials you have to keep people busy. All of these reasons overlap. As I suggested earlier on, and this goes back to the question that Lord MacLennan asked about the lack of business support, there has been a lack of business support for the multilaterals but there has been a great deal of business support for some of the bilaterals. The business people I speak to, who are among the “villains” of the piece, tell me, “Look, Jean-Pierre, we have to be realistic. We are not going to get anywhere with the multilateral trading system, so let’s go for second best rather than some idealistic objective which will never be realised”. There is also a political element in here, and a political element in both senses of the term. For example, personally, in spite of being rather allergic to bilaterals, I regret that the Colombia deal with the US was rejected, I think it would have been a good thing to have had for political reasons. Some people say the FTAs should more properly be called PTAs, either preferential trade agreements or political trade agreements, and in some cases I think from a political point of view that would make sense. The comment that is also made very often is that so far as the legacies are concerned it gives a politician kudos to be able to be in Capital X, Y or Z and hold up their hand and say, “We have successfully completed a bilateral deal”. I was in Australia at the beginning of last year, I think it was, and the Australians get nothing out of this trade deal with the United States except it is good for Michael Howard to be seen to be consolidating his ties with the United States. I may be missing something in this but that was the feedback I got. I would say there are prestige issues, political issues, lobbying issues. Professor Rollo and many others know these things much better than I do, but in terms of trade creation I think the bilaterals have had a very limited impact. They generate an enormous amount of input and relatively weak output. There is a risk

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that we could be talking in terms of blocs that are going to be generated by these regional bilateral deals, whatever. There is a whole issue about the Sub-Saharan African continent. We should be worried about Sub-Saharan Africa. I am very pessimistic about its prospects on the basis of current governance in most of the countries concerned and at the same time we have a population explosion that is in the process of taking place, so we should be looking at having a global framework that is going to be conducive to Africa being as economically efficient as it can be. Just as we had the Cold War being fought in Africa in a geopolitical sense, we could have an economic trade war or conflict going on between China and the West on African soil. These are some of the costs of not having a proper multilateral trading system. I was asked a question about whether the dispute settlement mechanism could act as a substitute for the negotiations and my view is not. My view is it has functioned quite well, it is a good thing, but, ultimately, if the institutional framework is not going to be solid then I do not think that the court, so to speak, the DSM, is going to be able to function properly. Of course, in the bilateral deals that is one of the aspects that is significantly lacking.

Q477 Lord Woolmer of Leeds: One witness said to us that if Europe and the United States did a bilateral deal in the absence of the Doha Round being concluded positively that could almost spell the end of the WTO. Is that an overstated view?

Professor Lehmann: That would be my view. Whether Europe and the US would go for an FTA in due course is a separate issue from the one of timing. If you look at what happened when the Europeans and Americans had some preliminary discussions on a common position before Cancun, that resulted in a very violent reaction with people saying, "This is no longer a world where you guys can go behind closed doors and determine what the fate of the planet is going to be". Although it could be a good idea, it would be a terrible idea in the current context. You have talk about a free trade area of the Asian Pacific which, again, is not necessarily a bad thing. The Asians are talking about trying to look at the European Union as a model for their own development. This is where I come back to the issue that in the absence of a strong multilateral framework and also the spirit of the multilateral framework this may not happen. On the point you make about the difficulty on the PR, this is something we are going to try to do, to reach down to popular levels. We are working with an Indian company on this to develop software and IT programmes, et cetera, that look at the history of trade, the beauty of trade. There was a book recently by William Bernstein, I do not know if you have seen this, called *A Splendid Exchange*. It is magnificent, it could be

made into a film. If you stop and think about it, trade connotes a lot of romantic imagery, the Silk Road and so on. What we are lacking now is not just the politics, it is the whole spirit of the global environment in terms of trade. As I say, I am probably a little bit jaundiced by virtue of being French, and although I live in Switzerland, I go to France quite frequently and have a house in Vendée with Philippe de Villiers as our head of region, one of the most protectionist Frenchman, and that is saying a lot, and neighbours say to me things like, "The future is to be clothed by the Chinese, fed by the Brazilians and our plumbing done by the Poles". There is a sense that we are victims of this globalisation. There are a lot of popular attitudes that need to be addressed to get a greater sense that there are a lot of benefits to be had from the environment that we have and from what is being tried.

Q478 Lord Haskins: I am getting more and more gloomy the more I listen to you!

Professor Lehmann: Sorry.

Q479 Lord Haskins: Mr Lamy was more optimistic than you, but I suppose he has to be doing his job. He was saying yesterday that the leaders of the world need the WTO privately more than they are prepared to admit publicly. That seems to be an area that one could work on. Your PR point is very well made and is one of the reasons why business people are keeping their heads down because the NGOs have done a very effective PR job and business people do not want to be seen to be taking on the NGOs in public and that is a real problem. You have also said that bilaterals do not really work. If that is the case, eventually they will be exposed and there will be a time when people say, "What are we getting out of this?" It seems to me there are two issues which the WTO might have to consider which business people certainly would see only global institutions can deal with. One is energy, which nobody mentions at all, and, indeed, one of the large energy producers, Russia, is not even a member of the WTO and is unlikely to become one. If the WTO was able to come up with some serious answer to the energy problem that would have a huge resounding impact on global business public opinion. The other one is climate change where, again, I think people realise this cannot be done by bilaterals, this has to be done in a multilateral way. Is the WTO the institution to be taking those on and is there any way of achieving that?

Professor Lehmann: First, that Pascal Lamy should be more optimistic than I am, I certainly hope so! He has to be. These are very, very fundamental questions. My short answer is yes. This would be in the context of a renewal of institutions. People are talking about another Bretton Woods, and maybe that is too much,

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but there has to be a very, very profound assessment of the degree to which the institutions that we have at present are conducive to the challenges that lie ahead. I realise that it is going to be extremely difficult when we look at trying to reform the UN Security Council or whatever. Issues like energy and climate change are ones that are recognised as having a huge impact on absolutely everybody. One of the things that has been very much talked about is the absence of any sense of coherence. *The Economist's* front cover with the Tower of Babel as a system of global governance was really quite effective. If the WTO were able to take on these two issues you are talking about, if not the WTO then who? These are very related to trade and at least as important, if not more so, than, say, intellectual property or other things that the WTO has gone into, rightly or wrongly. This should be something that is on the agenda. Coming back to the question Lord Maclennan was asking about what Bush could do in terms of a breakthrough, as I say I am very sceptical that there could be anything at all. You could say that somebody bringing in the energy and climate change issues would say, "We have to complete this Round as best we possibly can, we, the United States, and the European Union hopefully, but with a perspective of what next". We could say the "what next" has to include climate change, trade and energy, and trade and a number of other issues. Another one is immigration, which does not feature yet. Mode 4 is a very small element.

Q480 Lord Haskins: That is one which frightens people.

Professor Lehmann: That is one which frightens people, yes. On the other hand, there is no regulation so everybody is going round doing their own patchwork. Even in Europe we are not being particularly successful in that. I do not know what Pascal Lamy's reaction to this suggestion was, but it would be very, very important to get a sense of realistic direction and inspiration, coming back to the question from Lord Moser about people being bored with WTO and Doha, partly because the issues it is dealing with, apart from certain vested interests, are seen as being very remote.

Q481 Lord Haskins: You could argue success creates boredom. The WTO has achieved a heck of a lot.

Professor Lehmann: It has, absolutely. This comes back to the PR bit. Those of us who have been able to witness, as many in this room have, during the course of the last several decades GATT before WTO, it is a very different world. I was living in the UK in the late 1960s and 1970s and I remember when I was going over to Calais and had to be stopped and the car was searched and so on, and vice versa. It is a very, very different world now and it is fantastic

world in which we live and it is taken for granted but has to be heralded.

Q482 Lord Maclennan of Rogart: In a sense this has already been answered. You have repeated that perhaps the best thing would be to end the Doha Round. I am not sure exactly what you mean. You talked about the possibility, for example, I suppose of locking in existing tariffs as being a way of ending it, but by most tests that would look like a failure. Your answer to what happens in that circumstance seems to be it has failed there, but give it a bigger job. Why do you think that would have any more prospect of success? I look at the presidential communiqués that come out of the European Union on climate change and every single one of them over the last two or three years has spoken of it remaining the sovereign choice of each member country which energy form they will choose. If we cannot get it into multilateralism in the European Union, what prospects for WTO? Perhaps that is wider than my Lord Chairman wanted me to take the question. What prospects really is the question.

Professor Lehmann: I think that the prospects for the kinds of things I am talking about are very remote if looked at from a realistic perspective. I continue combating for them, but with lots of members of my family and friends saying, "Don't you have better things to do with your time", is a bit reminiscent of that guy who was running after windmills. You say it is a broader question but my conviction is that the multilateral trading system, improving it, developing it, enhancing it, is fundamental to the general objective of making this world a more equitable and wealthier place in the sense of distribution, human dignity and so on and so forth. I come back to the impact that Kenya had on me. It was the second time I had gone but I was there for 12 days. Sixty per cent of the population of Nairobi live in slums, which is five per cent of the territory of Nairobi. The population is going to increase by another 15 million over the course of the next 20 years. On the basis of the current situation it is the slums that are going to get increasingly full with probably a diminishing amount of space because they are also looking at land development, et cetera. This is the kind of trend that needs to be reversed. I do not believe that it is because we get a Doha deal that the trend is going to get reversed, it is a general thing of trying to improve global governance, domestic governance, national governance and trying to get economic systems in place that are going to be conducive to growth but also to what is now being called inclusive growth. I admit it is a bit of a buzzword, but I think it is a reasonably useful buzzword. That is a struggle that is going to take place over time. I bought William Hague's biography on Wilberforce. I have not read it yet, but a couple of years ago I did read a fantastic

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book on the abolition of slavery in the UK called *Bury the Chains* by Adam Hochschild. The thing that was so striking about it was that it did take several generations even to get into people's consciousness. Without being pompous, because that is certainly not my intention, we do have a very long-term challenge ahead of us. While I am extremely gloomy insofar as the near future is concerned, I am much more positive insofar as the longer term is concerned if we can go through some of the series of obstacles we have right now. Right now I do not think there is particularly any cause for encouragement. There are problems of governance, as *The Economist* pointed out, there are problems of politics, attitudes of people, and so on. The struggle has to go on and we have to try and perfect the institutions that we have even if it is on an incremental basis. That is why I think reaching out is

going to be terribly important, to try and provide some sense of hope. The idea of a Development Agenda could have been a good one but it needed to be much more precise in what its definition was and what its objectives were meant to be.

Q483 Chairman: This has been extremely interesting, Professor Lehmann, particularly following our meeting with Monsieur Lamy, who has his mind and heart concentrated solely on the Ministerial and, if you like, a dash to get this deal done. It will be very interesting to see which of you turn out to be more right than the other.

Professor Lehmann: I hope he will be.

Chairman: In terms of the immediate perspective, of course. This has been very interesting and very clear, thank you very much indeed for coming to talk to us.

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Present	Cohen of Pimlico, B. (Chairman)	Moser, L.
	Haskins, L.	Trimble, L.
	Maclennan of Rogart, L.	Woolmer of Leeds, L.

Examination of Witnesses

Witness: AMBASSADOR DON STEPHENSON, Permanent Representative of Canada to the WTO and Chair of the WTO Negotiating Group on Market Access, examined.

Q484 Chairman: Thank you very much for coming. It is very kind of you because I know you have had a few other things to do today! If I may just recite, as it were, the conventions of the Committee. We take a full transcript. When you have cleared the transcript we put it on the website and all evidence will be published, along with the report. We understand that you do not appear as a representative of the Canadian Government, that you are appearing in your WTO capacity and, indeed, it is in that capacity that you are going to be terrifically useful to us. My first question is what was in the NAMA paper that was published last night and, without wasting your time with the detail, does it meet what the United States and Germany have been hoping for, or are there problems all over it? That is my general opening question.

Ambassador Stephenson: Thank you for the privilege of appearing before you. What was in the paper? In the paper was a reflection of the state of the discussion in the negotiating group, the best I could read it. In particular, there was a reflection of further convergence on many of the issues, including some extremely important ones, and some quite minor things but things that needed to be off the table by the time ministers get here, things like how long is the implementation period for the Round in respect of the NAMA negotiation, how big is the mark-up for unbound tariffs, before you apply the formula. For most members they are trivial matters but still need to be resolved and are important for some. I would have said with respect to the paper last night, one of the substantial pieces was pretty near full consensus on the basic structure of the trade-off between the coefficients in the NAMA formula and the flexibilities for developing countries, the so-called sliding scale, that the lower the coefficient goes the higher the flexibilities go, and there are choices for developing countries. That is an important piece of architecture to allow everyone to find their happy place in respect of the final outcome. I believe that is now fully signed off. There were two or three other key issues, particularly for the key players in the negotiation, the first being the treatment of Mercosur—Brazil, Argentina, Uruguay and Paraguay. This was in reference to the calculation of their import volume for the purpose of calculating

the cap on their flexibilities in relation to trade volume. They made two arguments, that members accepted at least at some level that because they are a Customs Union and, therefore, will be submitting to some extent a common list of flexibilities to keep their common external tariff common, they would individually be benefiting from less flexibility than other developing countries. They made various arguments but, to give you an example, when we were talking about ten per cent of tariff lines as flexibilities to an individual developing country, Brazil was making the argument that because they had to share some of those lines with their Customs Union partners they were only getting the benefit of six or seven per cent of tariff lines that would have been their own first priorities. Members accepted that argument, at least to some extent. They also accepted the argument that Brazil and the rest of the Customs Union were further being capped in the use of flexibilities by the trade volume of the smaller members because when you hit the volume cap you can no longer take advantage of the tariff line cap. Those arguments were accepted by the other members and this document reflects an agreement that all of the members of Mercosur may use the trade volume of the largest member, that is to say Brazil, in respect of the calculation of the volume cap. That goes a long way to addressing the concerns of the other members of Mercosur, including Argentina, which may be meaningful to a final result. I would say that agreement around that, and in a text agreement means there are no brackets, and no brackets on that part of the text is an important step, I would say. The next issue that is very meaningful is the provision for what they call in Europe anti-concentration. That is also in a paragraph. I felt confident enough to propose, without a bracket, that there be some further amplification, further definition of that provision. In the original mandate stemming from the Framework of July 2004 there was a sentence in the mandate that said: "These flexibilities available to developing countries may not be used to exclude entire HS chapters", that is to say enter industrial sectors from the tariff reductions. There has been a debate since then about what does that mean and most of the time through that debate the legalistic interpretation has been made, that is to

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say excluding even one tariff line from the HS chapter would be sufficient to satisfy the requirements, at least in a legal sense. If you have interests, for example, in the auto sector and you exclude one line from chapter 87, which is the chapter involved, that line could be baby carriages or golf carts and by that definition that would satisfy the requirement. More recently, in the discussion members agreed almost unanimously that certainly the spirit of that provision takes you past one tariff line. Perhaps it does not take you all the way to the European suggestion that it be 50 per cent of tariff lines, but somewhere between one line and 50 per cent of lines there must be some conclusion. I took a step on that issue by removing the brackets from a provision that we have been working on, however I put no numbers at all because members are not nearly close enough in respect of how they define the provision. In the debates in recent weeks some have spoken about the spirit of the provision, others good faith implementation of the provision, some have spoken about *de minimis* and then argued about what that would mean. By the way, if you were to closely examine this provision there are two provisions, the number of tariff lines that must take the full formula cut and the volume of trade in the chapter that must take the full formula cut. Those are very different and some of the simulations we have done both in the WTO for the Chairman or individual members clearly demonstrate although the results are different for each chapter, for each industrial sector, and they are different for each member, because every member has a different tariff schedule, clearly those numbers are very different, in some instances five per cent of trade volume in a chapter could represent 20 per cent or more of tariff lines and the per cent of trade volume could represent 50 per cent of tariff lines. In the final negotiation of that issue, which I trust will be when ministers gather the week of the 21st, and they agree some numbers for those brackets, I expect them to be two different numbers and you should consider them both very carefully. The next issue that I would point to as important in respect of this text would be the issue of the treatment of sectoral agreements. As you know, there are proponents for agreements in specific industrial sectors that propose to go further than the formula cuts in that particular sector. These proposals are made by individual sets of countries' proponents who are trying to attract on a voluntary basis the participation of other countries and to reach something that they refer to as a critical mass of world trade agreeing to participate. In my last text in May there had been a proposal to create a hard link, a mechanical linkage, between agreement to participate in sectorals and the coefficient in the formula for all tariffs. It was a kind of credit system: participate in one sectoral of X size and you get Y reduction in the coefficient in the formula. The

discussion since the last text moved away from that mechanical linkage. Frankly, it is extremely difficult to articulate in a way that satisfies all interests. As I say, all members are different, they all have different levels of interest in particular sectors, they all start from a different starting point in the race. It is very difficult to come up with a mathematical formula that would capture everyone's possible interest and sensitivities. The discussion moved more towards a soft link, what some referred to in the debate as a political linkage, between agreement on sectors and the level of ambition in the formula. That is what I have now described in the document. For those of you who follow this negotiation too closely, it moved in the document, so if you do not find it in paragraph seven at the end do not panic, read the beginning of the sectoral part of the document in paragraph nine. It is a very obvious linkage that is being made. It says that some members will include the results in sectoral agreements in their calculation of the overall balance in the deal, including what goes on in the formula. That is a very sensitive issue for many members who believe that the basic balance does not include the sectorals. I have always said in the negotiating room, so I am not shy about saying it here, that in my own view it is impossible to separate these things. I admit that there should not be a hard linkage but there is obviously going to be a soft linkage because both the formula and the result of sectoral agreements speak to the same simple point, and the point is, "What am I getting in relation to what I am being asked to pay?" When we are finished with all this nonsense of building the perfect modalities for submitting schedules, the only question anyone will ask themselves is, "What am I getting in relation to what I am paying?", although even as I say that perhaps I would amend it by saying in this negotiation there is one other question we are supposed to ask ourselves, and that is "Does it all pass the red face test on development?" I would point to those issues as the most important things that go on in the document. I have not changed any of the numbers, any of the ranges in respect of the formula. That is because most members can accept those numbers as the basis on which to negotiate and in respect of those few who indicated that they cannot accept that, they proposed no other numbers that reached a consensus, so I had nothing to replace these numbers with. The document is very substantially thicker now because it includes all of the detailed proposals on sectoral agreements by the proponents, so they have been attached. They were to be submitted by the time we agreed these modalities, so now we have them. The final issue I would draw your attention to with respect to the modalities is recently acceded members, and in particular those recently acceded members who will apply the tariff cutting formula. There are four of them. The one that everyone is

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watching is China, being such a large trader in respect of NAMA. In respect of China the current state of the debate on recently acceded members is that there is a footnote in my text which indicates that at the time the formula is agreed members will consider the matter of whether further flexibilities are required for these members, including China. China's position, and it has been very agreeable to all the other members, has been, "Why don't we talk about this later when we know the level of ambition in the formula?" and then both sides will see to what extent it would be necessary or agreeable to provide further flexibilities to one of the world's largest NAMA traders. The provisions were simplified in respect of the one provision that everyone agrees on for recently acceded members, and that is a longer implementation period than other members. In the previous texts there had been provision both for a grace period and a longer implementation period than other countries. In the last text two or three years of grace on a line-by-line basis, either a two year grace period since you complete your accession obligations or, in the Chinese version, since January 1 2003 that same provision would apply. The difference between those two options on the grace period was something like a couple of tariff lines or 2,000 tariff lines being involved. Members agreed that was rather a wide range to hand to ministers to grapple with, so they widely agreed that perhaps just the longer implementation period should be negotiated and the grace period was dropped altogether in the text last night, but the range for longer implementation moved slightly towards the longer end. In my last text that range was two to five years and in this text it is three or four years. We dropped the numbers off the bottom and the top. In the case of China, the implementation period would be the ten years agreed for developing countries plus three or four. As I say that I would like to make it clear that there are tariff reductions beginning in the first year. We are not waiting 14 years for tariff reductions to begin in China. I have heard the provisions of my last text described in that way sometimes. What this means is that instead of dividing the total tariff reduction that is required by ten, you divide it by 13 or 14 but it begins in the first year. Those are what I would describe as the principal issues and where they stand in this text.

Q485 Chairman: Professionally, Ambassador, having been in charge of this process, are you sufficiently pleased with progress to think that it will bring the Americans along? How good shape do you feel you are in for the Ministerial, I guess, is the Committee's question?

Ambassador Stephenson: I think what shape we are in in respect of the Ministerial goes well beyond the United States and, in relation to your question at the

beginning, well beyond Germany. It does deal with issues way beyond NAMA and the balances that have to be struck. I do feel that we are in better shape for the Ministerial in the sense that there are more issues that have been resolved and taken off the table for their discussion, which is critically important. In two, three or four days of ministerial discussion there are only so many hours, with five minute interventions on each of the issues by 30 or so ministers, the math becomes rather simple and too many issues will not fit. Moreover, there are some key issues that will drive resolution of the others. I think this text removes some of the issues for them, although obviously on a tentative basis because nothing is agreed until everything is agreed in our business. It does make most of the issues a matter of the numbers and not the architecture, so the negotiation before ministers is relatively straightforward. It makes most of the options on the issues very clear, ministers pick A or B. We are in better shape, but I do not think we are in the best possible shape. Both the Chair of Agriculture and I have committed to use the time remaining before the Ministerial Meeting on the 21st to try to resolve further issues, in particular the issue of the treatment of preference erosion in both agriculture and NAMA. In agriculture it is closely linked to the treatment of tropical product. We will do further work next week to see if we can get those issues fully resolved for ministers. We can still do better in the few days remaining. I am feeling not too bad about the shape the text is in now for ministers to deal with. With respect to the issues of principal interest to the United States, the overall balance in the market access, is it ambitious enough, and, in particular, including sectoral agreements is it ambitious enough, the text allows for a result that they could agree with. I do not take this as my own judgment, I take it as a reading of what they have said in the negotiating room. They have made it clear that at the bottom end at least of each of the ranges and numbers, including some key sectoral agreements, they could perhaps agree to an outcome in this text. They have made it clear that at the high end of the range and all of the numbers and without sectoral agreements they probably could not. Certainly the text allows for a possible outcome. With respect to the concerns of Germany, as I understand them, because they are represented in my discussion by the European Commission, the anti-concentration provision is one of keen interest to Germany. I think that the text now provides an architecture in which that debate can be engaged by ministers in ten days' time.

Q486 Lord MacLennan of Rogart: Thank you for that very fascinating account. Arising from what you said, that nothing is agreed before everything is agreed, is that within the self-contained NAMA

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package or could it be skewed by what goes on in the discussion on agriculture? Secondly, you said that there was agreement all round to talk about China later. Does that agreement include the United States, which is usually rather sensitive to the Chinese questions? I would be interested to know how that pans out. Thirdly, were there any significant non-tariff barrier issues being considered in the discussions? Fourthly, and this is really a repetition of the question about America but in another way, you said there are a lot more issues than that, but all the evidence we have been getting has suggested as far as America is concerned their stance on the agricultural package could ditch the whole thing and if they are not going to ditch the whole thing they are going to have to have something to sell. I suppose I am really asking whether you can add anything to your judgment of whether they have got enough to sell.

Ambassador Stephenson: Let me take the easy parts first! With respect to the single undertaking, nothing is agreed until everything is agreed both in NAMA and the Round as a whole. Although we are now working to try to reach an important milestone in agriculture and NAMA, that is to say the rules for preparing your tariff schedules and then the examination of schedules, until all parts of the negotiations are completed, we hope towards the end of the year, and until we are ready to agree a single undertaking on it all, none of it is a legal undertaking. I would say that there is an important balance inside NAMA. I think I described the formula in sectorals as one of them, but there are others that need to be reached or there is no deal in NAMA, and beyond that it is all of the rest. With respect to China and the comfort level of members to take up the issues of China finally at the end, my judgment is that the United States can accept my footnote and that approach. I would not say that they are entirely comfortable, nor perhaps are any of the members, until that discussion is engaged and concluded. China is a tremendously important NAMA trader and of keen interest, if not sensitivity, to almost every member. I would certainly say that is true of the United States and from my observation I would say it is true of Europe, but that is perhaps the one consensus in the entire membership. With respect to non-tariff barriers, I should have perhaps included them in my opening remarks about key issues, but they are to be negotiated in a second stage of the negotiation. What is of interest in this text is that there is a wide convergence, it is not a full consensus until the negotiating group actually signs off on it, on a narrower list of proposals that have been made as the ones that deserve particular attention, that is to say they are the priority issues for the negotiation. They are listed in my document and there are six or eight of them, beginning with the one that enjoys the

widest support, very, very broad support, and that is what has been referred to as the horizontal mechanism. It is an arbitration procedure for future NTB disputes. At the moment the problem with NTBs is you are faced with either raising the issue in the dispute settlement system, which is lengthy and costly, and not well-suited to an NTB dispute that may involve goods sitting at a border, or the standing committees and, again, they do not meet very often and have no strong arbitration system. This is to provide a mechanism in-between those two options. I would say that the list we now have is a very realistic list. In my experience in two and a half years in the chair, non-tariff barriers get the best speeches and the worst proposals. Everyone will tell you that tariffs are no longer the central issue in respect of market access, it is the other kinds of barriers, but when you ask members to define those barriers and their proposed solutions, they struggle. That is an observation I have made about NTBs.

Q487 Lord MacLennan of Rogart: Do they deal with the treatment of labour and that sort of thing?

Ambassador Stephenson: No. They deal mostly with sanitary and phytosanitary rules, technical barriers to trade. They deal with trying to agree international standards instead of having to deal with everyone's national standards, and how those are administered through recognition of conformity of assessment and things like that.

Q488 Lord Moser: I want to ask you something about the possibility of a breakthrough, but before that can I ask one question about your initial statement on the contents of the paper. I think I was following you when you were describing the complexity of the linkage between all the different numbers, and I think you used the word "mathematical" at one point. I was intrigued by the change from hard to soft linkages. To me that could mean one of two things that are quite different. One could mean that instead of the linkage being in precise numbers, it could be in precise numbers with margins of error, so to speak, so the hard becomes soft because there is a range, or it could mean something quite different, namely it could remain hard numbers, precise numbers, but less commitment to agree to everything. Which of those two things did you mean? I am sorry to be stupid.

Ambassador Stephenson: As I have often said in the negotiating group, sometimes if you are not confused you are not paying attention! With respect to the hard and soft linkages, the soft linkage does not mean a wider range of numbers. In this instance it means simply language in the text that signals to other members that there is—

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Q489 Lord Moser: “Don’t take the numbers too seriously”!

Ambassador Stephenson: Indeed. In respect of the sectorals, it is only to signal that my agreement to certain numbers on the table in respect of the formula, the coefficients and the flexibilities that apply to the formula for developing countries, is linked to whether or not there are going to be results in sectorals of interest to me. That is what the text now very clearly says. That is sensitive for a lot of members who believe that sectorals were always intended to be top-ups, always intended to be voluntary, therefore they were only intended in sectors where it was of mutual interest to go beyond the formula and for that reason principally developing countries and defensive developing countries insisted that the decision on sectorals must be made after there is agreement on the formula and no linkage should be made. As the chair, I can only reflect honestly what I heard from all of the members, and some of the members were telling me that there is a linkage, and I think it is a fairly obvious one, which is the one I described earlier. Those members were saying that some time in the process of agreeing the formula, and I suppose this now means some time the week after next when ministers are sitting at the table in the so-called Green Room battling out the numbers on the coefficients and the flexibilities, they are going to get to a moment where someone has asked for a particular number and someone else says, “Well, I can’t quite get there, but what are your intentions in respect of the sectorals?” That may happen at the table or it may happen at the coffee break, but I am almost certain it is going to happen. Whether or not there is a hard link, a formal agreement, or whether or not there are simply understandings between ministers, I do not know. That is what I describe as “hard” and “soft”.

Q490 Lord Moser: Thank you very much for that. Looking to the end of the year, the complexity is totally formidable, frightening almost, and in our evidence we have heard everything from the extreme optimists saying that there will be sufficient progress for it not to be a failure, and the fairly extreme pessimists who say it is all quite unrealistic, this cannot happen. We are here to learn. Taking the pessimistic view, which I hope will not be borne out in reality, that by the end of the year, when I understand you will have left, or so the papers tell me, and it is some kind of failure, what does that mean for the Organisation? What does that mean for the future of the WTO, including its other roles of solving disputes, et cetera?

Ambassador Stephenson: With respect to the complexity, I think that is more true of agriculture than of NAMA. In respect of NAMA, it is more the logistical challenge that an end of the year deadline

imposes. There is a long procedure after we agree these modalities next week or the week after. You then have to prepare your schedules, submit your schedules, provide time for members to examine each other’s schedules, then verify them formally in the negotiating group and finally agree. Then there is the complexity of the other issues that may, in fact, make the discussion by ministers the week after next somewhat more complicated than agriculture and NAMA, issues like where are we on services negotiations, where are we on the rules negotiations, including very sensitive issues like zeroing in anti-dumping, fish subsidies for some members, and issues in TRIPS like geographic indications and CBD. There are many tricky issues yet to go. In my experience, these things come to resolution very quickly when people are ready. When I took the job, I was in the job for two or three months and I complained to my chief negotiator from Canada that things moved so slowly, and he said, “No, you haven’t understood it yet, things don’t move at all until they suddenly lurch forward”. That can happen in respect of the entire negotiation. With respect to this challenge, some members take this to mean, particularly because of the uncertain political situations, particularly in the United States, can this thing be agreed by the current administration, would it face a new administration, et cetera. My question is, what is the alternative? It seems to me the only other alternative is simply to put down our tools and wait until some uncertain point in the future when there is agreement to take it up again. I would rather keep trying and see if we can get agreement and then see what all members will do with it, whatever their particular political situation might be, and there are many more members than the United States that should be of some concern to members. If there is a failure there is a wide concern that it would do damage of a permanent nature to the institution and in particular to the dispute settlement system. I do not think that is necessarily true. Members do very much value the dispute settlement system and it is still held in very high regard by the members and I think they would do their utmost to protect it. We would have to think carefully about the institution. Since I arrived in Geneva four years ago there have been a couple of interesting efforts to look at the institution by the Sutherland Committee and a group initiated by Warwick University, the Warwick Commission, both of which have made interesting suggestions with respect to institutional matters, and in particular the decision making process in the WTO. I would say that on both occasions we skilfully avoided any real debate about those issues, always preferring to keep our eye on the ball in respect of negotiations, particularly if the negotiations are in a hiatus, but perhaps in any event members should really take up those matters in a real debate. That would be my view.

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Q491 Lord Moser: In that sort of scenario one does not have to think of a major rethink for the WTO if the Round does not succeed totally, it will evolve but not dramatically change. Is that what you are saying?
Ambassador Stephenson: That is my guess. I think you need to talk to better experts on the matter than me. It will matter very much, if there is a failure, how we failed and on what set of issues did we fail and how acrimonious was the failure. That will determine when we can take the matters up again and what damage we have done.

Chairman: Indeed.

Q492 Lord Woolmer of Leeds: Can I ask you two things, one relating to your initial presentation and the other about your conclusions given your now wide experience. On the first, I listened carefully to your technical exposition doing your very best to enable me to understand it at least, but if we were trying to explain this to the average intelligent lay person they would not have a clue what we were talking about. That is simply a different perspective of function in life. Taking one sector from the perspective of two different interests in the world, A and B, can you explain all of that? Take a sector, automobiles or some other sector, what are the issues? When the politicians or ministers go back home and explain why they rejected it or accepted it, illustrating it with a sector, can you have a stab at that in layman's language?

Ambassador Stephenson: I would not have picked autos.

Q493 Lord Woolmer of Leeds: Or whatever.

Ambassador Stephenson: But perhaps we should. If you take a sector that is at the top of the list of sensitive sectors for most of the membership you might actually have autos at the top of the list. I suppose near the top of the list would be garments and chemicals.

Q494 Lord Woolmer of Leeds: Take garments.

Ambassador Stephenson: Even in respect of autos, and it provides a good example, what are the issues? The issue is, "Am I getting any new market access?" That is what most of the members are looking for. Also, I would like to point out, "Am I getting a reduction in the bound tariff, even if it doesn't have an effect on the applied tariff and, therefore, it is not new market access" has a benefit, has a value, and that value has recently been demonstrated by countries like Brazil who have raised fairly significantly their tariffs on garments and other products closer to their bound level. A reduction in the bound level, which often times in members' rhetoric is completely discounted as having a value, is incorrect. I would say to the average person that the reduction in the bound tariffs of major emerging markets and the applied tariffs in

developed countries, the reduction in applied tariffs which will still be significant in respect of most sectors for the major emerging markets that everyone is interested in in this negotiation, are significant. I would say that reductions will provide greater certainty for all sectors and they will provide significant new market access in most sectors.

Q495 Lord Woolmer of Leeds: Secondly, reflecting upon your experience, which is not yet concluded of course, what role do you see for the WTO looking ahead? Given that experience, what conclusions do you draw for the opportunities and challenges that it will face?

Ambassador Stephenson: As to my own experience, and if I just survive the next two weeks it is over, I would say there are new issues in trade that we will have to deal with in the WTO and outside the WTO that will be extremely difficult. There will have to be greater and greater attention paid to the link of the environment and trade rules. I would say that we will have to pay increasing attention to the issues of trade and labour. The issue of energy, that is to say the issue of environment twice, issues of energy trade, will become increasingly important. Going back to the institutional matters, we may have to consider different approaches and putting the emphasis more on plurilateral approaches than multilateral ones perhaps as a building block. I do not like to make that suggestion. It was made in the Warwick Commission report and I fear it may be true. I am hesitant to support it because I think we do have to make the multilateral system work.

Q496 Lord Woolmer of Leeds: Did you mean plurilateral within a multilateral framework or plurilateral bringing together bilateral frameworks?

Ambassador Stephenson: I mean plurilateral within a multilateral framework, although I must say there are a number of examples where members are moving away from the multilateral system and into plurilateral discussions, not just in trade but in intellectual property matters and other areas because the multilateral system is so difficult. When you deal in a room, as I do, with 152 completely different sets of interests and needs and levels of development, it is very challenging. We do have to make the multilateral system work because almost none of the problems can be solved at a national level any more. I think we are going to have to examine as building blocks more plurilateral approaches within the multilateral system, that is part of the future.

Q497 Lord Trimble: A moment ago in reply to Lord Moser you put the question, what is the alternative, either press for an agreement through the remainder of this year or put Doha on ice and wait for some time, 15 months or whatever, until Doha can be

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resumed. Earlier we had evidence from someone saying he thought it would be satisfactory to end Doha now with an agreement that simply locks in existing tariffs and then resume in 15 months or whatever with something that is new and perhaps more clearly defined than the Doha Development Round. I wonder what your reaction would be to that.

Ambassador Stephenson: First of all, I am not certain that it would be possible to lock in the current tariffs because the inter-linkages of the issues are too great to make that likely. The reason that we have a Round is because the so-called built-in agenda after the Uruguay Round failed. There was a provision in the Uruguay Round to pick up agriculture and services again in five years, because although a framework had been built for those new sectors there was not that much liberalisation, so the Uruguay Round said, "Let's pick them up and pick them up separately as stand-alone negotiations in five years' time". There was this odd theory, called the bicycle theory, that we had to keep moving forward or we would fall down and hurt ourselves.

Q498 Chairman: We are familiar with it, yes.

Ambassador Stephenson: There was also a view that the WTO would become a permanent forum of negotiation on issues but they could be separate. It turned out that the built-in agenda went nowhere because you need a broader set of interests on the table so that members can make trade-offs and find their own interests in a balance. That is why we have a Round. I do not think that if we, as it were, fail in this Round in the next weeks that we will be able to agree some part of it. With respect to whether or not we can pick up Doha in 15 months, there are split views among my colleagues about whether you can take this mandate, put it in the freezer, take it out, thaw it out and start over. I suspect that is not possible. I suspect there would be too many who would believe that the mandate was flawed and, moreover, that the world has moved on, the set of issues has changed and the ones I described earlier as the future are now the present. The external environment is too important in framing a negotiation to think that is likely.

Lord Trimble: Thank you for that. May I say, had we had our full complement of the Committee here you might not have survived using the phrase, "the odd bicycle theory!"

Chairman: We have a proponent of the bicycle theory on the Committee who, unfortunately, has had to go home early!

Q499 Lord Haskins: Ambassador, your job in a sense every time you raise the issue of garments or baby carts is immediately 152 officials go scuttling

back to the garment or baby cart industry to take a flavour of how this is going to fly. In a way, you are in a great position to judge the pressures that governments are under from business, positive and negative, and from NGOs, positive and negative, on these issues. If you had been doing this job 16 years go, it seems to me there would have been quite a strong message coming forward on this range of product areas that a deal was important. At the moment there does not seem to be that strength. On the other hand, in Seattle six or seven years there was a great deal of hostility to what was going on, but that seems to have reduced as well. Can you get any flavour from the Member States about what business is really thinking about all this? Are they widely enthusiastic, indifferent, or frightened because of the NGOs? What do you think?

Ambassador Stephenson: I had a two year hiatus in my experience in trade when I was responsible for WTO matters in Ottawa and then I left to work in the Privy Council, left the trade issues completely and returned to them for this job. Because of the two year hiatus perhaps it was easier for me to see and hear a difference in the nature of the debate on the NGO side. It has shifted fairly dramatically and it is much less anti-globalisation rhetoric as it is, "You're doing it wrong". It is not that trade and trade liberalisation are necessarily bad and evil, but rather it should be done in a particular way. That is interesting. On the one side of the table the debate is a much more realistic and constructive one than it has been in the past, so there is less NGO opposition. The important qualifier on how you are doing it is, are you doing it in a manner that is respectful of the environment, that does really contribute to development, et cetera. With respect to the business side of the equation, I would not describe the business interest as strong as it was in the Uruguay Round and I would say that for a number of reasons, or at least my guess at the reasons. First of all, trade negotiations take over, and they know that, so there is a kind of attitude of, "Wake me up when it gets serious". The focus is always on the next quarter. I would say that a lot of what we are talking about, and certainly this is true of those with important regional interests covered already by regional agreements, and maybe that describes NAFTA, the gains in the round will be incremental and important. They will be pleased with any new market access that arises, but it is incremental gains in market access so that the interest is attenuated a little bit by that. I would certainly say that there is continuing and sufficient interest in what is on the table, and I would say that despite some of the rhetoric of the business community. It is interesting that rhetoric is not always what you hear in private discussions with representatives of the business community. I think that interest will be greatly increased as we move past modalities and into

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sectoral agreements in NAMA and services because it is essentially a kind of sectoral discussion in services. What will be at issue is my sector, my business, so there will be a great deal more attention to the detail of the negotiation. I suppose you have already heard this in my voice, but I take the public rhetoric of one and all with a grain of salt. In particular, I note that the European business community some time ago was saying they wanted a result of the Round in respect of emerging markets to be tariffs that for the most part were below 15 per cent and when I explained that a Swiss 20 in the formula in NAMA would do that, they changed their position

to wanting lower than that, so I do not know. Do I sound a little cynical? I am sorry.

Q500 Chairman: You sound judicially like a man who is reviewing a great deal of experience. It is very good of you to have come and shared this experience with us. We are most grateful for that very clear exposition of where we are at. I do wish you luck. It is the Lord's work you do, as somebody once said to me. It would be wonderful if this Round could succeed.

Ambassador Stephenson: Thank you for the privilege.

Chairman: Thank you very much.

FRIDAY 11 JULY 2008

Present	Cohen of Pimlico, B. (Chairman)	Moser, L.
	Haskins, L.	Trimble, L.
	Maclennan of Rogart, L.	Woolmer of Leeds, L.

Examination of Witnesses

Witness: AMBASSADOR CRAWFORD FALCONER, Permanent Representative of New Zealand and Chair of the WTO Agriculture Negotiations, examined.

Q501 Chairman: Ambassador, may I formally welcome you and say it is very kind of you to come. I know you have got a few other things to do today and, indeed, possibly overnight. We are grateful that you are here. We would particularly like to start by asking the key question: how are you getting on? Does the agriculture text that you published last night meet your expectations? What are the next steps?

Ambassador Falconer: I thought you were going to ask me how are you getting out, which is much more on my mind at the moment I can assure you!

Q502 Chairman: We can ask that later perhaps.

Ambassador Falconer: I suppose in certain ways it is the same question. I think for better or worse it will be resolved at the end of July. You can always have what I would consider to be the most horrifying scenario, which is that you stagger on, come back after the summer and keep staggering on day after day all the way through to the end of the year, but I do not think so. I think by having this event at the end of July you take a clean-cut decision, hopefully a positive one, and if you do not then nobody will ever say that it has failed formally. The press will declare it dead but if that event happens the press have already declared it dead. My mother back in New Zealand keeps saying to me, "Why haven't you come back, I read that the Round is over?" I think one way or the other it will be over and done with to all practical intents and purposes for quite some time in July. We are in less than ideal shape for dealing with that, but just about in enough shape to deal with it. In theory, ministers should be here round about the 21st. They could, in three or four days, do everything that needs to be done. I must say they probably will have every right to be a bit irritated with their officials for leaving them with so much to be done, but it is just about manageable. It is at the margins of manageability, in my view. I reckon you could probably end up with 15 issues on agriculture for ministers to resolve, which in itself is not difficult because some of them are pretty straight "yes/no" decisions; others run the risk of being a little bit more complicated. With these two texts out you could have some chance within the next week of fine-tuning them, I do not think anything dramatic can be done, and then ministers will have a

go at it for a week and we will see what happens. I think it could go either way, frankly, but we will see.

Q503 Chairman: It has been suggested to us throughout that the key question is whether the Americans feel able to make significant concessions. Do you see it that way or are there lots of other people who will have to move as well?

Ambassador Falconer: There are others as well. I am only really supposedly looking after agriculture, but my sense is that the US has some heavy lifting to do on agriculture, it has to be prepared to make commitments—in the jargon—on domestic support, subsidies on agriculture, to a point that makes the deal worthwhile in particular to developing country members. Where is that point? There is a range in my document. If it is within that range and people accept that is the range, which at the moment some of them do not, somewhere there I think you could get a deal, but they would have to be able to move to that particular point. On the other hand, in agriculture you need to have an outcome for what I call flexibilities for developing country members on the market access side that the US and others can live with, but the US in particular for whom politically they have to have some kind of outcome that they can point to. Again, that is a pretty marginal call because, in my view, there is not a wide range of choice now in the document as to how far that can go. There has to be, if you like, something that the US can swallow that is not excessive for them, but there has to be something on the part of developing country members that accepts the range of flexibilities is manageable for people who want to get access to markets. That is within agriculture. Essentially the key issues within agriculture are: will the US move on domestic support that makes the deal worthwhile to everybody else; will developing countries and US and some other developed country exports be able to reach a compromise on how many flexibilities there should be for developing country members on market access. Then, outside of agriculture, whether there is enough market access on industrial tariffs and enough comfort level on services for developing country members and the richer countries to do a deal. They are the main elements. There are other things as well which are highly obscure, things like

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the relationship on the Convention on Biodiversity and what goes on in the WTO where developing country members have quite a lot of interest and I think that has been a bit underrated. Things like that will also need to be fixed. I do think it is down to those major political points and the question is whether people really want to make that deal or not. You may say, "Surely you should know by now" and that is why I say it could go either way. When you have any big negotiation, if you are close to it you either have the smell there is a deal there or you do not. I do not have the unambiguous signs of a deal. I can see it could happen and three months ago I did not even feel that. I feel it could happen, but you do not have that sense of inevitably that you would like to have going into an event like this.

Q504 Lord Woolmer of Leeds: Breaking down the macro view there, what are the products on the American side that, in effect, they will move on? From the point of view of the countries which hope to benefit from this, what are the agricultural markets that really matter to them, and which are the countries? I am seeking to put it in a way that the layman, the non-professional person, could understand, just to make it a reality.

Ambassador Falconer: From the US point of view, they pay subsidies to their farmers and pay them in a way in which they benefit particular crops. We are largely talking grains, corn, cotton, soybeans, things like that. They legislate how much those subsidies can be. In fact, those subsidies can go very high because they vary depending on what the international price is. When the international price is low the subsidies go up; when the international price is high, by and large the subsidies go down. At the moment, paradoxically, international prices are sky high, so US subsidy expenditure is very low. The problem is that the world changes seasonally, especially in agriculture, and even though that is the case this year and certain people make products which are pretty stable and it is going to stay that way, there is always the uncertainty and it may not be like that in three or five years' time when the prices might be very low, in which case the subsidies would go sky high. The US negotiating position is, "We are going to put a limit on those". In the negotiation they would be saying, "Okay, the maximum amount of subsidy you could spend on cotton, corn, soybeans, is the following" and if you are another competing country out there you want that limit because it means you have got to compete with less subsidy. The US probably could be relaxed about that this year but it is going to enter into a deal where it is going to put a limit on which will not affect it this year because prices are high but has the political anxiety it might affect them in three or five years' time. They have to sell to their constituencies a limit which they consider is realistic

in the circumstances and everybody else who is in the negotiation wants to make sure that limit is as low as possible, but they want to make sure the limit is as high as possible because, naturally, their constituents would rather have the cheques if they possibly could, thank you very much. We are haggling, in effect, over what those limits will be.

Q505 Lord Woolmer of Leeds: Which are the countries pressing most strongly?

Ambassador Falconer: There is a groundswell in a lot of the developing world that would really like those subsidies right down, either because it affects their domestic agriculture or because they compete on world markets and they lose market share. It is not just the US, do not get me wrong, it is also the EU, which is the other big spender, but the EU already has a plan for what it is going to do to reduce the subsidies over the future and so is in a good negotiating position and the US does not. It is more of an issue with the US. Plus, on some key crops, their programmes are a bit more distorting for some of those countries. Commercially, it is very important for a country like Brazil because they compete in some of these crop areas with the US pretty directly, and Argentina, on corn, soybeans, et cetera. They are actually competing with US subsidies, so they have a very strong commercial interest in it. You have those kinds of countries which have a more commercial orientation, and the Australians are in the same category, but then you have countries which on the import side, and even on a small scale, are quite conscious that the way in which those subsidies operate is they depress prices internationally when they apply, so they lower the prices to their producers who are already poor. The most significant example of that is a country like Benin in west Africa, and a number of west African countries, which produces cotton. In the past, US subsidies to cotton have depressed the prices of their poor farmers enormously, which is why cotton is a very specific part of the negotiations. Politically, the US faces the dilemma on cotton, which is a very powerful political lobby on cotton, very powerful political pressure internationally to lower their subsidies on cotton, and they have got to sell their deal because it has got to be sold to the US Congress. In one sense it is notionally easier to do that now because, in actual fact, even cotton prices are going up. They were pretty slow to go up compared with some commodities. There is perhaps a window now where the US could say, "Look, we can make commitments on this stuff which look quite dramatic, but they are not going to affect the dollar in the pocket of the farmer one bit, so what's your problem?" The answer is people want that insurance policy for the future, so they will have to negotiate that politically, domestically, and find something which is acceptable

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to the rest of the world, who will say, "What you are proposing still isn't enough". I assume the US will come to the meeting and have some proposal and people will say either, "That's enough" or "It isn't enough for us". Some people will play it tactically. They may have a direct interest in that subsidy question but because they do not want to open their market to industrial products, say, they will find it convenient to say, "It's not because I don't want to open my market to industrial products, it's because it's not a fair deal because these guys are using taxpayers' money to steal markets in agriculture and it's not a fair deal for me to do this". So you will have both elements in the negotiation.

Q506 Lord Trimble: Our locus in this matter is that we are part of the House of Lords European Union Committee, so technically our examination is on European Trade Policy and we are absolutely fascinated by all the ins and outs of the Doha negotiation and trade policy generally. Because our technical position is looking at the European Trade Policy, I would appreciate your comments on the European Trade Policy.

Ambassador Falconer: That is a big canvas and I probably do not have much of a mandate for that. I will try and constrain myself to what strays into my path. Since the McSharry reforms European agriculture has been on a reform path and personally I doubt very much that will change. The world is an unpredictable place but probably, at least after 2013, there will be further reform in Europe. I know it is politically very sensitive at the moment and those decisions have not been taken, but the direction is pretty reasonably clear. It would take a major political convulsion for that to change. It is not certain, but to an observer like me that looks to be something that will continue. That means over time the process of moving from the kinds of subsidies which really distort international markets to subsidies which are paid to farmers, not because they produce but because they are farming, will presumably continue and that will improve the international market, not at a pace or an extent that others that have to compete on the international market will be happy with but it is at least going to go in the right direction presumably. If we have a successful outcome in this negotiation, that will have a little bit of additional pressure, not a great deal, I have to say, on the internal market because there will be a bit more competition from imports. Again, not a vast amount, to be honest, because what is realistically going to happen out of this negotiation is not going to turn the world upside down but it will be a bit more external pressure that will maintain the sense of direction that for its own reasons Europe by and large wants to go in with its agricultural policy.

Q507 Lord Trimble: So you do not see as a result of the current Round any significant opening up of the European agricultural market to non-European imports?

Ambassador Falconer: I think there will be some. My assessment of that is that it would be a moderate opening. In actual fact, I would say a moderate additional opening. For instance, if you look at the projections in areas like beef for consumption inside the EU it is quite obvious if the production trends that are there continue and the consumption trends continue there is going to be a gap that needs to be filled in any case and imports will move in to do that whether or not you have a negotiated outcome. One of the beauties of a negotiation is that you can do what you know what you are going to do anyway and get paid for it, it is smart negotiation, and I think the Commission negotiators, like others, are smart enough to know in certain areas Europe is going to be able to open up in any case and they will be able to sell that as a concession at this table and get some payment for it as well. It is not entirely cynical because at the margins there will be things that will happen that would not otherwise happen if we do this deal. It may not sound huge, but things are connected in a way that are not obvious to the eye. There is a way in which at the political level there are connections which are not logically there. It is politically connected that when you are doing your internal reform and you have an ongoing multilateral process of negotiations that have credibility time after time you cannot completely separate them. McSharry did not make his reforms in a vacuum, it was projecting Europe as part of the world, and part of that world was, "We have to negotiate with our trading partners. We have to find ways to accommodate their interests and live with them as well as our own". If you lose that, and you run the risk of losing it if you have a failed Round, then you lose quite an important part of the context. I do not doubt that internal reform would continue even if you did not have a successful Round, but you increase the chances of that going forward to more optimal outcomes if you have a successful and credible Round. It is not just because politically internally to Europe the argument has been made, as indeed it has, that we have to do certain things partly because we are going to have to deal with the multilateral negotiation, it is because there is indeed that sense that you are part of a generalised process. If that fails, you just take a little bit of the credibility away from those who are seeking a bit more reform.

Q508 Chairman: I am going to ask Lord Haskins to ask his question. I should warn you that he is a farmer!

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Ambassador Falconer: Shall I leave now!

Q509 Lord Haskins: Coming back to the issue of food prices, quite clearly in the short-term we have seen a very rapid movement from the priority moving from support for farmers to protection for consumers with all of these export taxes that are taking place at the moment. That may help the American Government to agree a farm deal because the American public may be much more interested in jobs lost in Detroit than in the farmers' position, the farmers are doing okay. It is certainly a new element since we started the Doha negotiations five years ago. If it is a long-term factor, and I am not saying the prices are going to stay at this level but they probably will not go back to the level before, will any of the settlement that we have now stand up under those new pressures? In other words, is there going to be an issue there? Are other issues which are looming in importance, like the development of GM, going to become a WTO issue, or is it going to be left for everybody to continue to scrap about this issue as they are at the moment?

Ambassador Falconer: On the first one, I am guessing, probably like all others at the moment, if we get an outcome now, and when I say an "outcome", in the jargon this is modalities, it is not the final deal—the final deal does not actually happen until you sign and seal it, which presumably is not for several months—it is quite conceivable as far as the domestic subsidy commitments are concerned that they will be pitched at a level, and I am guessing what that level would be but I have a rough idea in my mind about what I think will happen, and it is perfectly conceivable if we arrive at those commitments at those levels that sometime over the next five-plus years those levels will be under threat. In other words, there will be occasions when members will have to live up to something that prices would lead them to want to breach. I think it would be worthwhile to do the deal we are going to do now because at some point in the future it will be a very important insurance policy for smaller players. I would not be sitting here as a bureaucrat if I really had confidence in my own judgments, I would have made my fortune on the Chicago Commodities Exchange, so I do not know really what is going to happen. I have a suspicion that there will be occasions when prices will drop and they will drop to levels that are conceivably below what we ultimately negotiate, which means you will want to put in place dispute settlement to stop people doing that. Indeed, for the governments concerned it is a good idea because I do not think any of them particularly want to overspend taxpayers' money on these things but they have a political balance to strike. On the second question, part of the reason for wanting to do this now and get it off the agenda is precisely in order to get onto what I would consider

to be a more real world agenda. It is not that I am demeaning what we are doing at the moment, it is just that it has taken so damn long to do it that you get a bit frustrated with it and it is crowding out the capacity of the Organisation, and internationally member governments, to focus on far more timely questions. We have got to get rid of this so that we have some chance of credibly dealing with an emerging agenda. On the GMO question specifically, it is hard to tell except that dispute settlement within the WTO is dealing with it. They deliver up judgments on this. Personally, and this is only a personal view, I am very sceptical about the capacity of seemingly adjudicated decisions on these matters being able to resolve intensively political questions, but it is fair enough that they provide another element in the mix. I do not think with really contentious issues that the WTO dispute settlement system is sufficiently robust and entrenched at the national level within the member governments that it is capable of profoundly changing politically highly sensitive issues, which is a long-winded way of saying I think you have to negotiate those things, I do not think you can litigate them. You can at the margins, and there are some things which you have to, and they may provide leverage, but at the end of the day you still have to negotiate them. Is the WTO likely to negotiate on GMOs? I am very doubtful about that one in particular, but there is a whole range of other things which are agriculturally related where even if the Organisation does not negotiate on them it could certainly go a long way to doing other things which are what I would call more best practice peer review type exercises, which is not a pure negotiating function, more the soft law rather than the hard law area, which the Organisation has not done. It has always been knock 'em out, drag 'em out negotiations and "Give me a rule and off with his head". That has pretty much been the mentality and that is fine, that has a role, but there is something which is short of pure negotiations where you have contractually binding commitments where there is a policy vacuum at the international level. You have national levels to deal with it, you have an international organisation which does contractual type deals between governments, but there is nothing in the trade field that we use in the middle internationally and I think there is a role for that in the future. That is probably where the kinds of issues you are talking about are more likely to get an airing.

Q510 Lord Haskins: Just pursuing the GMO issue, let us say the WTO comes out and finds in favour of the Americans, that there is a restriction on trade, you are saying for political reasons Europe might say, "That's all very fine but we're ignoring it"?

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Ambassador Falconer: That is quite possible, yes. It would not be the first time in a dispute settlement that these things have happened. Even in areas that are less politically controversial, while the strike rate of adoption, ie changing your behaviour to conform with outcomes of dispute settlement, is pretty good there are still cases where it has not happened and does not happen, and does not happen quickly. At the moment on the saga of the cotton case, which has been going on for a very long time, we have got an opportunity now to close a negotiation on cotton as well. My suspicion is that if you do the cotton as part of this negotiation, that will be the way in which this issue is resolved. I do not want to give an incentive to people not to live up to decisions of an organisation like the WTO when it gives a decision, but I think you will find it will be a lot harder to get implementation if you just rely on people abiding by these decisions. There are quite a few others that are sitting out there that still have not been actioned. You can delay this whole process for years by appealing against an original decision, just not implementing it and then undergoing a further review to see whether you have implemented it. You always claim you have implemented it and delay even longer. You can spin it out for five or six years before you actually implement. When it is something that is really deeply politically controversial and sensitive it is a bit unrealistic to imagine that people are going to say, "Ah, the WTO has decided against us. Okay, we will do that then".

Q511 Lord Haskins: Even though lots of European governments would want the WTO to do that.

Ambassador Falconer: It depends on the issue. One person's sensitivity is another person's boredom. It might seem very sensitive to one Member State but for the rest it is a plus or otherwise. There are some things on which political constituencies are pretty uniform in their views. I believe a lot in trade, and believe very strongly in it, but I think it is a mistake to think that trade is the be all and end all, there are other things that are just as important, or more important, and they can genuinely conflict and you have to arbitrate conflicting objectives. Trade does not exist in a vacuum and there has to be a certain degree of realism about that.

Q512 Lord Maclellan of Rogart: I am sorry to persist a little on the issue of what might unlock the thing shortly. We heard from a fellow negotiator that progress on the NAMA front has been quite good, but everybody else we have been talking to has indicated that the key is agriculture. If the Americans, and perhaps Europe, are going to be forthcoming on that, do they have to know what the NAMA deal might be first? It is a sort of mechanistic question, I suppose. The second subordinate

question is, on your side are the members negotiating about global figures or are they negotiating about individual products? We heard outside this room some speculation about distorting domestic support being brought down from \$16 billion in the States to 13 or 14 and that becoming negotiable. I do not know whether that was the sort of thing you were talking about when you talked about having an idea of a level at which domestic subsidy might be pitched. I would be very interested to hear more about how it is done.

Ambassador Falconer: On the nature of the bargaining, which is the first half of your question, you are dealing with people who are negotiating and that is one of the paradoxes of this. The whole notion of this is still essentially a mercantilist notion of how you deal with trade, which was liberalisation is a concession and painful when, in fact, economically you all know it is the other way round, but that is the way we do it for better or worse. When you have that mindset the attitude is, "Politically the other guy has got to move and not me", pretty straight forward. If you have agricultural objectives, which is you want liberalisation, you want the other guys to stop spending so much subsidy money, you say, "Well, that was pretty pathetic, wasn't it, it's not a lot of use to me. Do you think I am going to pay you for that? Sorry, all I'm getting is a container load of rice into your market, but if you think I'm going to have your Mercedes-Benz driving down my avenidas you must be dreaming". That is essentially what they are doing at the moment. That is a bit of a caricature, but it is not too big a one. To be honest, there are certain political realities which, whether people concede them officially or not, are real, which is at the end of the day developed country members will have to do more than developing country members, and there is jargon for that. They have to, it is just a question of status and capacity to deliver. Politically you can take the view that whatever is done on agriculture, particularly on subsidy reductions, is going to be, I will use the language of contractualising, making a solemn commitment to your trading partners to live within certain limits, but doing so on levels that you are not spending right now. On the subsidy side, that is what is going to happen. As it happens, expenditure is really low right now. That gives a view from the other side, which is, "All you're going to do is promise me not to do what you are already not doing, and you want me to pay for that?" They say, "Okay, I'll pay for that, I promise not to do what I am not doing as well". A lot of developing country members are politically taking that stance right now. Not all of them, there are variations within that, but that is basically it. In reality, as far as industrials are concerned, what it comes down to for most developing countries is to say, "We'll do a little bit to open up our industrial markets, not a lot, because you are not entitled, rich countries, to get a big piece

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of our market for your industrial products because what you are going to do on agriculture, while it's not too bad, isn't that dramatic anyway, so don't think I'm going to do much in return". My feeling is if we get a deal in July the reality is that will be the basis of the deal, the only question is how much is that not very much going to be. I would never talk it down. You are not going to see a dramatic opening of markets in developing country members for industrial products, just as you are not going to see a dramatic opening of markets for agriculture in developed country markets either, you will get what I call marginal change which keeps things going in the right direction which on balance is better than not having it and which politically is terribly important for stabilising a multilateral system, all of which are plus reasons. It is true, it is pretty hard to get CEOs of business firms excited about that so that they go knocking on the door saying, "We've got to have it". I think that is pretty much the kind of political decision making that will be required. It may well be that if you are a developing country member you say, "Okay, if that's all you're offering, I'm not offering any more and I will stand back and say 'you rich guys didn't step up to the plate, you didn't take your responsibilities, you should have done a lot more because you are rich and can afford to do it and it may be a political decision taken to say that's the way we'll play this'. Nobody is going to pillory us for not opening up our industrial markets but they will, for sure, find it a lot better to make this negotiation fail over agriculture than over industrial products." On the other side you see people in the developed world preparing to take the other side and say, "What this negotiation is about is richer developing country markets not being prepared to take their responsibilities to put a deal through". You have got the manoeuvring on either side for an escape ridden blame-game. I hope that does not happen but I read the political signals and I can see people manoeuvring to have that option just in case. I think it would be most unfortunate but I could see it happening. On the more technical side of the questions you asked, it is a combination of both. There are generalised reductions, but, as with everything that is generalised, in an organisation with as many members as we have there are exceptions and additions. By and large for subsidies we will have sort of general reductions for those but you will have a very specific reduction for cotton because it has been given a priority for targeting. Within the general reductions there have to be what they call product-specific commitments as well. The big number that gets the political attention is what they call overall trade distorting domestic support, which is a combination number from its component parts. That is a nice simple number, that is the one you mentioned with the range between US\$13.5 billion and 16 billion for

the US. It is a nice convenient number. Inside it you have got categories: most trade distorting, somewhat less trade distorting and non-trade distorting. For anybody who is commercially interested in the deal, those numbers are perhaps as significant or more significant than the overall number, but politically the overall number gets the attention. What you will probably read in the media over the negotiations as far as the US is concerned is does the US go to the top, ie make a very low commitment, or does it go to the bottom of the range in my paper or, indeed, as some argue, under that range. Ditto for the EU, but for the EU its room for manoeuvre is much greater because it has already made the reforms and it can live with probably just about any overall number that we negotiate.

Chairman: Thank you very much. I can see it is going to be a very busy July. I would now like to turn to the moment past the end of July, I guess, and ask Lord Moser to ask his question.

Q513 Lord Moser: You spoke a few moments ago in answering Lord Haskins about some of the other things that the WTO might do in the future. Obviously in our meetings here we have focused on the current Round to understand the chances of a breakthrough, et cetera, but much of it has obviously focused on the WTO. Taking a longer view of the organisation and perhaps leaving the Doha Round on one side, how do you see the future of the WTO? Do you see it substantially changed in its structure, in its decision making operations, a sort of world role really?

Ambassador Falconer: It is hard for me to envisage it being substantially changed in the next five years or so, but it can certainly be marginally changed. In some ways it is easy to pontificate. It will enlarge, it will get bigger, it will get more members, there is no question about that, that is happening almost week-by-week. Eventually we will run out of them, and we are getting close to that, but we will certainly end up with more members in the Organisation. It is a weird Organisation. Unlike the UN, there is no formalisation of the groups. You do not have a Western Europe and the G77, all of which, whatever you make of the UN, are reasonably established ways in which you broker a very large organisation to take decisions because you effectively delegate decision making to within the groupings. The WTO has never had that. Indeed, it has unanimity as its practice, it is not the way in which it is written. The practice is that you have to have unanimity of decision making, which is extraordinary. Can you imagine a parliament operating on unanimity? It is extraordinary for an international organisation to work that way and, thus far, it has just kind of worked. It is pretty much at the limit on the unanimity issue right now. It has got beyond the past

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practice, it is de facto involving groupings. You have a grouping like the G20, which consists of developing countries which has emerged, you have a grouping called the G33, which is poorer developing countries. They have not hardened into coalitions because they are shifting and people belong to different ones for different issues because in trade you have varying interests. You might be agriculturally protectionist and you can be liberal on services, it might be you do not really care very much on industrials. It is very difficult to see how you could evolve in the direction of a UN system exactly. I think the Organisation will probably become closer to a UN-type organisation than it has been even in the past in order to be managed to some extent. I guess it is hard to imagine that it would not continue with a negotiating function. What gets ministers' juices running is a damn good negotiation and the longer the better. It will always have a negotiating function, that has been its *raison d'être*. My own gut feeling is that you will have a more explicit acknowledgement of what I think is already the reality, that the negotiations paint grey on grey, they do not actually change things much. In other words, you do not initiate new change from a multilateral negotiation any more, scarcely at all. The exception is agriculture because agriculture is still so relatively protected, and even there it is pretty moderate. As I have been describing, even in agriculture what you are talking about is contractually undertaking to your trading partners not to do what you would otherwise have unilaterally decided not to do. So as a sovereign state you are basically making a promise and saying, "I will make a promise to my fellow states in the international community not to do certain things". It is a politically different thing from just taking a decision not to do them, but that is more the essence of what the WTO will be, I think, which is a body for consolidating national decisions rather than something that changes the way people do things.

Q514 Lord Moser: The problem is that trade relates to everything, so in our discussions we keep on hearing about climate change and energy policy, of course. One is conscious all the time of financial issues, therefore the World Bank, IMF. Where does it place itself? Maybe we should not spend time on this, but where does it place itself in this international network?

Ambassador Falconer: People should be turning their minds to that now. The Organisation is peculiar in one sense. It is far more inter-related formally in terms of sovereign state to sovereign state behaviour than just about anything else. In actual fact, the commitments that are being made in this area are far more pervasive and stable and accepted, if you like, than in just about any other area of multilateral decision making, and I would argue a lot more

democratically arrived at because they are arrived at by unanimity. The usual arm twisting goes on, but at least at the end of the day you can veto it if you choose. Good luck to you if you try, but you can. It is not even as undemocratic as the Security Council, which is quite extraordinary, but it has to interact with these other policy domains. In a certain sense they are not so contractualised as the traders either. Working out how you have what I would call a sort of contractualised set of relationships between states in the trade area and a non-contractualised set of relationships in other areas, and marrying the two together should be one of the big challenges for the Organisation in the next ten years, especially as I do not believe it has a real vocation to fundamentally drive economic change in the trade area because that is done unilaterally. India and China do that because they have decided to do it and not because the WTO forced them to. Because they decided to do it they are able to accommodate the WTO and, in China's case, join it because it is now something they can live with. I do not think that vocation is there any more but the vocation of how you get along with the other policy areas is there and goes to the question there are other things you could be doing as an international community with a trade perspective than just simply bargaining all the time. You could actually be talking about how you manage your relationships in an agreed or mutually supportive way without saying, "I'll pay for this and you'll pay for that". The "I'll pay for this and you'll pay for that" guarantees that it takes you five or ten years and you become non-adaptive. If you have something which evolves out of a, "What can we agree to do to help each other and work in a way that is more mutually consistent?", you can be far more flexible and do those things more quickly. Do not get me wrong, that happens to be a particular personal view and the chances of that happening in a very significant way and very quickly are quite slight unless people with real political responsibility sat down and said, "Well, actually there are some more things we can do". There are some elements that people are willing to do that. Ironically, a failed negotiation will probably bring people to that point faster than a successful one. I am not arguing for a failed one but I just think it is a reality of life. If this fails I think people will say, scratching their heads, "Hang on a minute, somebody else must have done something wrong". That will be the first reaction and then they will say, "Maybe we can try and fix something here". If we have a success I think people will say, "Wonderful, fantastic, let's just carry on doing what we have been doing". That is not bad but eventually you will have to rethink it and it will take a lot longer.

Q515 Chairman: That is an extremely interesting answer. Can I just have a little pick at it because it

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seems to me that the implication of what you are saying is that there is only just enough juice, just enough to go for in what people have not already done in trade terms to get through one more Round. *Ambassador Falconer:* I think that is about right. It will not be something I have to worry about because, given the pace of these things, I will be long gone, in my dotage. There is more that will need to be done on agriculture at some point, for sure, but, again, it will be driven by national decision making, not by the negotiating environment. Yes, it is true, agriculture still has a way to go. On industrial tariffs, let us assume a successful Round, you can already argue it is pretty well non-existent but after a Round they will all be non-existent, there is hardly anything there on industrial tariffs for developed countries. There is for developing countries but they are getting rid of them anyway. It is the same issue there and that is why this Round is such a paradox. They are going at it driven by their finance ministries reducing their tariffs everywhere they possibly can. Come here and they will not make a commitment on it because it is politicised, it is a mercantilist mentality. I do not see there is a big deal in the future which trades industrial tariffs for agriculture. The truth is, and some of my colleagues will kill me for saying this, but that is all right, I am a dead man already, on services the WTO has never done anything. It has contractualised what people have already done, but it has never fundamentally changed the way anybody has run their services economy. Indeed, I would argue it is pretty damn hard to imagine how it could because at least in your services sector you have to drive that by your national regulatory framework, and your own macro-economic policy settings. You are not going to say, "I am going to liberalise my financial services sector" or "I am only going to liberalise my telecommunications sector because that is what the WTO says I have got to do", of course not, you say, "These things matter to my economy, I drive them myself". I do not see any of those giving you a liberalisation driven Round in the future in the same way as happened in the past. You could argue the weird thing is that this far after 1947 we are still operating on a 1947 agenda, industrial tariffs, agriculture, and services are just sneaking around the edges. I think the reality will change that eventually next time around.

Chairman: That is extremely interesting. There is time for one question, if any colleague wishes to come in.

Q516 Lord Haskins: Can I follow on services. Is not part of the problem with services that you are into issues about national regulation, which is a *de rigueur* word at any rate because whenever you talk about national regulations that is bad enough, but international regulations is impossible, and getting regulatory changes into services is going to be terribly difficult?

Ambassador Falconer: It is very difficult. To be fair, there is a process in place that tries to manage that and, indeed, creating the whole services framework in the WTO required an enormous effort in order to get regulators to think outside their regulatory domains about how they would relate to the trading partners and how it fits the architecture of state-to-state commitments. There was a huge effort on their part and it was a positive thing that happened. For any minister who has to negotiate on this, they have to negotiate with their finance ministry, their health ministry, their telecommunications minister. It is a much more complicated thing to have to broker as a politician than just dealing with tariffs or even just with agriculture. As I say, it is relatively straightforward to contractualise what you have done and say, "Okay, I will make commitments on accounting or on financial services or on my investment regime as it relates to such and such a sector". You can do that if you have already done it and you are making a political decision to commit to it. Everything is difficult politically, but to drive reform in a sector by the demands of an international negotiation I think is particularly difficult to foresee in services for all those regulatory reasons. It is true, there are ways in which you do not get too intrusive on the regulatory side by the way in which the WTO is set up, but even allowing for that it is very difficult to see it as a driver. I am not against it at all, it is perfectly fine to contractualise it after the event, but you have to be realistic that is what you are doing by and large. If that is understood then I think you are going to have a far more realistic way in which you do your negotiations than up to now.

Q517 Chairman: Terrific. Thank you very much, Ambassador, that is most illuminating.

Ambassador Falconer: It is a pleasure. It is nice to talk about something other than agriculture for a change!

Chairman: I do not know whether to wish you safe home to New Zealand at the earliest possible opportunity or not! In all events, thank you very much for coming and good luck for the next two or three weeks.

FRIDAY 11 JULY 2008

Present Cohen of Pimlico, B. (Chairman) Trimble, L.
 Maclennan of Rogart, L. Woolmer of Leeds, L.
 Moser, L.

Examination of Witnesses

Witness: AMBASSADOR GAIL MATHURIN, Permanent Representative of Jamaica and Co-ordinator of the ACP Group, examined.

Q518 Chairman: Good afternoon. Thank you very much indeed for having us, Ambassador.

Ambassador Mathurin: First of all, may I welcome all of you to the Jamaican Mission in Geneva. It is certainly a great pleasure to have you here this afternoon and a great honour for me to meet and interact with all of you.

Q519 Chairman: If I might just remind you of how we operate. Sue is taking a transcript of every word, but you will get a look at it before we publish it at the back of our report. We particularly wanted to see you because we want to concentrate our questions on the matters of particular interest to the ACP countries and the Economic Partnership Agreements. If I may, I will start with a question on the Economic Partnership Agreements. Do you think that the Economic Partnership Agreements are fair to developing countries? Other witnesses have tended to tell us that the European Union is applying a divide and conquer approach to its negotiations. Is this overstated or is this fair? Would you like to tell us a bit about the problems with them?

Ambassador Mathurin: First of all, I should signal that I am a step once removed from the whole EPA process. Obviously our Mission in Geneva made inputs, but we were not directly involved in the negotiations because this was done mainly from the capital. We have followed the trade negotiations very closely. Our region is unique in the ACP Group at this point in that we initialled a full EPA that had goods and services as well as some of the disciplines. Certainly you are aware that there has been much comment in my region about the validity of this agreement, so at this point I would like to focus on my own Government's position.

Q520 Chairman: That would be very useful.

Ambassador Mathurin: Which is that we recognise that we are operating in a changing global environment and there is a need for our economy, and by extension the economies of our regional grouping, to insert themselves into this new global trading environment, and we see EPAs as one such vehicle. We accept that there are going to be many challenges in implementing the EPA because it is the first agreement of its kind, the first reciprocal trade

agreement that we have signed with a group of developed countries where the level of economic development is so different, so wide. We accept there are going to be many, many challenges. At the same time, we see this as one of the vehicles which we can use to further modernise our economy and hopefully bring benefits to our citizens. The challenges are great because what the EPA will do, for example, is to make many of our traditional exports face more competition. That is not so much because of the EPA but more because of what is happening at the multilateral level and that is one of the issues that we are very much involved with in the context of Doha. Also, the element of reciprocity, asymmetrical as it is, is an important factor in trying to build greater competitiveness within our own economy. The present Government of Jamaica feels that times have changed since the preferential arrangements which we had before, so we are going to have to adapt to a new environment and the EPA is one such vehicle. However, this is not in any way to minimise the challenges that implementing the EPA is going to bring. I scribbled some figures earlier today. They are some conservative estimates that the cost of implementing the EPA in the Caribbean could be somewhere in the region of about €400 million. This is taking into account the policy changes that we will have to put in place, the regulatory changes that we will have to put in place, as well as the loss of revenue. This is against a background of countries like ours still having a relatively high dependence on trade taxes, customs duties and related taxes. This is going to have to change once we start admitting European goods duty free into our own markets.

Q521 Chairman: That is a brave step.

Ambassador Mathurin: Personally, I think it is. As I said, there is still a great deal of comment and uncertainty in the region, but it is a step forward that we feel we have to make at this time. We are confident that given our longstanding relationship with the European Union and with members such as the United Kingdom that should we have difficulties along the way we will be able to sit down with our partners and see how we can address those. If that sense did not exist then it would have been difficult for us to move forward on an EPA. There are going

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to be challenges, there are no two ways about it. There are going to be different parts of society that are going to benefit and others that might not. These are things that we are going to have to manage, but we hope we can do this collectively with our partners.

Q522 Chairman: That is very helpful, thank you. I am very interested in anybody who has signed an EPA and thinks they are happy with it. I have heard people grumble, but rather in the abstract, not against the background of having signed one and being ready to make it work.

Ambassador Mathurin: I would like to touch on some related issues which are causing some great uncertainty in my region right now with regard to the EPAs. One of the factors that led us to signing the EPA was the fact that it was one way of insulating some of our traditional trade from further challenge in the WTO by putting it into a WTO compatible instrument. This was on the understanding that, yes, we were going to have to make adjustments particularly in those traditional sectors, and I speak here of sugar, bananas and sectors like that, but there was an understanding that we would have some time in which to do that before the MFN tariffs worldwide came down and increased competition. One issue that is before us in the WTO and is very much linked to the EPA, and it is an issue we are grappling with right now, is the question of what is happening with bananas, for example. Because of the dispute settlement rulings we are aware that some decisions have to be made at the multilateral level which is going to affect the most favoured nation tariff of Europe with regard to bananas. Of course, we in the Caribbean either are in the process of exiting the sector or trying to make the sector more competitive. Particularly in the case of those countries which are trying to make their sectors more competitive, they have started investment restructuring and all sorts of things related to the sector. However, on the multilateral front we see that there could be a decision taken in the next few days possibly, we are not sure, that would significantly reduce the MFN tariff for bananas in the European Union and, therefore, jeopardise our ability to continue selling bananas in Europe. I think it would be totally unrealistic to say that we did not expect change, but we certainly felt that there would be attempts to give us some margin of preference for a period of time while we tried to make these internal adjustments. I can say this is not only an issue affecting the Caribbean, there are African countries which are affected. It is a major issue right now for the ACP in the context both of EPAs and what we may agree to at this upcoming mini Ministerial. The frustration we have with bananas is that it may not even be on the table of the mini Ministerial. We are not involved in the negotiations and as the process unfolds we may

not even be able to comment in any substantive way on the decision. I mention this because I sense it could cause problems in the ongoing EPA negotiations in West Africa in particular. It could also raise issues in my own region with regard to signing the existing EPA. This is a very topical issue, we are all directly involved in trying to find out what is happening as we speak, but we are not involved in the negotiations. There are two elements for us. One is what the actual decision is going to be and the impact of that. The second is the process. Despite the legal parameters set out in the context of dispute settlement issues, it is difficult for us to appreciate that a decision could be taken that is going to have a major impact on so many of us and we are not around the table, we are sending our views by proxy, so to speak. I throw this out just to say that while my Government is convinced that an EPA is a progressive way forward, there are still these possible fault lines which could occur before we reach the signing of the EPA.

Q523 Chairman: If push came to shove, could you live without the EPA—do you get Everything But Arms?

Ambassador Mathurin: Jamaica does not qualify for Everything But Arms. The only country in the Caribbean that qualifies for Everything But Arms is Haiti.

Q524 Chairman: As bad as that.

Ambassador Mathurin: The rest of us are middle income countries.

Q525 Chairman: So you really need that EPA.

Ambassador Mathurin: Yes. The EPA covers key sectors for us, so it is important.

Q526 Chairman: When you say that you are not at the negotiating table, you are one of the members of the WTO.

Ambassador Mathurin: I think we need to look at this broader issue. There is a lot of reflection in my region as to whether the multilateral trading system is really bringing benefits for small countries. The banana issue falls clearly under the dispute settlement mechanism. The region has been taken to the panel, the panel has ruled against the EU and we understand that the EU has to address the panel's rulings. That is the legal situation, but the WTO is also a political organisation. We are members of the WTO and still having difficulty at the political level. The technicians may understand it. At the political level we are still having difficulty coming to terms with the fact that the WTO can take decisions regarding exports that we have, markets that we have an interest in, and yet we have no input into the process. Because that is a reality of the dispute settlement mechanism we were not a party to the

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dispute, the dispute had to be resolved between the two parties, in this case what are known as the MFN suppliers of bananas and the European Union on the other hand. The impact of the decision is going to have profound implications for ACP countries.

Q527 Lord Trimble: I know nothing about the mechanics of the dispute resolution mechanism, but I can see clearly that an action has been brought against the European Union, you are not directly a party to it but are seriously affected by it. Is there no way within the mechanism that you could be joined to the proceedings or you could have gone into the proceedings in order to give the panel taking the decision your view on the matter and your view as to how things could be resolved? In purely legal proceedings there are very often provisions whereby other people can come into proceedings when they are directly affected to the extent that you are? Was there no such opportunity?

Ambassador Mathurin: We were third parties in the dispute hearing but the ruling ultimately went against the European Union so the settlement is one which has to be found between the parties. As I said, one appreciates that legally but—

Q528 Lord Trimble: So you are actually past the dispute resolution mechanism where, the ruling having gone against the European Union, the European Union is now negotiating with the other party?

Ambassador Mathurin: Exactly.

Q529 Lord Trimble: So your only input into that is via the European Union?

Ambassador Mathurin: That is right. Also, we have put our case to the MFN, to the other side as well, but they hold on to their legal rights in this issue. I am just saying the WTO is also a political organisation and it is difficult for members to totally accept that they cannot have a political input into something which is going to have profound economic impacts. This is the case for many of us in the Caribbean. Your visit has come at a very interesting time. There is a lot of unease in the ACP Group right now about (a) what will emerge and (b) the process.

Chairman: I think this might bring us to the question that Lord Woolmer wanted to ask.

Q530 Lord Woolmer of Leeds: This is taking the views of the ACP on the Doha Round and where things are at. Within the ACP countries, are the views of the different countries aligned with each other as a single view or even within ACP are there differing views and different interests?

Ambassador Mathurin: We are about 50-odd countries here in Geneva and within any group of that size you are going to have differences.

Q531 Lord Woolmer of Leeds: But significant differences?

Ambassador Mathurin: No. We came together because we have interests in common. We all have a particular kind of relationship with the European Union and our domestic economies are not that dissimilar in that they tend to be vulnerable. We came together and had this relationship which is directly with the European Union, but because the trade interests remained pretty much the same we came together in the WTO to promote our interests. Yes, we have divisions within the Group but we have been very successful, certainly while I have been here, in working out those issues in order to present common positions to the wider membership and to pursue those. That has been very important for the ACP Group but it has also been important for the negotiating process in the WTO overall. Frankly, I do not think it is given enough credit, but the fact that there are groups of countries which have common interests who can get together and speak through one voice greatly assists a negotiating process that is among 151 countries.

Q532 Chairman: The Chairmen of the NAMA Group and the Agriculture Group, who we saw this morning, did comment on how much it facilitated negotiations to have groups who did, in fact, get themselves together.

Ambassador Mathurin: Exactly.

Q533 Lord Maclennan of Rogart: Just reverting to what you said about the consideration by the ACP about multilaterals, we wondered if a contributory factor in that was not just lack of muscle, if you like, but also perhaps a limited negotiating capacity. Are you able to throw any light on that?

Ambassador Mathurin: Yes, we do have limited negotiating capacity and I would suggest that is one reason why our group system works, because we share responsibility and expertise. I fully accept we have limited negotiating capacity and sometimes that is very daunting. I can tell you that when we were negotiating the EPAs, particularly in the last two years, those of us based in Geneva felt the effects because our capitals were so engaged in the EPAs and we did not have enough trade policy expertise on the ground to pay attention at the same time in the same way to the WTO. Fortunately, I think, we got the EPAs out of the way before we reached crunch time in the WTO. Yes, it is an issue. It is a costly thing for small countries. You are probably aware that in my own region some years ago we took a decision to set up a central regional body for trade negotiations and although that body does not have the kind of authority that the European Commission on trade has vis-à-vis trade negotiations, certainly they bring us together and marshal our position in trade

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negotiations. The establishment of that body was one response to the challenge of limited trade negotiating capacity.

Q534 Chairman: Not, of course, limited ability, but we did see it might be difficult to do two sets of negotiations at once, and I am glad to have confirmation that this was not just a rumour, it was actually difficult.

Ambassador Mathurin: Yes, it certainly was.

Q535 Lord Woolmer of Leeds: On the question of the Doha Round, you kindly answered the point about the extent to which views were aligned, but what is the assessment from the ACP perspective, now the latest document has been published, of the position as it may unfold in a week or two's time?

Ambassador Mathurin: The latest revised text, unfortunately, still leaves two major issues outstanding for the ACP Group. We knew that it would. We are going to have to play catch-up between now and whenever the Ministerial starts. The issues of preference in agriculture and industrial products are not resolved. Those are two major issues for the ACP Group and it is really a broader issue related to the banana issue. There is still a lot of convergence which we have to find, particularly in agriculture, because our proposals are in direct opposition to the proposals made by the group known as the Tropical Products Group who want immediate liberalisation of tropical products in markets like the EU and, of course, we would like a little more protection so that we can get our EPAs underway. It is the same situation in NAMA except that there is not a Tropical Products Group in industrial products, but because some of the exports of ACP countries are textiles imports we then run right into the interests of the major textile exporting countries.

Q536 Chairman: If I may get this clear, it is that the preferential tariffs you enjoy would be eroded?

Ambassador Mathurin: Essentially, yes. The general approach we are taking is just to have that tariff reduction process slowed down somewhat. Essentially, that is what we are seeking.

Q537 Chairman: But that has not gone your way, or has not gone your way yet.

Ambassador Mathurin: Let me put it this way: we have not reached convergence on it. I think it is too early to say that it has not gone our way.

Q538 Chairman: I meant merely that it has not gone your way so far.

Ambassador Mathurin: It is still one of the major

outstanding issues in both texts. There are some other issues. We have an interest in the Special Safeguard Mechanism on agriculture and measures that would apply to some of our members, not all, are still in brackets.

Q539 Chairman: Could I just get you to confirm how many World Trade Organisation members are in your group.

Ambassador Mathurin: You have put me on the spot here. It is 50 something, I think.

Q540 Chairman: It is a lot, in fact

Ambassador Mathurin: Not all of the ACP countries are members.

Chairman: I have just realised that it is the purple circle on this wonderful document that Monsieur Lamy gave us yesterday. That looks to us about 50.

Q541 Lord Trimble: This is a slightly more general question. We are hearing quite a bit these days because of the rising food and oil prices, and we are hearing a lot more about protection and we have had the comments from President Sarkozy about some comments emerging from the US Presidential Campaign. We wondered what the view of Jamaica and the ACP would be on the prospect of protectionism or an increase in protectionism.

Ambassador Mathurin: I would not pretend to speak on behalf of the ACP Group on this one and I am not sure that what I will convey to you I would describe as a Jamaican view. We are in a very difficult situation globally. The issue of rising food prices is a major, major concern for us. May I suggest this is why we are even more agitated about the banana issue. What is being said to us is that at a time when we have to find increased foreign exchange to buy food, exports could be cut off dramatically. It is a major issue. CARICOM, my own region, put it on its agenda some time last year. In fact, it was even before it became an issue internationally because we have been grappling with this for nearly a year and a half on these rising food prices. The protectionist approach is a little disturbing in the sense that many of us had to go back to the drawing board on agriculture and look at ways in which we could increase our agricultural production for food security purposes and a variety of reasons, investment in agriculture had fallen off, it was the sexy thing at the time, or whatever. We have now had to go back to the drawing board. If protectionism is manifested by subsidies then it is an issue of concern because we see better opportunities for our farmers when subsidies go. At the same time, the high prices also give our farmers an opportunity which they may not have had before. It is a very complex situation but it is an issue of major concern. In my own region we saw what happened in Haiti: the food crisis removed a prime minister. Politically, it is

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a very, very sensitive issue in my region. At the same time, we would not want to see increased protectionist measures put in place by other countries, although I have to say we are somewhat sympathetic to those who have put export restrictions in place because we realise that they, like us, are grappling with this concept of food security and, of course, you are always going to take care of your own population first. This phrase "food security" was not in the lexicon maybe two years ago, but it is now being discussed in a very serious way. If you look at what are perceived as protectionist approaches in the context of food security then I think one's views are a little more nuanced. The natural instinct of governments is going to be to take care of their own populations.

Chairman: It is very strange, is it not, I have spent my adult life listening to talk of surplus, so food security is a new concept for all of us.

Q542 Lord Moser: Just going back to your remarks about what you diplomatically called the lack of convergence that remains. If the worst comes to the worst and there is not a breakthrough now and there is some kind of failure, perhaps not total failure, how serious is it from an ACP and perhaps Jamaican view in particular?

Ambassador Mathurin: There are going to be mixed results. For some the status quo is not that damaging, quite frankly. At the same time, we recognise there are certain proposals on the table that have the potential, particularly in agriculture, to reform the world agricultural system which will bring benefits to many of us in the developing world, particularly the 'A' part of the ACP group. If we miss this opportunity to take a decision, particularly on the subsidy issue, we do not know when next we will be able to take it again. I think it is a mixed picture. There is an element which, interestingly enough, never gets discussed very often and that is the resources. What we have seen during the Doha Round is increased participation of developing countries, particularly developing countries like my own, members of the ACP Group, but there has been a cost.

Q543 Lord Moser: I do not quite follow that point.

Ambassador Mathurin: The point I am making is it has cost our governments to participate actively in the Doha Round. There has been a cost in terms of maintaining delegations here, preparing the expertise we have had to pull on and so forth. It would be a shame if that kind of investment was just thrown out of the window through no fault of our own because we are not going to make or break the Round, and that is clear to us. There are some major decisions to be made by some major players, which we are not,

but there could be some fallout for us. It is a mixed picture.

Q544 Lord Moser: And for the WTO if the Round fails?

Ambassador Mathurin: That is a debate that everybody has been having. There could be some reason to go back to the drawing board if it fails from the WTO perspective. Maybe we should start asking ourselves the question, given the expanding membership of the WTO, can we, in fact, have these large global Rounds? I do not know, I do not have an answer. If it fails perhaps we need to go back to the drawing board, yet what do we do with all the work we have done so far. It is not just the ACP Group, it is the whole WTO community. The direction in which some of the proposals are going would bring benefits. One would not want to see that thrown away as well. Yes, the WTO will lose something if there is failure, but is that the WTO's fault? The WTO is made up by its members and it is its members who would agree or not. I am not sure one can blame it on the institution per se. It is an ongoing debate and I am not sure I can come down one way or the other on it.

Q545 Chairman: It is a fascinating subject, Ambassador. I have probably got time for a two-part question. If this Round fails, do you think the dispute settlement system remains legitimate in the absence of continuing liberalisation? Say the Round just simply fails and everybody decides to go home, does that leave the dispute settlement system intact from your point of view?

Ambassador Mathurin: From a legal point of view it will leave the dispute settlement mechanism intact, but, as I was suggesting in my earlier discussion, if you do not have a political side to the WTO and leave it just to dispute settlement then I would not be surprised if many smaller countries start to question whether you can deal with trade issues totally by legal or quasi-legal rulings. Again, I am not sure I can come down on one side or the other.

Q546 Chairman: It is to illuminate only.

Ambassador Mathurin: I think that the political role or the political function of the WTO is a very important one. If you only have the dispute settlement mechanism, while all of us say we want a rules-based system, at the same time a rules-based system that frankly does not take account of the social and economic impact of its rulings is going to be questioned half the time.

Q547 Chairman: Without the political legitimacy that goes with it, it does not stand.

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Ambassador Mathurin: Precisely.

Q548 Chairman: As a final ask to look into the future, if this Round fails do you see a use for the WTO? What can it do next?

Ambassador Mathurin: I had noted the question on the list and I must admit I do not have an answer. I think we will all have to go back to the drawing board. The international community collectively will all have to go back to the drawing board. Perhaps we have to be more nuanced in our rule making. We are beginning to see it. Let me just give you an example:

for the first time the WTO is able to craft rules which are applied to a category of country called small and vulnerable economies and it is an important step forward. I think we are probably going to have to be far more nuanced in our rule making if we are going to continue with a multilateral trading rules-based system.

Chairman: Thank you very much. A very useful answer. I am sorry we have to rush, but it was very good of you to see us. We have not heard an enormous amount from the ACP countries and it has been very useful. Thank you very much.

TUESDAY 15 JULY 2008

Present	Haskins, L Kerr of Kinlochard, L Maclennan of Rogart, L Moser, L	Renton of Mount Harry, L Steinberg, L Watson of Richmond, L Woolmer of Leeds, L (Chairman)
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Examination of Witnesses

Witnesses: MR GARETH THOMAS, a Member of the House of Commons, Parliamentary Under Secretary of State for Trade and Consumer Affairs, MR EOIN PARKER, Department for Business Enterprise and Regulatory Reform, Ms FIONA SHERA and Ms MANDEEP KAUR GREWAL, Department for International Development, examined.

Q549 Chairman: Good morning, Minister. A very warm welcome from the Sub-Committee. You will know that we have been conducting this inquiry for some time now and I believe that you attended the Committee just as we were starting. I do not think that at that time I was a member of the Committee. We have a lot of questions to ask and we probably have about an hour. Is that agreeable to you?

Mr Thomas: Yes.

Q550 Chairman: Before we go into the questions, is there anything that you would like to say by way of introduction? Perhaps you would also like, while doing so, to introduce your colleagues.

Mr Thomas: My Lord Chairman, what I wanted to do by way of introduction was to introduce Eoin Parker on my left and Fiona Shera and Mandeep Kaur Grewal on my right. Fiona Shera and Mandeep specialise in EPAs and Aid for Trade and work in the Trade Policy Unit, which is answerable to me. Eoin Parker specialises on the Doha Round of world trade talks.

Q551 Chairman: Last October you gave the Committee an “optimistic and encouraging picture”, as you described it, of the Doha Round. In a few days’ time there is a Ministerial meeting that may or may not be able to take things forward. Do you remain optimistic for a successful conclusion of the Doha Round?

Mr Thomas: I do, and I think that the fact that a Ministerial has been called is one powerful reason to be optimistic. I think there is a recognition amongst the key principals in the major trading nations or blocs of nations that we are at a key moment in terms of a time for a deal. I think that people recognise that the window of opportunity to secure a deal is closing fast and, in terms of the discussion we have had as a Government with those other trading nations, we do not get a sign that there is any government that does not want to conclude the negotiations. I think that the fact that the Ministerial is going to take place is therefore reason for optimism. Having said that,

there are some big issues that we still have to get agreement on; but the view I gave you in October I still subscribe to.

Chairman: While we were in Geneva last week we met with the chairs of the Agriculture Committee and of NAMA, the non-agricultural area. Lord Renton would like to take one or two questions forward on those points.

Q552 Lord Renton of Mount Harry: Minister, you have said that you remain optimistic, although you see the difficulties, and obviously what is at stake is very important. What do you think, though, in the Government’s view, would be the minimum components of a successful deal? Would a lock-in of existing tariff levels be acceptable?

Mr Thomas: Lord Renton, perhaps I should say just by way of a precursor to answering your question that I think one of the other factors that is motivating the principals from the key trading nations and blocs of nations to be optimistic and wanting to do a deal is recognition that, with American elections, with Indian elections due before May, and with European elections and a change in the European Commission due next year, if we cannot get a deal now on the headlines, the modalities of a deal, and then get the detail behind that locked down by the end of the year, we risk not being able to start again before two years or three years. I must confess that I am not sure that we could be 100 per cent confident that we would be able to pick up where we had left off. Those political imperatives in terms of elections, therefore, are also motivating people to want to get a deal done next week. Lord Renton, you asked me specifically about what we would see as being the minimum for a deal. At one level, frankly, getting any deal would be progress, as you describe; but, in order for that to happen, I think that we will have to see significant reductions in trade-distorting agricultural subsidies—which we would certainly want—not least on cotton but also more broadly. We will have to see significant increases in market access: so substantial reductions in tariffs, and in agricultural tariffs in

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Mr Gareth Thomas, Mr Eoin Parker, Ms Fiona Shera
and Ms Mandeep Kaur Grewal

particular. On NAMA, we will have to see increased market access, not only for developed countries into each other's markets but also into emerging economies' markets, which will benefit both developed countries and boost South-South trade. The third key element of the picture for us as a Government is progress on services. We do need to see more market opening in service areas, particularly between developed nations but also in terms of the emerging economies. To be honest with you, I think that those three elements, which we would see as being fundamental to a deal, are recognised as being fundamental to a deal by most of the other key players in these talks too.

Q553 Lord Renton of Mount Harry: Thank you very much, and I know that my colleagues will be taking up some of the points specifically that you have made there. Obviously what you are saying, in effect, is that a lock-in of existing tariff levels would not be acceptable. However, could I come back for a moment to the French position? What is your assessment of the recent comments made by President Sarkozy and ministers regarding the content of a possible trade deal? Do you wonder whether that is reflected in their government's behaviour at Council meetings? Some of us are probably a bit surprised by some of the remarks that President Sarkozy makes.

Mr Thomas: I think that every major trade negotiation is characterised by sabre-rattling in advance of a deal. The remarks that have been made by many Member States in the WTO, not just in Europe but beyond as well—in Brazil, in South Africa and elsewhere—are characteristics of governments, in a sense, making clear what their primary concerns are, before actually going into the negotiating room. I think that the French recognise that a deal would be a major boost to the global economy. Equally, they have concerns about the position of their farmers, and that is reflective similarly of the concerns of one or two other Member States. However, I believe that the French genuinely want a deal. Certainly the French trade minister, when I have had discussions with him in the past, has indicated that he wants a deal and that his government wants a deal. The French have supported Peter Mandelson having the flexibility that he has to carry on the negotiations in the way that he has done. I therefore put it down to a little bit of sabre-rattling and not much more than that.

Q554 Lord Maclennan of Rogart: I would like to turn to the attitude of the United States, Minister, since, in some of the evidence we have had, they have been seen as the key player, particularly in the light of the recent Farm Bill and the trade-distorting

subsidies, which although not necessarily activated at the moment because of the high food price levels, none the less seem capable of making trade distortion considerably worse. There has not been much evidence publicly from the United States that they are looking for this as a make-or-break opportunity. Some of the remarks, for example about India and the response of manufacturers, seem to indicate less than an appreciation of the fact that India has been autonomous in making reductions in tariffs over a number of years, and China has made contributions through coming into the WTO. There is some anxiety about serious intransigence in that quarter, notwithstanding the attractiveness no doubt to the President of a legacy in the field of trade. What is your own perception?

Mr Thomas: I characterise some of the remarks I have heard from the US in the same way as I characterise some of the remarks that others have made, to which your colleague Lord Renton referred previously. I think what is interesting about the American position is what they are *not* saying at this stage. We have always believed that the major progress in terms of the American position would need to be developed at a ministerial meeting, and that we were unlikely to see it before a ministerial meeting. Fundamentally, the Americans will have to shift on the huge amounts of trade-distorting agricultural subsidies that they provide to their farmers, in particular on cotton. Cotton will be totemic to developing countries. It was one of the things that made the Hong Kong ministerial back in 2005 go off-track, and there is no doubt that the Americans will have to shift on that particular issue. I do not think that we will see much by way of public comment until next week gets underway. However, what is striking in the private discussions that the Prime Minister has had with George Bush and that Douglas Alexander, my boss, has had with Susan Schwab, the trade negotiator, is that they do know the detail of the different positions of other key players in the Round. They certainly know that they will be under pressure to shift significantly, and we will have to see how they develop their position next week. I would agree with your assessment, however, that they are one of the fundamental, if not *the* most important, players that need to shift their position if we are to see a deal next week. I also agree with your comments, though, in that I think that the White House do see this as potentially part of their legacy. I think that they are genuinely committed to wanting to get a deal. In that context, it was interesting to hear the comments made by the President about the Farm Bill, when it passed in Congress relatively recently. I am therefore optimistic about the American position, but I think that Peter Mandelson has some hard days and nights ahead of him to negotiate their subsidies down.

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Q555 Lord Watson of Richmond: Does it not concern you, though, that so much of the rhetoric in the primaries has actually been protectionist?

Mr Thomas: It is not only the primaries where we have seen increasing protectionist language. I think that we have seen increasing protectionist language in Europe. One of my worries about our not getting a deal is that it would be a major boost to the protectionist mood music that we are hearing. It would be a big blow to the multilateral trading system, quite apart from it being politically a daft decision in terms of the global economy. You are therefore right that, yes, the protectionist comments that we have heard do concern me; equally, I think that to some extent we should also see it in the sabre-rattling camp.

Q556 Chairman: India was regularly mentioned to us in our discussions in Geneva as being a very important player in this and a key element of the negotiations. What is your assessment of the position of India? Are they as keen on a settlement as we are, for example?

Mr Thomas: I think that India is one of a number of countries that is key to the outcome of a deal. They obviously have huge interests in agriculture, given the considerable numbers of subsistence farmers in India. Their trade minister and negotiators are very keen to make sure that there is recognition in a deal of the position of their subsistence farmers. Kamal Nath, who is the Indian trade minister, and indeed their ambassador in Geneva, have always been clear that they wanted to see a deal. Understandably, they do not want a deal at any price and I am sure that they will negotiate very hard next week to protect their interests. What is interesting about the Indian position is their enthusiasm for a free trade agreement with the EU. The idea—and I am not suggesting you advanced it—that some have suggested, that India does not want a deal in the trade negotiations, does not fit with their enthusiasm for a free trade agreement, and also with the EU in terms of our bilateral deal. I therefore think that India wants to do a deal, but they will negotiate very hard. They have a tough negotiating team.

Q557 Chairman: In answer to Lord Renton, you did not quite confirm that a lock-in of existing tariff levels would not be an acceptable outcome. Can I ask you to confirm whether, if it got to that, it would be an acceptable position?

Mr Thomas: We would welcome that, but I think that we would be disappointed by the fact that we were not more ambitious as an international community.

Q558 Lord Kerr of Kinlochard: If you were an Indian negotiator, Minister, you might worry about the possibility of being made to pay twice if you do a deal now. You would be thinking about America. You would be much less worried about the European Union. I do not find any paradox between the Indians being very tough negotiators in the Doha Round and very keen to have a bilateral agreement with the European Union.

Mr Thomas: Lord Kerr, there are tough negotiators in the EU free trade agreement discussions as well.

Q559 Lord Kerr of Kinlochard: I think that you would look at America and say, “Why should I do a deal now, given that I know there will be a Democratic Congress; I know there will be no fast track; and there is a high chance of a deal being unpicked and further concessions demanded of me next year?” I am just probing your optimism, Minister, because, as you said, you are standing by the optimistic view—and you described it yourself as optimistic—you gave us in October. I cannot see anything that has happened since that is encouraging, and it seems to me that the American scene is extremely discouraging to the prospects of progress next week. Is that wrong?

Mr Thomas: In a sense, the concern you have raised, that people will have to pay twice, is not just a concern that India has voiced but a concern that others have voiced. I do not see it in those terms, although I recognise that it is perhaps an understandable concern that some have. In a sense, I come back to my opening view of what is helping to motivate people to want to do a deal next week, and that is the political situation not just in the States but also within Europe and within India itself. There is also potentially a range of other factors that make it difficult to perceive a deal being done—if it is not done in the next six months, with the headlines being done next week—for another two or three years. I think that India and others will recognise the benefits of getting a deal done now. I recognise that it does have to pass through Congress and that there are sceptics in Congress, but I think that the sceptics in Congress on trade deals have been particularly sceptical over issues like environmental standards and labour standards, which are less significant issues in the Doha Round of talks. For example, the US-Colombia free trade deal has not gone through Congress at the moment and, as I understand it, that has primarily been over concerns about labour standards. I therefore do not think it is reasonable to write off completely, as some have wanted to do, the idea that Congress will not accept a Doha deal. Clearly it would be the dominant and primary international issue for a new President to have to sell to Congress. We would expect them to sell that deal

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to Congress, if the deal has been done in good faith by the rest of the international community. I have met with Congressmen and women and Douglas Alexander and our embassy in Washington have met with a range of Congress people. On the basis of those contacts, I remain optimistic that a deal would be ratified; but there will no doubt be lots of bumps and hurdles to cross along that particular journey.

Q560 Lord Kerr of Kinlochard: I am sure we all agree with you that it would be highly desirable, Minister. I think that our doubts, on the basis of the evidence we have taken, are more about whether it is actually feasible. If it happens, what would be in it on services—assuming that, for the UK economy, a more liberal world order on services is the number one desideratum? Sometimes it seems as if services are squeezed out by the attention on NAMA and the attention on agriculture. Would there be enough time left to get a services deal on your timescale, assuming this coming Geneva meeting goes well? On your timescale, one is trying by the end of the year to produce a complete package. How long, by the way, would it take to agree the resulting schedules, if there were an agreement next week, and then a final package that includes services and all the various rules resulting from the negotiations that are part of the DDR? These are, I assume, quite big jobs. How long would they take? Is it doable by the end of the year, and what would be in it, particularly on services, for the UK?

Mr Thomas: First, in order to answer your question on services, just a reminder about the opening context for the Round, which was that, following the Uruguay Round, there was a real sense that this current round of trade talks needed to focus on development; and the primary concern of developing countries has been around agriculture. There has been a recognition that we needed to make substantial progress on agriculture in order to unlock ambition in terms of access to industrial markets and, similarly, access to services markets. I cannot give you an explicit and definitive view, therefore, as to what is likely to emerge from next week in terms of the services negotiations. There is a signalling conference in the middle of next week. I think that the level of ambition that we see on services will be dependent on the level of ambition that is being achieved on agriculture and on NAMA. Having said that, our priorities as the UK—and I think that they reflect broader EU priorities too—would be, for example, to see opening up in terms of financial services markets, in terms of professional services, legal services, retail, et cetera: some of the traditional areas where we have considerable strength in our economy. In terms of the timescales for concluding this round by the end of the year, I do think that it is

achievable. I think that there will be an awful lot of work to do for negotiators, once the headlines are done; but I do think that it is achievable. However, I would not want to give you specific timescales of what would happen by what date and in what way.

Q561 Lord Kerr of Kinlochard: Can you be a little more specific and tell us what you think would be an acceptable deal for the UK on services?

Mr Thomas: We would obviously want to see some opening up of services markets and we would want to see some locking in of market opening that has already happened. As I indicated in answer to your first question on services, I would want as much market opening as is possible. Equally, we would want to look at the balance of market opening; so taking into account what happens on agriculture and what happens on industrial markets. We have welcomed the increased attention that Pascal Lamy has personally been giving to services. We have pushed, along with the Commission, for the services signalling conference to take place and have welcomed the fact that, perhaps beneath the headline issues of agriculture and NAMA, further discussions at official level have been taking place to explore what individual states might do in terms of opening up their markets.

Q562 Lord Kerr of Kinlochard: I do not quite understand the argument when you say you are taking account—you said it twice—of the degree of ambition shown in the NAMA negotiation. It surely is not mercantilist. Surely we want as much liberalisation as possible on both dossiers: on NAMA and on services? When deciding what is acceptable for the UK, why would you want to look at the other dossier?

Mr Thomas: No, you are right. We would want as much market opening in terms of industrial markets and in terms of services. I think the context to my comments is that the reality is that other players in Geneva next week will use the level of ambition that they are seeing—in terms of subsidies coming down and in terms of agricultural tariffs coming down—to justify the positions they take on the levels of market opening they are willing to allow in terms of their industrial markets, and in terms of the services.

Q563 Lord Kerr of Kinlochard: Yes, but I am trying to discover what *you* thought would be acceptable, and I think your answer is “Whatever is available”.

Mr Thomas: I think that is an unfair characterisation of my position, Lord Kerr. I would want as much as is possible, but I do not think that it is possible to give you a definitive view now, given that we will have to look at what happens next week. But, yes, I want as much liberalisation in terms of services and industrial

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markets as is possible, because I believe that is not only in Britain's interest but also in the interest of developing countries, albeit that there are caveats one would want to put in in terms of particular services at different times. However, I think that it is good for consumers if market opening takes place. It will be good for trade generally. It will be good for growth in those countries.

Q564 Lord Renton of Mount Harry: Minister, I do not think that we want to add to your obviously serious workload, but we do break up next week and we do not come back until 8 October and it would be very helpful to members of this Committee if you could write to us over the summer recess with your assessment of the outcome of the ministerial meeting. It would be very helpful to us if you could do that.

Mr Thomas: I would be very happy to do that.

Q565 Lord Watson of Richmond: That is particularly important, because what is coming through loud and clear from what you are saying this morning is that actually you see next week as make or break. It is not the completion of the negotiation, but if next week does not mark progress then I imagine your optimism will wane considerably.

Mr Thomas: I am optimistic about what will happen next week. As I have said to you before, if we do not get a deal on the headlines next week, it is very difficult to see how we will get a deal before two or three years' time. To be honest with you, I worry as to whether or not in two or three years' time we would be able to pick up where we have left off.

Lord Watson of Richmond: That is why I think that your assessment post-next week's meeting would be very important for this Committee.

Chairman: That leads on very neatly to Lord Steinberg.

Q566 Lord Steinberg: I am afraid that I am going to be a bit provocative as well, Minister. The first part of my question that I want to ask you, following on from what my colleagues Lord Kerr, Lord Watson and Lord Renton have all said, is that you seem unable to give a date, because you say it is impossible to give a date when this is likely to happen. You point to the meeting taking place next week, which I am sure we all agree is an extremely important meeting; but all the hurdles that have been mentioned—protectionism, the United States, India, hard negotiation, your own comment when you said that the window was closing fast—all these things surely make it rather more difficult? Whilst I admire your optimism and nailing the flag to the mast, I am not certain whether your optimism is not wildly misplaced.

Mr Thomas: Pascal Lamy has talked of seeing a deal as being 50:50. My own sense from the conversations I have been party to is that I think the prospects for a deal are 60:40. That is me being cautious. I am Methodist by religion and we do not bet, as you know, Lord Steinberg! So I would not want to gamble on the outcome—

Q567 Lord Steinberg: You are talking in my area now, Minister!

Mr Thomas: Genuinely, I am optimistic about a deal, because I think all the key principals recognise just how much is at stake. The level of detail that people as varied as President Lula and President Bush have, in terms of their knowledge about what are the sticking points regarding the Round, does lead me to have confidence that they are seriously engaged in wanting to do a deal next week. In something as complex as world trade talks you will always see sceptics and you will always see people sabre-rattling, as we have discussed. However, I do think that there are grounds for optimism. I recognise that you may call me back if we do not do a deal and I will have to try and explain why my optimism was misplaced; but at the moment I think there are good grounds for it.

Q568 Lord Steinberg: I admire your continued optimism. Can I go on and ask what would happen to EU policy if the talks failed?

Mr Thomas: I think that there will be two elements to it. First, we will want to look at how we revive world trade talks, what timescale there might be for getting talks back underway. That would obviously be the first part. Whether any elements of the talks could be saved and secured, personally I doubt whether that would be doable, but I certainly think that we would want to look at that. Then, inevitably, we would want to look at what free trade agreements—bilateral free trade agreements—between the EU and a range of other countries or blocs of nations were possible. We already have a large number of negotiations underway, from groups of countries as varied as South Korea, through to the Latin American Mercosur group, through to a range of countries in the Gulf, and I think that those conversations would inevitably accelerate. To be honest with you, though, whether we secure a Doha deal or not, those conversations will take place; I just think that they would take place at a slightly slower pace, while the detail of the Doha deal was locked down.

Q569 Lord Steinberg: Talking a little more about the implications, only this morning in the *Daily Telegraph* there was an article relating to Spain being in a crisis situation and also Italy. If this round fails, are there not some invalids within the EU that will

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dramatically affect the union's trade policy? It mentioned Greece as well, by the way.

Mr Thomas: All of those Member States have signed up to the negotiating mandate that Commissioner Mandelson has. All have publicly supported their ambition for a Doha deal, both next week and beyond. Each has its own specific issues of interest, as we do. Each will be pressing Commissioner Mandelson, and indeed other Member States, to do as much as they can to promote those interests next week. That is perfectly logical and perfectly understandable. The Commission has done some analysis of the benefits of a Doha deal and estimate that it could potentially represent a boost to the global economy of some €120 billion per year, of which about €30 billion would be for the European Union and €15 billion for the developing countries. You begin to get a sense of the scale of what is at stake next week, and I think that those figures are understood by all the major players. They recognise the potential for increased economic growth that a deal will do.

Q570 Lord Steinberg: Finally, who stands to lose more if there is no agreement: the developing countries or the least developed countries?

Mr Thomas: I think that we all stand to lose. As I indicated, we will lose—if the Commission's analysis turns out to be right—some €30 billion of extra trade that might have resulted; developing countries will lose out on the opportunity to see substantial reductions in trade-distorting agricultural support and, as a result, the opportunities to sell their goods into the EU market, the US market, and other rich countries' markets. Many other players in the international economy will lose out substantially too. I think that the biggest losers in the long term will be developing countries; because, in the end, the only way to tackle poverty is through economic growth. We will be closing off one obvious route—developing your agricultural economy—for those least developed countries to benefit from. They will not lose out dramatically in the short term but, over the long term, I think that they will lose out significantly.

Q571 Lord Moser: Minister, I also admire your optimism.

Mr Thomas: Oh, dear!

Q572 Lord Moser: I admire it because I am by nature a pessimist but also because we had nine separate meetings in Geneva last week, all with people who were either deeply involved in the whole business or were experts on it. The atmosphere of the talks ranged all the way from fairly extreme pessimism to fairly extreme optimism; so I came away feeling that probably the best advice was from

the final meeting, which was with one of the chairs of the negotiating groups who said that it is absolutely impossible to tell whether it is good news or bad news; that it is 50:50. I therefore settled for 50:50 in my assessment, which is the easy way out. One of the reasons, in addition to complexity and all that, which came up again and again was that a lot of countries, after seven years of Doha, were not exactly bored but were cynical; that, into the whole operation next week and later, was a feeling of bored cynicism—especially if they felt more secure in bilateral negotiations, which are easier and less complex. In other words, in addition to the crucial things with America or India or China, which we have talked about, there is a general feeling of “We've been round all this again”. I felt that probably WTO was clever enough to avoid a totally black outcome. It probably would not get a white outcome, but it would be grey, somewhere in the middle, and things would continue in some way. Against that background, a sort of semi-failure, could you comment on the future of WTO? Is the future more in bilateral negotiations? Will the dispute settlement mechanism remain? Would you favour, would the EU favour, a change in structure and voting, and for more attention to all members? We were also struck in one meeting by the developing country voice feeling that it is all done in closed rooms by the big boys. Could you therefore comment about the future of WTO against that background?

Mr Thomas: The great beauty of the World Trade Organization, but also the thing that leads to the frustrations about the WTO, is the one member, one vote. That both helps to ensure that even the smallest and the poorest who are members of the WTO have to have their concerns recognised in order for a deal to be done, but also the process of making sure that everybody's concerns have been heard does mean that trade rounds are inevitably very lengthy and very complex. We would not want to lose what I think is the great strength of the WTO—the one member, one vote. Equally, as you say, seven years is an awfully long time for a trade round to take place, and we clearly do need to look at the WTO's procedures. To be honest with you, I have an open mind on the idea of a reform agenda for the WTO. Clearly, as the UK Government, we do need to do some work to look at what the WTO holds. Once we are through and, I hope, into the locking down of the detail behind a ministerial agreement next week, we will start to do some more detailed work as a department on what the future of the World Trade Organization might look like; but we do not have a definitive position at this stage. We are seeking to hold a conference on trade issues in the autumn, which will look at a number of things. No doubt reform of the World Trade Organization will be one of them. I have given

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you a long-winded answer but, essentially, we know that reform is necessary; we recognise the strengths of the WTO and we do not want to lose those; but we have an open mind as to what the future holds for the WTO.

Q573 Lord Moser: Is there a general EU view on the need for reform, or were you expressing the Government's view?

Mr Thomas: I was expressing the Government's view.

Q574 Lord Moser: Do you see any major differences within the EU?

Mr Thomas: The truth is that it is too early to say at the moment. There has not been that type of a debate as yet. In a sense, one of the things that we potentially see as being a benefit of our trade conference is to re-kick start that debate. A former EU Commissioner and head of the WTO, Peter Sutherland, did produce a series of reform proposals a number of years ago. Essentially, they have not been looked at because people have started to get stuck into the detail of the Doha Round of talks; but, once we hopefully reach an end of this round, then I think that reform agenda will be something we would want to come back to.

Q575 Lord Watson of Richmond: It would be surprising in a way if Peter Mandelson did not come forward with some suggestions of EU-based reform for the WTO in the wake of his experience. Will you be asking him for his view?

Mr Thomas: I will certainly be asking him either to come himself or send the officials that he trusts the most along to the conference, to give us a view on the prospects for trade going forward. There are a whole series of trade-related issues where we do need to make progress, where the World Trade Organization may be a vehicle. It may not be the right vehicle. For example, climate change. There are a series of trade implications for climate change that we need to start taking forward. Is the WTO the place for those? The truth is that I am not sure.

Q576 Lord Watson of Richmond: These are very important questions going forward, are they not, and the one you have named is perhaps the most important?

Mr Thomas: With respect, I think there are a series of others that are almost as important. There is a big issue around Aid for Trade; in a sense, helping developing countries unlock the potential that the Round might offer them. The WTO has started to look at Aid for Trade issues, as you may have picked up last week. It is slightly shifting into new areas of work, therefore.

Q577 Lord Watson of Richmond: Others?

Mr Thomas: Let me stick with Aid for Trade and climate change for now, as areas where it may or may not have a future role going forward. I genuinely do not have a definitive view.

Q578 Lord Watson of Richmond: It is very interesting, is it not? Because if the view taken both by the UK and rather more generally within the EU were that the WTO was not the right vehicle for those two issues, that says a great deal about the continuing relevance of the WTO.

Mr Thomas: No, I do not think it does, with respect. There are climate change talks that are taking place through the UNFCCC process. It may well be that that is the appropriate vehicle for the trade and climate change talks. It may well be that Aid for Trade issues, given that they are also about how we do development in general terms, may be more appropriate through, for example, the OECD's Development Assistance Committee. Essentially, I think that we need to make a judgment call on those questions.

Q579 Lord Watson of Richmond: The reason we are trying to bring you out a little on this is to get the feeling of what you do see, given an acceptable deal, as the future of the WTO. These big areas you are saying may be yes, may be no, but what is the imperative behind continuing with the WTO if this is a reasonable outcome?

Mr Thomas: Without doubt, the dispute settlement area of the WTO's work will be fundamental to its continued role. The fact that it provides a way in the international community for resolving trade disputes, notwithstanding that some of the disputes and the way in which they have been resolved have had their bumps—that may be an area of reform that we would want to look at, and I suspect it probably will be—there are these other questions where the WTO may have a role to play. At this stage we just do not have a definitive position.

Q580 Lord Kerr of Kinlochard: Could I pick up on that last point? I can see why President Sarkozy might want to link climate change negotiations to a WTO negotiation—put climate change into the Geneva WTO framework—and I can see why a US Congress might want to put labour standards into a WTO framework. I cannot conceive of any reason why a British Government would want either of these things to happen. It seems to me that we want as liberal a world trading system as we can possibly have, without the environmental conditionality written in, and without labour standards. Surely the one is for a Kyoto (or successor) mechanism and the other is for an ILO (or successor) mechanism, but

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they should be kept well away from the WTO? Is that not the Government's view?

Mr Thomas: You may well be right. Let us take climate change, if we may. President Sarkozy has given a view on the links between trade and climate change. I think that I have a different view as to what I might see as being an agenda for trade and climate change, where there may be a role for the World Trade Organization to play, even if it is just as a convening body—in the way that it played a convening role on Aid for Trade. It may well be that there are other bodies that are more appropriate. As I say, I do not have a formed view. What I am conscious of is that we do need to start making progress on issues around trade and climate change. To be clear, I would see them as being how we get emissions reductions agreed in, for example, particular industrial sectors—which reflects competitiveness concerns across the international community. It may be that there are particular industrial sectors that are appropriate. Should those discussions take place in the context of the WTO? Should they take place in the context of the UNFCCC, or should we set up some other process? At this stage I do not have a view. What I am clear about is that we will need to move quite quickly, once we are through next week and hopefully into the detail of a deal, to start looking at those additional questions. On the Aid for Trade role that the WTO has played, the initial conference on looking for Aid for Trade, on galvanising donors to commit more money for Aid to Trade, took place at the World Trade Organization headquarters; but the WTO will not be the place where the implementation of Aid to Trade takes place. Individual donors will have to do that themselves and will have to be held to account for what they do or do not do within other fora beyond the WTO. The WTO itself will not have any specific locus. Aid for Trade issues will not go to the disputes settlement. Simply the fact that it was the trade body, therefore, and the likes of Pascal Lamy and his staff had an interest in this issue, provided a useful convening place for us to come together to look at these issues.

Chairman: I have no doubt whatsoever that we will all return to these issues, as you said, fairly quickly after this current round, and we look forward to those discussions.

Q581 Lord Haskins: I would like to return from the grand, hypothetical vision to the hard business reality of what might happen next week. One of the things that particularly struck me last week in Geneva was how sanguine people were generally about the deepening credit crunch in the OECD areas, the rise in inflation of food and fuel—almost as if they were trying to get it out of their minds and as another

reason for settling sooner rather than later. If these things get worse, they would be more of a problem further ahead. Dealing with food on its own, however, there are two aspects to this. One could be a concern, *i.e.* the protectionist barriers that people are putting on exports of food and that will have an impact on the arrangements; but another could be an opportunity, because the US Farm Bill becomes rather less relevant if food prices are as high as they are. The likelihood of interventions to support US farmers is less likely. Do you think those things will have any impact on people's thinking next week?

Mr Thomas: Let me take the last point, the issue of the level of American subsidies to their farmers. I think you are right that the fact that they are significantly lower, as a result of higher food prices, may make the political environment for getting a deal through Congress easier. I put it no higher than that. Will it be the primary thing that people are thinking about next week? I do not think that it will be. It will be, in a sense, negotiating hard with others; but I do think that it is an additional factor, which should give grounds for optimism that a deal can not only be secured but can also be ratified. On food prices more generally, the rise in food prices is certainly being used by some to justify a more protectionist position. President Sarkozy has said that the high food prices are proof of the benefits of the Common Agricultural Policy. We would not see it like that. We would see that, in the long term, getting rid of significant levels of agricultural subsidy in Europe and elsewhere will help to boost investment in agricultural productivity across the globe. That can only be of benefit for food prices in the long term, albeit there may be a slight increase in food prices as a result of a substantial liberalisation of the subsidy regime at the moment.

Q582 Lord Haskins: One other thing that struck me, and I do not know whether you would agree, is that the EU does not appear to be a big problem in these negotiations. Most of the countries were saying that the EU is largely on side. Would you agree with that?

Mr Thomas: I would agree that the big issues next week will be about the level of agricultural subsidy reductions that the US are willing to make and, secondly, the level of access into emerging economies' industrial markets that the so-called "NAMA eleven" are willing to offer. Both will then read across into every other area of the negotiations, including services, which we were talking about.

Q583 Lord MacLennan of Rogart: To settle back a little from Doha, can you give us any picture of how you view the development of the Economic Partnership Agreements? Do you see them, as some of your critics who have spoken to us about them do, as potentially distorting? An obstacle to multilateral

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agreements and anyway not achieving a great deal, perhaps, outside of the Caribbean area?

Mr Thomas: I think EPAs are a work in progress rather than a completed exercise. I do not see them as distorting. I suppose I would have more sympathy with that argument if it had been made about bilateral agreements, which on occasion do have the potential to be distorting. I do not think EPAs are of themselves distorting. They are, in a sense, a continuation of the trading regime that we have had with the ACP countries, encapsulated in the Lomé Convention and then in the Cotonou Convention. We have to bring those trading arrangements into line with World Trade Organization rules, and that is the reason for the EPA discussions that are taking place. The Caribbean, as you say, is the most advanced and I hope that we will see those agreements being signed fairly shortly. It is still a work in progress in terms of the four African regions and the Pacific. I think that the big benefits for developing countries have been twofold. For those developing countries that are not least developed countries—not the very poorest countries—they will get 100 per cent duty and quota-free access into Europe's markets. I was in Botswana last week, and having that duty and quota-free access for their beef farmers is a huge benefit for them. The second area is around Rules of Origin. Substantial liberalisation of Rules of Origin offers, for example, opportunities for the likes of Lesotho to be able to sell textile products much more easily into Europe's markets than it has been able up to now. Those are two of the biggest benefits of EPAs.

Q584 Lord Maclellan of Rogart: It has also been suggested to us by other witnesses that the European Union uses divide and conquer tactics when dealing with some of the smaller nations' trade issues. What justice is there in that perception?

Mr Thomas: I do not think that is a fair accusation. However, I do not think anybody, even Peter Mandelson, would claim that the process in the EPA negotiations in the run-up to the 31 December deadline was anything other than, let me put it delicately, bumpy. That was in part because the duty and quota-free access offer was not put on the table for the ACP until March last year, so relatively late in the day, and the Rules of Origin package was not put on the table until September. That reflected bluntly difficulties in getting agreement to those packages within the European Union and that did mean negotiations were left very late. I think the irony of the difficulties we had in the run-up to 31 December was that the whole debate around trade and regional integration had been put on the desks of presidents and finance ministers as well as trade

ministers, and that was an enormously helpful thing. I hope out of the political tensions that there were in the run-up to 31 December we may see a whole range of positives develop in terms of faster regional integration and better arrangements for south-south trade as a result. EPAs, as a package, I think are going to take quite a bit more time to complete the negotiations.

Q585 Lord Watson of Richmond: On that last point, bumpy not brutal is what you are saying?

Mr Thomas: I think some developing countries felt it was brutal. I do not think this is Peter Mandelson's fault, although he has been the target of some fairly vociferous criticism from civil society groups here, but the European Union was too late in offering the Rules of Origin package and, in particular, the duty and quota-free access package. As a country, we called for that to be made as early as March 2005 and if it had been put on the table much earlier, then the context for the negotiations would have been much more positive.

Q586 Lord Watson of Richmond: One can understand why that sort of pressure was resented in some cases.

Mr Thomas: Indeed. Equally, that deadline of 31 December last year had been known about for the better part of eight years so it is not an entirely fair criticism, but I think the other issue we have to recognise as a European Union is that you are dealing often with countries that do not have huge negotiating capacity, notwithstanding the fact that we have given money, as a government, to help countries negotiate EPA agreements and, indeed, in the Doha round. I think now we are through the 31 December deadline and we have got the chance to reflect on the interim EPAs that have been agreed and particularly in developing countries we need to have a bit more recognition of those negotiating capacity constraints. I was in South Africa, Namibia and Botswana last week looking at the progress that had been made in the SANAT region on EPAs. What was striking was the appetite of all three countries for progress on EPAs. South Africa and Namibia have been the most hostile to a deal apparently and they do have what I think are genuine concerns in a number of areas, but they do want to do a deal, and that is quite striking.

Q587 Lord Watson of Richmond: It would make sense when one is really looking at the future development of the WTO if there was some real attention paid to the negotiating difficulties that the poorest countries inevitably have, because they just do not have the expertise on the negotiating front and that leads to the sense that the big boys are all

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in one set of rooms making all the decisions and everybody else is outside. I want to raise two specifics—it is tied to it in a way—first of all, what the Government's view is on Special & Differential Treatment and, secondly, on Aid for Trade, which we have talked about but mainly in the context of whether this is a legitimate area of future activity for the WTO. First of all, on S&DT, what is the Government's view?

Mr Thomas: We are a strong supporter of meaningful Special & Differential Treatment. We would see, as part of that, longer implementation periods for countries to liberalise tariff schedules, on occasion lower tariff production and subsidy reductions being required and recognition that developing countries will have particular circumstances which may mean that they need to reintroduce tariffs or lower tariffs at a lower rate in particular areas, so food security and rural development issues being two obvious examples.

Q588 Lord Watson of Richmond: It is those sorts of considerations which make it meaningful because we have had expressed to us the view that so often S&DT is actually irrelevant.

Mr Thomas: I do not think that is the case at all. I think perhaps the most obvious example of, in a sense, the benefits of S&DT comes from the TRIPS agreement on access to the intellectual property underpinning essential medicines where there are certain waivers to those IP rules for developing countries facing public emergency. You see now a range of countries slowly using the provisions in the TRIPS deal to get access to lower cost antiretroviral drugs to help them fight HIV and AIDS. I think that is a very meaningful example of S&DT at its best.

Q589 Lord Watson of Richmond: Yes, that is a rather dramatic example, it is a good one. On Aid for Trade, how active actually is our Government in seeking to persuade developed country members of the WTO really to get on with allocating and spending Aid for Trade?

Mr Thomas: The Aid for Trade conference that took place in Geneva in the WTO's headquarters in November last year was in part a British invention. I wish I could take credit for it myself; it was the idea of a number of my officials and they deserve credit for suggesting it. What that conference did do was to put pressure on a range of developed countries outside of the European Union to provide more money for Aid for Trade. The Gleneagles agreement back in 2005 and the Commission for Africa did focus on Aid for Trade as well and the dialogue that developed there led to the EU, both

the Commission and Member States, committing to I think—forgive me, let me check—€2 billion to be spent on Aid for Trade a year by 2010.

Ms Shera: Yes.

Q590 Lord Watson of Richmond: Your view is that the hold-up of the deployment of these funds is more to do with non-EU members than EU members?

Mr Thomas: I think a number of Member States and donors have been perhaps late to the issue of Aid for Trade. It is an issue which we are focusing on quite significantly in our Southern Africa aid programmes. I was looking specifically last week in South Africa and Botswana at examples of what our Aid for Trade work is helping to fund at the moment. What is striking is the huge infrastructure of constraints that there are in sub-Saharan Africa to helping trade flow so the level of investment that is needed in roads, power supplies and rail to help trade flow faster is very significant. Equally, the difficulties in terms of slow customs procedures and just the need to try and harmonise customs procedures more effectively in the area are striking. To give you one example, we funded some work in Lesotho through the trade investment facility that exists there which is helping Lesotho exporters experience dramatically lower delays and borders. Export applications used to take seven days to process; they are now taking 15 minutes. They used to have to fill in 23 forms; it is now down to two. You get a sense both of what is possible there but the scale of the problems.

Q591 Lord Watson of Richmond: There is a learning curve both on the side of the donors and recipients, that is clear, so hopefully both sides are getting better at it. I want to ask you one other question on the infrastructure side of Aid for Trade because we have seen quite dramatic developments with Chinese involvement in Africa, which very often has an infrastructure focus. What lessons do you learn from that?

Mr Thomas: There is Chinese engagement on the issue but there is also substantial investment via the Commission itself, the World Bank, the African Development Bank and a number of other donors. I suppose the main lesson I took from my visit last week is we need to step up the engagement of all the different players in investment in infrastructure. What I think we can bring, as a government, to that particular issue is our convening power, convening influence and our ability to help unlock problems in particular countries because one of the problems in sub-Saharan Africa is the number of different stakeholders you have to get to agree to make progress in particular works if you want to build a

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road, and I think we can help with that. We need to do more to interest the private sector in Africa and outside Africa in that investment in infrastructure that is necessary and over the next 12 months this is something that we are certainly going to be looking at, how we can step up our work in this area.

Q592 Chairman: Minister, you have given us a considerable amount of your time and we are enormously grateful. It has been wide-ranging and you have been frank, ranging from optimism to detailed enthusiasm, and thank you very much indeed. We are very grateful to you.

Mr Thomas: Thank you very much.

THURSDAY 6 NOVEMBER 2008

Present	Cohen of Pimlico, B (Chairman)	Renton of Mount Harry, L
	Haskins, L	Trimble, L
	Maclennan of Rogart, L	Woolmer of Leeds, L
	Pearson of Rannoch, L	

Examination of Witnesses

Witnesses: RT HON LORD MANDELSON, a Member of the House, Secretary of State, MR EDWARD BARKER, Director of Trade Policy, Department for Business, Enterprise and Regulatory Reform; and MS FIONA SHERA, Deputy Director, Trade and Development Team, Department for International Development, examined.

Q593 Chairman: Welcome everybody to the open phase of this meeting of Sub-Committee A and a particular welcome to Lord Mandelson and his colleagues Mr Barker and Ms Shera. Can I ask everybody before we start, as this session is being broadcast, to put mobile phones not just on to “silent” but on to “off” because otherwise interference is caused. This session is being broadcast and we will appear on BBC Parliament and we are of course on the record. Lord Mandelson, as well you know, every word is being taken down and a transcript of the meeting will be provided to your office for correction. Thank you very much for coming. I know you have got a few other things to do, but we are really extremely glad to see you. We are in the process of finishing a long report on trade with particular reference of course to the EU and to the Doha Round and when we last saw you you were of course the Trade Commissioner. It is particularly pleasing to be able to ask you now in your position as the responsible UK Secretary of State the various questions of which I am sure you have had notice that we would like now to air with you, and indeed enable ourselves to complete our report. If you would like to start with a statement, Lord Mandelson, please do. If you do not particularly want to do that, if I may, I will start asking the questions. Which would you like to do?

Lord Mandelson: Let me make a very short statement to say first of all how glad I am to be here again and to have this opportunity of meeting the members. Thank you for rearranging your time to accommodate my attendance at the Cabinet this morning. Secondly, to say that I hope that the opportunity that I will have to correct the transcript of what I say also applies to the press and the sketch writers who are behind me! Thirdly, to say that my passion for the Doha Round and my commitment to it, the evidence for which you have seen plenty of during the last four years, is undimmed in my new role. I regard the cause of world trade, the openness of markets, our ability to prevent the global economic machine rolling backwards under the

pressure of protectionism as vital if not more vital now than it has ever been, but I also see trade as a huge opportunity for poorer countries in the world. The main feature of my approach to trade and development during the last four years has been to harness trade to the cause of development and that too will be undimmed as I exercise my responsibilities in my new role. Having said that, I am open to respond to any questions that you would like to put to me.

Q594 Chairman: Thank you. Our first question with which I will lead off is that we have never felt that we quite understood how and why at the last minute the Round actually failed and in that context there are questions like was the Special Safeguard Mechanism the true reason for failure and what happened to services? Is there anything you feel able to tell us about why the Round did not make it in the end?

Lord Mandelson: Let me say something very clearly and firmly at the outset: this Round has not failed. The ministerial meeting in July did not end in success in its objective of agreeing the modalities, that is putting in place the formulae for the reduction of tariffs in agriculture and non-agricultural market access and the formula for reducing agricultural subsidies. When the Director-General of the WTO called the ministerial meeting everyone said at the time that he was taking quite a risk, quite a gamble given the gaps that persisted in the positions and in the views of a number of key negotiators. Some suggested that he was inviting failure by calling this meeting of ministers prematurely before the groundwork, staff work, foot work had been done to bring everyone’s positions closer together so that in a sense the ministers could sign off on the final detail, as it were. I did not agree with those who took that position. As the EU Trade Commissioner I argued that the ministerial meeting should be called despite the risks because I felt first of all that, as it were, technical negotiators and senior officials in many respects had taken the negotiation as far as they could and that now ministers needed to make some

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difficult political judgment calls which only ministers can do. Secondly, I felt that if the ministerial meeting did not take place before the summer the prospects of it taking place at all in the autumn would not be very great because of the American elections. My firm judgment was that whilst the US Administration would be prepared, as it were, to go for a ministerial meeting in July which was sufficiently far in advance of the American election date for them to take some risks in the negotiations, the possibility of their being prepared to do that would be reduced the nearer the election date they got. I feel that we were vindicated in that judgment because we did make substantial progress in a whole number of different areas in July. We agreed for example in respect of agriculture that the proposed reductions in agricultural trade barriers in tariff reductions would be set at an average of at least 54 per cent, with the highest tariffs enjoying the greatest cuts, in the case of the European Union something in the region of 70 per cent, and that trade-distorting subsidies also would be subject to agreed cuts, in the case of the United States I think it was again 70 per cent and in the case of the European Union 80 per cent. Those are very important offers and commitments and we signed off on them. In non-agricultural market access again the outcome of the position we reached in July was that we would be reducing the maximum industrial tariffs in the developed world to below eight per cent, with almost no tariffs above six per cent in the whole of the European Union, and that an important reduction would also be made in maximum tariffs in the developing world. For example, India's bound average tariff would fall from 45 per cent to 17 per cent. I could go on illustrating for you across the range the many tentative convergences and agreements that we reached, including, I might say, some important developments in trade in services, where significant indications were given by some of our key trading partners amongst the emerging economies that when the time came for them to make their final offers, which would be one or two months following the agreement of modalities at the ministerial meeting, some major new trading opportunities would arise within the international trading system. However, as you say, there were nonetheless some tricky issues on which we tripped up and the principal issue on which we tripped up, which became the effective cause of the failure to agree at the ministerial meeting and its inability to end in a successful conclusion, was that relating to the Special Safeguard Mechanism. This was a new piece of machinery to be introduced within the WTO that would allow developing countries with non-commercial agricultural sectors to use that mechanism to protect their agricultural sectors against sudden and substantial surges in imports in agricultural goods to their economies. That became

the subject of very sharp disagreement, I am afraid, between India and other agriculturally defensive countries in the G33 group of developing countries and on the other side, the key agricultural exporters, who of course want to maximise their access to the agricultural markets of developing countries, in particular and led by the United States. That is why colloquially people said the talks failed because the US and India fell out. Well, they were the main protagonists in this disagreement but they were not the only ones. They had other countries, as it were, with similar interests lining up behind them. I was very disappointed when this happened and as Commissioner at the time used considerable effort throughout many days and nights to broker an agreement between the United States and India and those other countries that they represented or spoke for informally, but that I am afraid in the event was not possible. The Director-General himself contributed a Herculean effort and my admiration for Pascal Lamy knows almost no bounds. His energy, his stamina, his technical grasp and his ability to operate politically amongst so many cross-cutting interests and issues really was remarkably impressive. I notice that he has announced that he is standing for re-election as Director-General of the WTO and the British Government will certainly be supporting him very strongly indeed. In the end, it was a collective failure of the talks but not of the Round itself.

Q595 Chairman: If I may be allowed a supplementary on this Lord Mandelson, did you feel that the Special Safeguard Mechanism failed to avoid talks on cotton tariffs or was it a broader failure to agree?

Lord Mandelson: I suspect that what lies behind your question is a suspicion that the United States was keen to see the talks break down over the Special Safeguard Mechanism because they did not want to reach the point of having to make a substantive offer and reach agreement on the reduction of American cotton subsidies in advance of the American elections. I do not know whether that thought lay behind your question, but if it did it is not something on which I could possibly comment obviously! I know that the issue of cotton and subsidies is a matter of great political sensitivity in the American agricultural community which is well represented in a number of swing states, but beyond that I could not make any further judgment.

Q596 Chairman: Can I have a go at something that is probably equally controversial. If a deal had been achieved were you confident that all the EU Member States would have supported it?

Lord Mandelson: Yes.

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Q597 Chairman: Fine!

Lord Mandelson: Yes in this sense: we were seeking to agree the modalities, the formulae by which tariffs and subsidies would be cut. We were not being invited at that stage to agree the ultimate single undertaking, the final deal of the Doha Round. In putting modalities in place we would have had at least six further months to negotiate the country-specific scheduling or application of those formulae to each and every member of the WTO. Only at the end of that scheduling process would we have reached the ultimate single undertaking on which every member of the WTO, including of course every member of the European Union would have to agree, because although as Commissioner I negotiated collectively on their behalf they nonetheless had their own independent memberships of the WTO, so in theory at the end of the day as individual members of the WTO any member of the European Union could in principle have raised their veto, their card against the adoption of the final single undertaking. At the stage of modalities, that was a stage of negotiation on which I as Commissioner had the mandate to negotiate on behalf of the EU without going back to ask the Member States to endorse what I was actually signing up to. However, politics of course is slightly different from constitutional theory. If the politics of those modalities had been such that a strong group, let alone a majority of EU Member States, had been really disgruntled with my negotiating tactics and the position I finally reached, they could have made that clear to me, and I would indeed have been left in an extremely uncomfortable position as the negotiator; I would in effect have had the carpet pulled from underneath my feet. In the event, when the outline deal began to emerge four days before the talks failed, I asked the Presidency of the Union to call a meeting of the General Affairs Council. That met on a Saturday morning and I put the scope, content and much of the detail of the emerging deal to the Member States, and whilst a number did express reservations about the balance of the emerging deal, the overwhelming and preponderant view of the Member States was that I should continue to negotiate on the basis of that emerging outline. I took that as an endorsement and a green light which enabled me to proceed over the next four days of negotiations. If we had succeeded in putting in place the modalities, and I would have brought that back to the Member States, I am confident in saying that they (some rather more enthusiastic than others) would nonetheless have gone along with the package that was emerging at that stage of modalities.

Q598 Lord Maclellan of Rogart: Lord Mandelson, I wonder if you would be able to characterise the respective roles of the Presidency and yourself in constitutional terms?

Lord Mandelson: Do I have to!

Q599 Lord Maclellan of Rogart: It is clearly a matter for you but there was an issue during the negotiations and I do not think it should be regarded (perhaps you think it should) as a purely personal one. It seemed to me to raise constitutional questions about the respective roles of the Presidency and the Commission. In the outcome how did you view it?

Lord Mandelson: I think I would put it in this way: the six-month Presidency in office of the EU, at that time and still now France, had a responsibility for bringing the Member States together, ensuring that I as the negotiator was properly answerable to the Member States and was able to explain and justify my negotiating actions and to give a proper opportunity to the Member States to express their views back to me about my actions. In that sense an accountability was operating but not one where the Member States were able to block or veto my negotiation on their behalf unless it could clearly be demonstrated that I was acting outside the original mandate given to me for the negotiations as a whole by the Member States. I would strongly contend—I did at the time and I would still now—that in these negotiations I was operating entirely within the mandate originally given to me, that I was not stepping outside this mandate and was not proposing to do so, and therefore on that basis the Member States should be content with my actions and that the role of Presidency was to reflect that. However, each Member State of the European Union of course has its own particular views, its own particular domestic interests, agricultural or otherwise, and it was really up to the Presidency to reconcile its role as President in office with the domestic interests and pressures that operated within its own country, its own economy and society, and of course I was entirely happy with the actions of the Presidency in their ability to reconcile those two things.

Q600 Lord Renton of Mount Harry: Lord Mandelson, I very much appreciate your passion (that is the word you used) for the Doha Round and I share it myself, having worked for an international trading company for 20 years before I became a Member of Parliament, but, that said, how confident are you now that the Doha Round will be able to be concluded? Do you think that recent developments in financial markets, which we all know about, and the prospect of low global growth rates is inevitably going to change your optimistic assessment?

Lord Mandelson: In my view, but then I do not speak for the entirety of the 153 membership of the WTO, the Doha deal is more urgent than ever given the financial crisis. We need to demonstrate to the world our commitment to open markets and our rejection of protectionism, otherwise we would make the

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present turmoil and dramas even more serious and long-term in their impact. We have to understand that a Doha deal is not implemented overnight and there is a differential implementation period between developed and developing countries, shorter for the developed countries and longer for the developing countries, which means that we would be looking to the positive consequences and effects of a Doha deal over the next ten years or so. A Doha deal is not going to have, as I say, an immediate overnight impact on markets or on trade but it has a much longer-term effect which is very, very important indeed. A failure of the deal would mean that we were less able to open markets and free up trade than we would otherwise be able to do. There would be more scope for countries to increase their tariffs in the future in the absence of a Doha deal and to come under fierce protectionist pressure to put more walls around their economies, decreasing international trade in the future, and there would be fewer opportunities and less market access for developing countries, both to the developed country markets but also to the faster growing markets of developing countries. The effect would be a cumulative, long term and thoroughly negative one for the international economy and the prospects for world trade, which is why it is so important, if we want to avoid those negative effects, that we put in place a deal now that enables us positively to reap the benefits over a longer period of time. That is how every world trade agreement before this one has worked. The reason why we have had international trade growing, markets becoming increasingly open, and developed and developing countries alike enjoying the benefits of growing world trade is because previous rounds have been successful in reducing tariffs and opening markets cumulatively over a period of time. But what additionally this Round had to offer was, at long last, a chance to deal with trade-distorting agricultural subsidies, which have such a deleterious impact on developing countries, in a way that previous rounds have not touched and have not attempted. That is why, in addition to the wider benefits and implications for world trade of this Round succeeding or failing, it is also crucial in particular to freeing up trade in agricultural goods and lifting the burden of developed country trade-distorting agricultural tariffs on poorer developing countries.

Q601 Lord Renton of Mount Harry: I appreciate your enthusiasm totally. Others of my colleagues I know will be asking you questions about possible protectionism in the present climate. Could I ask you one supplementary on a very immediate date. Do you think the G20 Summit on 15 November will be helpful? Will it be able to put wind in the sails of what you have been talking about of the Doha Round? Will it be a very important point to be raised there?

Lord Mandelson: It needs to be incorporated into that meeting on November 15. The G20 needs to give a very strong signal to negotiators that they want to see modalities in place by the end of this year before President Bush's term expires on 20 January. It really is a major opportunity for world leaders to commit to intensifying efforts to achieving the Doha Round's modalities this year, which is why the British Prime Minister is unceasing in his efforts and phone calls and pressure on other world leaders to make that commitment to intensify our negotiating efforts. Britain, the British Government, the British Prime Minister have been second to none in the commitment they have shown and the pressure they have exerted and I am sure that that will be maintained.

Q602 Lord Trimble: Lord Mandelson, in your last answer the word "protectionism" came in and we have heard a fair bit of protectionist rhetoric over recent months, partly in the US election but also actually in some European quarters as well where there seems to be a trend toward protectionism. Do you see more protectionist actions coming? Does your desire to see modalities agreed before end of the Bush Administration indicate a concern about the new Administration being more protectionist? Has the Government observed the introduction of any protectionist measures in UK trading partners in response to the present economic situation?

Lord Mandelson: There has been no real evidence yet of increased protectionism from the UK's key trading partners. Most of these are of course OECD countries for whom WTO rules prevent them raising tariffs because they apply their tariffs at the same level as they have bound them in the WTO, so there is no headroom, as it were, for them to put up their applied tariffs before they reach their bound levels. That of course is not the same for the emerging economies, the faster expanding, faster growing and developing countries where the real risks of an increase in protectionism come. However, with one or two exceptions, we have so far not seen a drive or any headlong rush towards greater protectionism amongst the emerging economies. It is very important obviously for us economically but also very important for the strength of the global trading system and its trade rules that we do not see that rush to protectionism growing. In this context, the United States is a very important market leader. President Bush has maintained a strong personal commitment to free trade and to open markets, a commitment which for a variety of reasons, some of which are more understandable than others, has not been entirely matched in the Congress of the United States. Inevitably, people will be looking to see how the new US President acts in these issues, which is something I am addressing at a speech I am making

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this evening. If I can just encapsulate what I am going to say this evening, it is that there are different policy emphases within the Democratic Party around attitudes to trade and globalisation. Mr Obama has a pro-market approach, including government action to shape markets and to distribute their fruits more fairly. That is something he has strongly in common with the British Government. Inevitably, however, he and others in the Democratic Party are concerned about the impact of globalisation on American workers and American industry. This could lead to Democrats becoming more sceptical about the virtues of free trade and market opening. I have no doubt that this will create a lively debate in the Democratic Party in the months to come, but I know where global European and UK interests lie; they are in an open, free-trade, non-protectionist stance being maintained by the US Administration and Congress, and we will be engaging with our counterparts, colleagues and, in many cases, our friends to encourage an open market, non-protectionist policy being adopted.

Q603 Lord Trimble: Nonetheless, do you think it is realistic to think that modalities could be agreed before the Obama Presidency begins?

Lord Mandelson: It is possible but it would require real political will and real determination on the part of the US Administration and a willingness to use the remaining political capital of that Administration and invest it in that specific objective of agreeing modalities in the Doha Round by 20 January. It is possible but not certain.

Q604 Lord Haskins: It is clearly possible that failure is around the corner. One of the issues that may concentrate people's minds is if you were able to spell out the consequences of failure in terms of what it will do to the WTO as an institution. Will it keep in being or will people go down the bilateral route? All of those sides of the debate seem to me to be very relevant in concentrating people's minds. The history of great recessions is that people go towards a protectionist answer. What are the consequences for the world if failure does arise in this Round?

Lord Mandelson: The biggest consequence would be the opportunity cost of failure, and that opportunity cost would be the loss of a reasonably ambitious deal which I would estimate to be worth something in the region of €120 billion annually to the global economy, which would amount to something in the region of €30 billion in the EU alone. That is a very substantial opportunity cost to lose per annum. If you look at the longer-term consequences throughout the implementation of the Doha Round but actually in the decades following it of an agreement on new trade facilitation rules, the benefits of the Doha Round, and therefore the opportunity

cost of failure, I think could amount to nearer £300 billion. By trade facilitation I mean the reduced bureaucratic procedures, lengths of time and costs it takes to trade goods in and out of a country. It is as basic as that. It is not simply a matter of rules; capacity and capability are also very important for developing countries and emerging economies, and that is why I have always believed very strongly that a very substantial aid-for-trade package to enable developing countries to draw on a substantial fund to increase their capacity to trade is as important as reducing the costs and bureaucratic impediments of the trade itself. You are seeing as a direct but also as a longer-term cumulative effect of a successful Doha Round a bounty for the global economy which is very great and therefore there is a very substantial opportunity cost of failure too. I would remind you also that if the Round were to fail the chances of our coming back easily or quickly to the chance of reforming agricultural trade and dealing as we could do with the sizeable impact of trade-distorting agricultural subsidies operating both in the European Union and the United States and certain other countries as well, it would have over time, in my view, a devastating impact, and certainly it would be a major missed opportunity for developing countries for whom agricultural trade is an important part of their economies. Agricultural trade does not represent the bulk of trade for developed or developing countries but it represents a disproportionately large, in relative terms, amount of trade for many developing countries. That is why it is so important. It is the last remaining, most distortive, least reformed part of the international trading system and if the Doha Round failed to put that essential restructuring and radical reform in place, as I say, I do not see the possibility of our being able to return to a possible agreement at any early date.

Q605 Lord Haskins: Would the WTO survive failure?

Lord Mandelson: The WTO would survive failure and I would like to think this its all-important dispute-settlement mechanism would remain intact and functioning. That is absolutely essential if we are going to see international trade continue to be governed by rules, by arbitration and by penalties for those who break the rules. This is the most meaningful, sophisticated piece of architecture that we have globally. There is no form of global governance in any other sphere, including frankly many aspects of the United Nations organisation itself, that has the same bite and effectiveness as the WTO has in the operation of its dispute-settlement mechanism. If the Round were to fail I think it would weaken the attachment of many developing countries and emerging economies to the WTO because they would see this as a major opportunity for them but

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one that has been blown, and therefore their confidence in the WTO and its system of negotiations inevitably will be weakened. Many countries' attachment to the WTO, and its machinery too, could be weakened and that would have a tremendously weakening impact on the international trading system from which we in Europe and Britain would be long-term losers, which is why not only for others' sake but for our own we need to continue to work very hard for success in the Round's negotiation.

Q606 Chairman: Thank you, Lord Mandelson. I am anxiously, watching the annunciator because I fear we may be about to have a division in the Lords. Should that happen I am afraid we all have to go and vote.

Lord Mandelson: Me too, I think. I keep reminding myself.

Q607 Chairman: Exactly so. It did seem to me that would be the case. If I could just say to the audience, if that is what happens the meeting will be suspended, but we will come back, please. I have remaining a list of quite important questions on development which I would like to get through.

Lord Mandelson: I will try and be shorter.

Q608 Lord Renton of Mount Harry: Lord Mandelson, could we just have a quick word about the Rules of Origin?

Lord Mandelson: Yes.

Q609 Lord Renton of Mount Harry: You know better than anyone that some of the developing countries were anxious to ease the Rules of Origin and some developed countries protested saying that often it only meant developing countries tying a label on a cotton shirt that had been made elsewhere. What is your view about that? Do you think that the Rules of Origin should be simplified? What sort of position has UK industry taken on this subject too?

Lord Mandelson: The UK position is that revision of Rules of Origin needs to deliver increased simplicity, more development-friendly rules and improved transparency in trade facilitation. Just to clarify, Rules of Origin govern what inputs to goods created in one country qualify it to a greater or less extent for the preferential access to developed country markets. So, the looser the rules, the easier the rules, the more simple the Rules of Origin governing the origin of goods, the easier it is for developing countries to get their goods into others' markets, if I can encapsulate it in that way. I was strongly in favour as a Commissioner, as the British Government was and remains, of their simplification, with one caveat, and that is we must be aware there are some big exporting countries, and China, for example, comes to mind,

prepared to take advantage of looser rules by, as it were, getting their goods into third country developing markets which then take advantage of the preference we give to those developing countries rather than to China. In a sense, such goods hop from their own origin into other countries and economies that enjoy very superior preferential access to developed country markets and in that way they are the ones taking advantage of the access rather than the transformed goods and manufactured goods in those intermediate countries themselves.

Q610 Chairman: I am afraid we have to suspend the meeting. Lord Mandelson, I do not know about your availability but we are kind of on the bridge of time.

Lord Mandelson: I have quite a problem in that I have to meet the French Employment Minister at two o'clock about a matter of vital national interest to our country.

Q611 Chairman: Lord Mandelson, when this bell stops I think we might continue for a another five minutes. We need to go for the division, but if you can come back for five minutes that would be great.

Lord Mandelson: Okay. Very simply on Rules of Origin, I am in favour of their revision, the British Government is in favour of their revision, other Member States are not quite so enthusiastic about their revision and some within the European Commission arguably have yet to be fully persuaded of the virtues of their revision.

Chairman: Thank you, Lord Mandelson. It is difficult to hear the nuance against the division bell!

The Committee suspended from 1.16pm to 1.22pm for a division in the House.

Chairman: Now that we are all back, thank you very much for hurrying, we have two important questions on aid for trade. Lord Trimble.

Q612 Lord Trimble: I was going to ask with regard to aid for trade how much the UK has pledged since the Hong Kong Ministerial and whether those sums are new undertakings or just diverting funds from other development aid pledges. On the question of development I have a little supplementary as well thinking about European structures. Is it really a good idea to have development spread across two to three different Directorates, which appears to be the position?

Lord Mandelson: We have publicly committed to spend at least £409 million per year as aid for trade by 2010. We are well on track to achieve this. We have also made a pledge to spend £100 million per year within this commitment for specific trade related activities like trade policy reform, support for trade agreement negotiations and implementation. The

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reason I stress that is because it is not just a question of physical capability to put in place what you need to facilitate your trade, but when you are negotiating a trade agreement, if you are a developing country or an emerging economy, you also need help to increase your capacity within those negotiations. Now, our target forms part of a larger joint EU target of €2 billion per year by 2010 and a G8 target of \$4 billion per year—I am sorry about these different denominations. We are cautiously optimistic that we will be able to deliver on both the EU and the G8 commitments, but, whatever happens, we in the UK will not fall short in sustaining the availability of this new money. What was the last point?

Q613 Lord Trimble: The last question was looking at development within the terms of the European Commission. The Doha Round is supposed to be a development round, so development should be a significant part of that, but we were getting the impression there were problems within the European Commission because of the way that development seems to be spread amongst two or three different DGs.

Lord Mandelson: No. It is fairly well concentrated in the hands of the Development Commissioner, Louis Michel, with whom I had an especial alliance because, although I was the lead, he supported me in negotiating the Economic Partnership Agreements with the African, Caribbean and Pacific countries. He has a strong commitment to aid for trade, but he would be the first to say that there is quite a diversity of different calls on development funds within the EU and he was the one who was juggling those competing demands; I was always the one who was pressing on just one, notably that for aid for trade. He made his commitment and it was a strong one. The other thing I would like to emphasise in this context is that there are big new EU programmes to support regional integration and that was a very strong feature of the Economic Partnership Agreements that I was negotiating in my previous role. This is important because for private sector business, entrepreneurship and employment to grow in developing countries one of the principal sources of that is bigger markets, locally and regionally, which businesses can sell into and which are also more attractive for inward investment. If you are a relatively smaller market with a smaller customer base, a smaller economy, when you are considering different locations in which you might want to invest you are going to go for bigger markets and economies which are joined and have fewer barriers between them. That is why, in my view, regional integration is an absolutely key part of development strategy and why I emphasised it so much during these negotiations.

Chairman: I think we have just got time to give Lord Woolmer a go at the sweep-up question.

Q614 Lord Woolmer of Leeds: Secretary of State, you mentioned the problem of the United States as part of getting the deal done and you said that the issue of the Special Safeguard Mechanism is integrally linked with the problems of agriculture, but on the other side of the argument, was India and others. India, of course, has its own general election next year and that must pose problems for the Indian Government in the coming months. You gave the impression to me at least that you put a lot of hope on whether the Americans could come to an agreement before President Bush stands down, but has India not got its own problems? Is it realistic to expect that of an Indian Government running up to an election, facing its own slowdown in industrial growth and concerns about rural poverty in India that are even bigger than the United States?

Lord Mandelson: I am reluctant to single out any particular country in a way that might suggest that country has greater political problems or is potentially a greater obstacle to agreement than others. It is true that India is facing a general election in the spring of next year, and it is true that the chief negotiator, the Minister for Commerce in India, in the meantime has been facing state elections in Madhya Pradesh, which inevitably he has had to give some attention to. I think it would be wrong to suggest that either the state elections or the general elections are preventing, or would prevent, India from subscribing to an agreement. Prime Minister Singh during many discussions with our own Prime Minister, as well as with President Bush and Pascal Lamy, has reaffirmed his government's commitment to successfully negotiating the Doha Round, but they want to be assured that their agricultural sector, large, relatively non-commercial, vulnerable as they would see it to freer access by very competitive agricultural exporters, is properly protected and that they can go back to their vast agricultural population and say the outcome of these negotiations is a good win for those engaged in agricultural production in developing countries rather than a huge threat. That is why the Special Safeguard Mechanism became so important and why other related issues will continue to be hard-fought for, not just by India but by others. As long as the outcome is an acceptable one in agricultural terms, especially when India has so much to gain from an increase in trade in services, I do not think that the Indian Government would have any particular reason to block a successful outcome at this stage.

Q615 Chairman: Lord Mandelson, thank you very much. I know that we are in danger of keeping you

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back from your meeting. Thank you very much for taking the time and trouble to come and see us at an early stage in a difficult job.

Lord Mandelson: It has been a pleasure.

Chairman: I am sure we all echo your hope that the Doha Round will get underway again. Thank you.

Written Evidence

Memorandum by British Ceramic Confederation

1. I am responding to the questions put, where relevant, in the Committee's call for evidence.
2. A continuation of multilateral trade negotiations is vital. The question can be answered merely by looking at the broadening of the scope of the various rounds. Financial and other services have been included. More importantly issues like intellectual property have been addressed. Overall the cumulative outcome of various trade rounds and the WTO set the trading standards across the world. In their absence it would be impossible to deal with protectionism, peak tariffs and various forms of trade barriers. There is an inherent risk that bilateral agreements undermine multilateral agreements or the ability to conclude them. These risks must be addressed.
3. Inevitably there has to be a link between European trade policies and parallel policies on development, climate change and depletion of natural resources. Arguably Europe must act on issues like climate change and sustainability, but in doing so it imposes a substantial burden on its own companies and operators. Unless that is recognised Europe will be at a disadvantage, less competitive and subject to serious leakage as particular products or goods are "exported" to countries or economies that do not bear the same burden. Current discussions for Phase 3 of the Emissions Trading Scheme graphically illustrate the point.
4. Trade Defence Instruments must continue. A log of anti-dumping or similar measures would prove the point. In each and every case the application is based on a perception that the applicant is disadvantaged by unfair trade. Equally a log of the decisions would prove that the perception is true in a large number of cases. In addition the imposition dumping margins of up to 60% or 70% fairly frequently, demonstrates quite clearly the scale of the unfair competition and the potential damage to the applicant. In many cases the defendants attitude to Trade Defence measures is cynical and devious. There is a record of cases where a case has been defended, a substantial margin has been imposed, but the price including the margin has returned to the previous level within six months. It is equally clear in similar cases that deliberate circumvention frequently occurs after the imposition of a dumping margin. The solution is not to restrict or abolish Trade Defence Instruments. It is the reverse. Trade Defence Instruments need to be more resolute and have the ability to deal with the subsequent price adjustments or circumvention. There is an important point of principle which must be recognised. The current review of Trade Defence Instruments suggests that the potential benefit to the Community should be taken into account in determining the outcome of anti-dumping actions etc. It is almost dishonest to suggest that the benefit to those who profit from unfair trade has to be balanced with those who suffer the damage from direct competition which is unfair. Intellectually the argument that profiteering can balance proven unfairness cannot be sustained. Many of the difficulties encountered with Trade Defence Instruments currently result from an undue reliance on anti-dumping margins etc. Historically quotas and similar measures were more effective and almost impossible to circumvent.
5. Various agreements have radically improved the protection of intellectual property rights. That process has to continue. Similar to the above it would be inappropriate to balance development goals with the loss or infringement of intellectual property rights. The real judgement is the proper definition of the intellectual property rights and the period of protection given. Thereafter they must be upheld.
6. There has to be a role for WTO in the 21st century. There is no other mechanism that brings all the trading partners and blocks together. At the same time peak tariffs remain, non-tariff barriers continue to exist and infringements continue to occur. The solution must be to reinforce the WTO and ensure the various procedures and processes are more effective. The alternative would be to accept that barriers and protection can continue to occur and to be seduced by the argument that unfair trade is acceptable if enough people profit from it.

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Memorandum by Confederation of British Industry (CBI)

1. The Confederation of British Industry (CBI) is the premier voice of UK business, speaking for around 240,000 companies and 150 trade associations. Our membership stretches across the UK, with businesses from all sectors and of all sizes. Through their worldwide trading activities, UK businesses contribute 25% of UK GDP.

OVERVIEW

2. CBI has a long-held commitment to the principle of free and fair open markets, where companies can compete in a global economy without barriers to trade and other trade distortions. The EU can only maintain and increase its competitiveness through adherence to these principles and an open and progressive trade policy, as set out in the Commission's Communication, "Global Europe" (2006).
3. The World Trade Organisation (WTO), and the rules-based multilateral trading system over which it presides, are essential in providing business with the market access and certainty it requires. Along with other WTO members, the EU should make every effort to conclude the Doha Development Agenda (DDA) this year. The gains to the global economy would be substantial as a result of increased market access for goods and services, and reductions in subsidies.
4. The WTO is based on the legal principles of national treatment, non-discrimination, and the treatment of other countries as a most-favoured nation. These principles should not be violated in pursuit of non-trade policy goals, as the use of trade barriers to these ends can lead to unintended consequences and to a damaging downward spiral of protectionism.
5. Trade and development policy are complementary. Increased trade plays a large part in helping developing countries to achieve the type of sustained economic growth that results in substantial poverty alleviation. Development policies should, therefore, be aimed at making it easier to trade with, and invest in, developing countries.

MULTILATERAL TRADE NEGOTIATIONS

6. CBI has called for a balanced and ambitious conclusion to the DDA since its outset. The round promises to deliver gains for all WTO members that are only achievable through multilateral negotiations. We recognise the importance of agriculture to the round and have constantly called for negotiators to address the issues of reforming domestic subsidies, market access and export competition.
7. British business looks to the EU and other WTO members to achieve the greatest possible level of ambition in the DDA, in order to reduce applied tariffs in industrial goods and to create new market access in services that benefit developed and developing countries alike. While binding applied levels of market access would increase certainty, it is reductions in applied tariffs and restrictions in services that will create new market access for British business, and ultimately efficiency gains for the global economy.
8. In order to maximise gains to the global economy, and for the round to be a true development round, major emerging economies such as India, China and Brazil must be willing to reduce their industrial tariffs and to liberalise services. More open markets for industrial goods would reflect their level of development and facilitate the south-south trade which is vital in stimulating development, while services play an important role in accelerating growth.
9. We were encouraged by the release in February 2008 of revised agricultural and non-agricultural (NAMA) texts, and the release of a Chairman's Report documenting progress and positions in the services negotiations in the DDA. Progress in the negotiations is to be welcomed, though we need to see rapid and substantive momentum in the services element of the round in order for this area to catch up with the other two. Major gains from the round as it stands after the revised texts include:
 - a maximum industrial tariff of 8–9% in the developed world, creating significant market access.
 - a major reduction in bound tariffs in the developing world, eliminating tariff peaks, safeguarding against future protectionism, and providing valuable market access for south-south trade.
 - the creation of a horizontal mediation mechanism to address non-tariff barriers (NTBs), which as tariffs come down, increasingly represent the major obstacle to trade—especially in markets such as China where it is estimated that NTBs result in EU companies losing €21 billion in business.¹
 - a trade facilitation agreement speeding up the time that goods take to cross borders—where 7–10% is currently added to the cost of trading.
 - duty free, quota free, market access for Least Developed Countries from 2010.
 - elimination of agricultural export subsidies by 2013.
 - a significant reduction of 66–85% in domestic agricultural subsidies in the developed world.
 - minimum 54% reduction in average agricultural tariffs in the developed world.
 - an end to the practise of tariff escalation from raw to processed agricultural goods.

¹ According to European Commission Study, Study into the Future Opportunities and Challenges in EU-China Trade and Investment Relations 2006–10, released 15 February 2007, (http://ec.europa.eu/trade/issues/bilateral/countries/china/legis/index_en.htm)

10. In the negotiations for market access in industrial goods (NAMA), where the least developed countries and a number of other countries will not be required to make any commitments, major emerging countries should offer to lower tariffs in a way that cuts into applied, and not just bound tariffs. An anti-concentration clause should be included in the final deal so that emerging economies cannot use the flexibilities, which are provided to protect their vulnerable industries only, to unreasonably shelter entire tariff chapters from the tariff cuts stipulated by the core formula. Members should also commit to sectoral agreements, which will complement the core tariff cutting formula by seeking zero for zero tariff elimination within sectors.

11. Progress has been far slower in the services negotiations than in either the NAMA or agricultural negotiations; this reality was reflected by the release of only a guiding Chairman's Report. Multilateral negotiations must ensure that services play a central role in order to fulfil the potential benefits to the global economy.

12. We believe strongly that the DDA must move toward agreement on the core modalities during March and April, with a view to a ministerial meeting being held in late-March or April. Agreement on modalities at a ministerial meeting would allow technical work to be completed in time for the round's conclusion by this date. The round must be concluded by the end of 2008 otherwise a number of political developments, such as the change of US Administration, Indian elections, and the change of European Commission, will effectively mean that it will be never completed as envisaged. CBI will continue to do all that it can to ensure that this worst case scenario is avoided.

BILATERAL TRADE AGREEMENTS

13. UK business remains firmly committed to the multilateral system of free and fair global trade governed by the World Trade Organisation (WTO). This system provides the most effective means of pursuing progressive global trade liberalisation as it covers over 150 economies and benefits from a robust dispute settlement mechanism. By providing clear, effective and harmonised rules, the multilateral system ensures that international trade is conducted efficiently across all WTO members. Moreover, many trade issues, such as subsidies, rules and standardisation, can only be dealt with effectively at a multilateral level. Importantly, WTO negotiations are inclusive of all, including developing, small and vulnerable, least developed, and developed countries.

14. While the multilateral route will always provide the optimal route for trade liberalisation, FTAs can bring important benefits for companies if they are framed in the right way. Firstly, they can provide new market access opportunities for businesses by reducing or eliminating tariff and non-tariff barriers, as well as restrictions on service providers. Even after any successful completion of the Doha round, severe obstacles will remain for traders, particularly in the emerging economies.

15. Secondly, specific levels of ambition in bilateral agreements can be higher than at the multilateral level. For example, a complication in the Doha round has been the fear of China's export competitiveness, which has limited the emerging economies level of ambition in industrial market access. This may be overcome in the bilateral context. Moreover, once arguments are won for liberalisation in the bilateral context, governments and electorates are more likely to understand the benefits of trade liberalisation in the multilateral context.

16. Thirdly, FTAs can include a range of trade issues that are not currently being negotiated in the DDA. The most significant of these include improved market access in government procurement, intellectual property rights (beyond TRIPS), certain non-tariff barriers and regulatory convergence. Moreover, some issues covered in a bilateral negotiation could improve the trading environment for all trading partners, in areas such as transparency in government procurement, and trade facilitation.

17. While there can be benefits from successfully concluding FTAs, they can, if undertaken for the wrong reasons or in the wrong way, have negative consequences. Firstly, a proliferation of overlapping regional and bilateral trade regimes could undermine the WTO multilateral system by shifting negotiating resources from the multilateral to bilateral spheres.

18. Secondly, one of the most serious problems is the potential for a proliferation of duplicative rules of origin schemes, which can significantly slow customs procedures, add costs, and cause confusion for businesses. The compliance costs with the rules of origin in NAFTA, for example, have been estimated to equate to an additional tariff of 4.3%.²

² Razeen Sally, "FTAs and the Prospects for Regional Integration in Asia", January 2006.

19. Thirdly, free trade agreements can cause substantial trade diversion rather than promoting trade creation. The preferential market access granted by a FTA often simply allows previously uncompetitive exports from one country within the FTA to supply at the same price as exports from a more efficient producer from a country outside of the FTA.

20. Fourthly, FTAs often lack a concrete dispute settlement mechanism. Where such mechanisms do exist, they are often less effective than WTO procedures and can arrive at different judgements to WTO dispute settlement mechanism on the same issue, as happened for example in the US-Canada softwood lumber disputes.

21. Finally, FTAs can be undertaken for a variety of reasons often wholly unrelated to trade. They can be motivated by a desire to improve political relations with third countries or to boost regional security. Weak FTAs that do not focus on economic priorities can cause all the disadvantages with none of the compensating advantages, and can often be complicated by non-trade provisions, such as those related to labour or environmental standards.

22. We believe that all FTAs must fully comply with the letter and the spirit of all relevant WTO rules. Agreements must seek to liberalise all trade and the aim should be the complete elimination of tariffs and very substantial reductions in non-tariff barriers. At the very least, FTAs should liberalise substantially all trade as required by GATT Article XXIV, meaning no less than 90% by range of tariff headings and volume of trade, both in agricultural and industrial goods. An equivalent level of ambition should be upheld in trade in services, as required by GATS Article V.

23. In addition, all FTAs must aim to include issues that are not currently part of the WTO mandate. These include access to government procurement markets and enforcement mechanisms for the protection of intellectual property rights. On investment, the CBI can support a mandate being given to the EU Commission by member states to improve market access for EU investors (pre-establishment). However, there should be no inclusion of investment protection rules (post-establishment).³

24. We also believe that all FTA provisions should be harmonised with relevant WTO rules as closely as possible. The risk of undermining the multilateral system is substantially reduced where FTA rules match their equivalents in the WTO as closely as possible. This also reduces transaction costs for businesses trading under FTA rules. In particular, rules of origin should be as simple and as closely aligned to WTO rules as possible. Internationally accepted standards, such as the International Accounting Standards, should form the basis of standards in FTAs.

25. The ultimate aim of all FTAs should be the eventual multilateralisation of the liberalisation achieved bilaterally. Bilateral trade agreements must be firmly based on the need to enhance the competitiveness of European companies in the world economy. The long-term aim of these agreements should be to translate the liberalisation achieved in FTAs to the global level, since the benefits of liberalisation are most effective when applied multilaterally. The WTO Transparency mechanism for preferential trade agreements should be made permanent and be granted the necessary strength and status to ensure coherence and complementarity between multilateral and bilateral agreements.

THE ROLE OF EUROPEAN TRADE POLICY IN STIMULATING GROWTH AND CREATING JOBS IN THE EUROPE

26. CBI welcomed the Global Europe Communication released in October 2006 by Commissioner Mandelson, which set out a progressive trade policy seeking to enhance European competitiveness through embracing globalisation, within the spirit of the Lisbon Agenda. This Communication should provide the guiding principles for EU trade policy decisions.

27. It argued that globalised supply chains, and ever increasing global trade and investment flows mean that the distinction between domestic and internal policy is becoming less relevant. The Communication rightly noted that in order for the EU to be able to capitalise on the intellectual property that exists within our knowledge based economy, support for an open trade and investment environment must be at the core of European trade policy. This means the pursuit of market opening at every available level, and steps to ensure the fair treatment of European business globally.

28. Sadly, some protectionist forces within Europe are trying to roll back EU trade policy from those stated aims. For example, CBI was disappointed by the blockage of Commissioner Mandelson's much needed proposals to modernise and clarify the EU's trade defence architecture, and we are very wary of environmental

³ Investment protection is, of course, a critical issue for UK business. However, the UK has a wide range of satisfactory bilateral investment treaties (BITs) that cover post-establishment issues. Including such post-establishment provisions in FTAs inevitably risks lowering these standards and complicating the relative legal standing of BITs versus FTAs.

tax adjustments at the border and other measures targeted towards market closure. CBI would like to see EU trade policy fully embrace to the strategy and principles outlined in the Global Europe Communication.

29. There is a clear danger posed to European competitiveness by politically expedient rhetoric and policies which exploit popular suspicions of globalisation, but threaten to harm Europe's competitiveness. Trade policy is based on adherence to principles, and even threats to violate those principles can lead to a dangerous downward spiral of protectionism.

30. In order to serve the needs of European business and competitiveness the multiplicity of non-tariff and behind the border barriers and challenges to trade in goods and services must be tackled. While the WTO DDA should remain the priority, FTAs, which can address deeper, regulatory and non-tariff issues, such as government procurement and IPR enforcement, are also another vital element. Various other means of removal of barriers to trade, such as forums like the Transatlantic Economic Council, the EU Market Access Strategy, the EU trade barriers regulation, and regulatory and intellectual property rights (IPR) dialogues, can also play a role.

THE RELATIONSHIP BETWEEN EUROPEAN TRADE POLICY AND OTHER POLICY AREAS

Development

31. A European trade policy that enhances European competitiveness, through eliminating barriers and creating market access, and one that supports international development objectives, are very much complementary. Unlike aid, trade can provide a self-sustaining and continuously growing source of economic prosperity. CBI supports initiatives such as that granting duty-free quota-free market access for least developed countries within the DDA, and the Economic Partnership Agreements that ensure that Africa Caribbean and Pacific (ACP) countries maintain market access to the EU.

32. CBI believes that broad liberalisation of the trading environment will lead to substantial gains for developing countries. Liberalisation in global trade in merchandise alone stands to boost developing country incomes by an estimated 0.8% by 2015. This increase in welfare gains would be relatively higher than for developed countries, whose incomes would increase by 0.6%, and would be considerably higher if they were to include services.⁴ Welfare gains for developing countries from liberalisation in industrial and agricultural trade between developing countries alone has been estimated at over \$65 billion.⁵ This requires significant reforms not just of tariffs, but also of internal policies in developing countries, in areas such as trade facilitation and non-tariff barriers.

33. Trade liberalisation can be a win-win for all, as the then DTI's 2004 White Paper on Trade and Investment noted: "The evidence shows that those countries which have achieved the biggest reductions in poverty in recent years have been those which have been open to international trade". Reducing tariffs on imported goods lowers the costs of industrial inputs for developing country manufacturers, and consumers. Moreover, increased availability of cheaper inputs, technologies, and exposure to global markets and disciplines will make developing country businesses more competitive.

34. In terms of EU trade policy, the priority for aligning trade and development policy must be support of, and progress within, the WTO, in the DDA and beyond. The WTO provides commercial security to companies operating internationally by guaranteeing maximum bound levels of import tariffs that countries may apply according to its rules. A successful conclusion to the DDA would consequently provide the certainty traders require to establish trade and investment links in the developing world. This is especially true for south-south trade, as developing countries currently pay 70% of their tariffs to other developing world countries.

35. Economic Partnership Agreements, many of which are in the process of being concluded, will assist developing countries, to both continue to access the EU market and to pursue regional integration that will facilitate intra-regional south-south trade. These agreements should be comprehensive, and include services chapters, given that high quality services often lay the foundation for sustained economic growth.

36. CBI welcomes the re-focus on growth within DFID's development strategy, and also the commitment from the UK to spend £100 million annually on aid for trade by 2010. We also support the commitment from the EU to deliver €2 billion annually in aid for trade by 2010. CBI believes these resources should be focussed

⁴ Thomas Hertel and L Alan Winters *Poverty & the WTO: Impacts of the Doha Development Agenda* (Washington DC: World Bank, 2006). Note that the welfare increases mentioned are static gains and do not take account of dynamic gains resulting from altered investment patterns and boosts to productivity.

⁵ Thomas Hertel and L Alan Winters *Poverty & the WTO: Impacts of the Doha Development Agenda* (Washington DC: World Bank, 2006).

on improving and speeding up customs procedures, empowering private sector voices in the developing world, and aiding developing countries to develop the sound, and transparent trade and regulatory policies which are vital to enabling growth.

Environment

37. It is within an efficient and growing global economy, where intellectual property rights are upheld and free trade pursued, that the threat of climate change can best be countered. CBI supports the EU Emissions Trading Scheme and the UNFCCC framework for combating climate change. However, efforts to combat climate change must not violate our international trade commitments or principles, as doing so could lead to a downward spiral of protectionist measures with negative economic consequences which will eventually harm the fight against climate change.

38. CBI is concerned by calls from some at the European level to include imports within the European Emissions Trading System through a regime making importers purchase carbon credits. We have doubts concerning the legality of such proposals, as the rules-based multilateral trading system is rooted in principles such as non-discrimination, most favoured nation, and national treatment. These principles clash with the UNFCCC framework which is based on the principle of “shared but differentiated” responsibility.

39. Such a legal clash would place any system where imports are included in the ETS either in contravention of WTO rules or the rules of the UNFCCC framework. This would have potentially damaging implications for our trade policy commitments and our commitments and negotiations within the UNFCCC framework. Under the UNFCCC principles, developing countries are allowed proportionately a greater level of carbon emissions than developed economies. However, differentiating between WTO Members in this manner would be in violation of WTO rules which insist that all members be treated as most favoured nation and therefore treated identically.

40. In order to assist in combating climate change, barriers should be removed to trade in environmental goods and services. CBI supports the environmental element of the DDA NAMA negotiations, and would like to see progress in the DDA toward dropping barriers to environmental services and agricultural products such as biofuels.

Raw materials

41. CBI believes that in order to sustain the EU’s competitiveness, barriers to trade in raw materials should be removed. The EU imports as much as 80% of its raw materials, and access to raw materials relies on an open and level playing field.

42. Government-invoked trade distortions are creating difficulties for European industries’ access to raw materials on the world market. An increasing number of countries restrict the export of raw materials by means of export taxes or other measures, operate dual-pricing schemes on the export of their natural resources or subsidize the import or local purchase of raw materials. These practices provide other countries’ industries with a decisive supply advantage over their international competitors.

43. The EU should work to establish a level playing-field among countries and regions regarding access to raw materials. This will require a new approach to trade policy because the instruments or policies that create distortions are not traditional trade barriers and are difficult to address under current WTO rules whose trade disciplines and instruments were not conceived to prevent or tackle these kinds of distortions directly.

44. To address this challenge, EU trade policy should:

- seek the effective elimination of the causes of distortions by engaging firmly in bilateral consultations and negotiations whenever necessary.
- actively promote the development of new WTO rules and bilateral disciplines addressing export restrictions/taxes, import subsidies, dual pricing and other practices that result in discriminatory access to raw materials; and
- build support for recent EU proposals to classify export taxes and restrictions as non tariff barriers and dual pricing as an illegal subsidy in the WTO and the OECD.

45. The DDA and the EU’s network of bilateral agreements should be used to secure meaningful progress in this important area. We believe the Council of Ministers should systematically include the abolition of the above mentioned trade distorting measures in future negotiating mandates given to the European Commission.

DEVELOPING COUNTRIES AND MULTILATERAL TRADE AGREEMENTS

46. Much of the progress within the DDA, which was captured within the texts issued on the 8 February 2008 (outlined above), has been directed toward reshaping the global trade system in order to allow developing countries greater opportunities to prosper from it. The most significant elements include the elimination of agricultural export subsidies by 2013, significant reductions in agricultural tariffs and domestic subsidies, and improved market access in both the developed and developing world, not least through a commitment to grant LDCs duty-free and quota-free market access to developed world markets. Accompanying these benefits will be an aid for trade package, enabling developing countries to participate more effectively within the multilateral trading system.

47. The role of services in development cannot be underestimated. Developing countries benefit greatly from both the movement of people in order to provide services in foreign countries, known within the WTO as Mode 4, and the provision by foreign services providers of telecoms, banking and insurance that are essential for sustainable economic growth. Therefore, in order for multilateral negotiations to truly serve the needs of developing countries there must be further progress in the services pillar of the DDA and advancement of the GATS beyond the DDAs conclusion.

48. Developing countries, especially landlocked countries, are those who suffer most from the time and cost involved in transporting goods across borders. A trade facilitation agreement within the DDA and a commitment to reduce transit times through borders, could have major benefits for developing countries.

49. UK and EU participation in the aid for trade integrated framework⁶ for LDCs and in delivering aid for trade more generally will be key in ensuring that the appropriate hard infrastructure, and soft systems and skills are in place to execute an effective trade policy that eliminates behind the border impediments to trade.

50. A major gain from completion of the DDA will be to guarantee and strengthen the rules-based multilateral system and importantly the dispute settlement understanding (DSU) of the WTO. The DSU provides recourse for all members encountering a trade dispute. It has solved many disputes either between or involving developing countries.

TRADE DEFENCE INSTRUMENTS

51. CBI believes that strong, respected, transparent and predictable trade defence instruments (TDIs), such as anti-dumping measures, play a legitimate and necessary role in sustaining the free and fair markets upon which European competitiveness depends. However, CBI is also concerned that on occasion TDIs have been misused, both in the EU and globally, as tools of protectionism. CBI is, therefore, disappointed by the decision taken by the European Commission to postpone passage of Commissioner Mandelson's planned reform of the EU's trade defence instruments.

52. The EU's trade defence instruments need to reflect modern business realities. Many companies have chosen to relocate some production activities to third countries while retaining much of the value added, research, development, design, and marketing functions within the EU. This means that there is a need to differentiate between the concepts of EU production and EU manufacturing. For example, for shoes manufactured in China, the amount of value added in the EU can range from above 50% for a low priced shoe, to above 80% for some high priced shoes.

53. In order to reflect these new realities, the community interest test, used within anti-dumping investigations should give greater consideration to those relying on global supply chains, such as consumers, retailers, downstream industries, and businesses that have some production facilities abroad. Moreover there should also be reforms to reduce the amount of time taken to conduct a trade defence investigation, and to increase transparency through allowing greater access to information.

54. These reforms will improve on the current situation where trade defence instruments are open to abuse for protectionist reasons, parameters within some cases are seemingly fluid and procedures are often opaque. There is a pressing need to add certainty and balance to the process through the pursuit of reform.

⁶ The multi-agency initiative comprised of UNCTAD, UNDP, WTO, IMF, World Bank, and the ITC.

INTELLECTUAL PROPERTY RIGHTS

55. The protection of intellectual property rights has become more important as the UK and EU economy has become more knowledge based. In addition, the achievement of many policy goals both domestic and global, depend on comprehensive enforcement of IPRs. IPR abuse is widespread and affects a broad swath of industries, from sports apparel, to pharmaceutical, to everyday household goods, and therefore needs addressing.

56. The WTO agreement on Trade Related Intellectual Property Rights (TRIPS) is the key agreement setting minimum standards of IPR protection. The EU should also enhance the provisions of the TRIPS agreement by pursuing IPR issues through the various bilateral agreements it concludes with third countries. Allied to these agreements, other fora such as regulatory dialogues allow for the EU to work with third countries to ensure that IPRs are effectively enforced.

57. CBI believes that the enforcement of intellectual property rules is as, if not more, important than their passage into law. In many countries there are serious problems with both the intellectual property legal frameworks and with the enforcement capacity. For example, in China and Turkey, while intellectual property law largely conforms to TRIPS obligations, an enforcement gap leads to widespread abuse of intellectual property, while in India the framework for regulatory data protection especially in relation to pharmaceuticals is inadequate.

58. CBI appreciates that there can be very rare cases where the principles of IPR protection should be adjusted in order to take into account of very specific market conditions. For this reason, we can support the TRIPS waiver that allows for compulsory licensing of medicines within the context of acute public health demands. In other areas, however, such waivers are unnecessary and could prove counterproductive through providing a disincentive to innovate.

SERVICES

59. Services make up 77% of European GDP and employment, but represent only 28% of European external trade. This disparity presents a major opportunity for EU trade policy to make a substantial contribution to European competitiveness and prosperity. Services liberalisation at the multilateral level under the GATS enables broad reaching liberalisation as it locks WTO members into both horizontal commitments, such as most-favoured nation treatment and non-discrimination, as well as specific sectoral commitments across the four WTO modes of services liberalisation. However, the complicated nature of services liberalisation means that progress within the GATS can be slow, and can be complemented by processes at the bilateral level.

60. As stated above, if the DDA is to be truly successful, for developed and developing countries alike, there is a need for rapid movement on the substantive elements of the third pillar of the DDA, services. Such progress, in the form of improved indications of requests and offers is required around the same time as or very rapidly after agreement on the core agriculture and NAMA modalities. A signalling conference as has been proposed by the EU would provide a forum within which this could take place. Such a process will allow the WTO membership to move toward binding current levels of market access and towards creating new market access as part of the final DDA package.

61. Given the importance of services to the European economy, the EU's bilateral agreements must ensure that services liberalisation is at least as ambitious as goods liberalisation, in keeping with GATS Article V, and that its service providers are guaranteed to be treated as a most favoured nation in light of possible future market opening.

62. Achieving market opening for services is considerably more difficult than for goods. Market access for goods is achieved in the most part through reduction in tariffs, which are normally controlled through trade ministries. Services liberalisation requires a more complicated and difficult process involving a range of government departments and regulators. This makes ongoing dialogues and processes both at the European level and the Member State level, important in facilitating the exchange of information, and the regulatory and legislative adjustments necessary to open up services markets.

THE FUTURE ROLE OF THE WTO

63. As the above evidence displays, CBI feels that the WTO must continue to play the central role in global trade policy. Bilateral agreements can sometimes complement trade opening at the multilateral level, but present their own negotiating challenges. They can never result in the same broad and consistent results or the legal certainty that exists at the multilateral level. The WTO may have to consider adjustments to take account of the growth in preferential trade agreements, and in order to learn the lessons of the DDA negotiating

process. These are discussions that can usefully be had after the conclusion of the current negotiations. Effective global trade rules will become ever more important as the process of globalisation continues. The WTO is the institution to provide the framework for and deliver the benefits to the global economy.

February 2008

Letter from Cooperation Internationale pour le Développement et la Solidarité (CIDSE)

It is with regret that we were unable to meet with the Inquiry Team from the Sub-Committee on Economic and Financial Affairs and International Trade whilst they were in Brussels. We welcome this inquiry by the UK House of Lords into the trade policy of the European Union (EU), which we consider an important and timely initiative. Prompted by the questions set in the call for evidence, our Working Group on Trade and Food Security has prepared this written submission which sets out some of our concerns and proposals with regard to existing and possible future EU trade policy.

CIDSE is an international network of Catholic development agencies that has been advocating on trade issues, and in particular on the impact of rules governing trade in agriculture on developing countries, for the past decade. Ever since their establishment, international trade rules have always protected and promoted a global trade system that has constrained development in the South and maintained the economic dominance of the North. Failure to achieve an outcome to the Doha round of World Trade Organisation (WTO) negotiations that would mark a genuine step towards the resolution of this longstanding injustice, as well as the proliferation of numerous bilateral trade agreements through which certain developed countries are using their economic and political weight to pressure developing countries into agreements that run counter to their development needs, prove that we have yet to see the emergence of sufficient political will to ensure that international trade contributes a just international order and to the sustainable development of the South.

The EU is an extremely important player in international trade, representing the largest exporter of goods and the second largest importer of goods in the world. It is the biggest trading partner for several countries such as India and China, and is the main trading partner for most of the African Caribbean and Pacific (ACP) countries—and for virtually all African ACP countries. Through its participation in the WTO, and through its bilateral and regional trade and cooperation agreements, the EU has the potential to significantly influence the thrust and content of North-South trade.

Many econometric studies have successfully and conveniently convinced policy makers that developing countries will automatically benefit from global agricultural liberalisation. This assumption, however, ignores issues with important implications for most of the poor developing countries: in particular, supply-side rigidities or lack of capacity to take advantage of market opportunities, as well as losses caused by the erosion of trade preferences. The EU, the US and other powerful trading blocs must take stock of the failure of the dominant paradigm of liberal trade policies as part of export-oriented economic growth, promoted as the model for developing countries by the WTO and the international financial institutions. This model does not provide, and has never provided, an automatic path to poverty eradication.

The current food price crisis proves once again the dangers of the liberal approach to trade being aggressively pursued by many developed countries, resulting in food insecurity, violations of basic human rights and increasing conflict and insecurity in developing countries. In addition, the increasing impacts of climate change, global population growth, continued urbanisation, rising incomes in industrialising nations, and changes in global consumption patterns are amongst the myriad of factors which must be taken into consideration when planning future food, agriculture and trade policies.

Have developing countries benefited from multilateral trade?

What are the future prospects of multilateral trade agreements?

What effect will the rising number of bilateral agreements have on the existence and further development of multilateral agreements?

The forum and driving force for multilateral trade agreements, the WTO, doubled its membership between 1995 and 2005, increasing the participation of developing countries significantly. This has created a new dynamic in the organisation which has resulted in new challenges in terms of co-ordination and negotiation.

With decision-making based on a consensus system, so each member has equal decision-making power, the WTO is held to be the most democratic of all the international institutions with a global mandate. The Seattle Ministerial of 1999, however, revealed how even such a democratic system is vulnerable to manipulation by

an elite group of powerful members. Subsequent events surrounding the Seattle Ministerial made it clear that issues of content, as well as process and organisation, would make an agreement on new multilateral trading rules particularly challenging.

In its recent publication, "Agriculture in Regional Trade Agreements: a comparative analysis of United States and European Union Agreements", CIDSE has raised the question of to what extent the processes by which trade agreements are reached influence their content and therefore their likely impact. The stagnation currently being experienced in multilateral negotiations highlights significant shortcomings in the WTO process and has prompted a proliferation of regional agreements. The EU and the US in particular have stepped up bilateral North-South talks with the aim of establishing free trade agreements with their neighbours and with other regional groupings. The EU is negotiating Economic Partnership Agreements (EPAs) with ACP countries, and Association Agreements with Central American States, all of which focus primarily on trade, while the US is conducting a series of negotiations with South and Central American countries. Today the US and the EU have concluded, or are negotiating agreements with countries on all continents.

These negotiations are, in general, far more unbalanced than those taking place within the WTO. This is because, although a number of large countries with emerging economies such as Brazil, South Africa and India may be involved in some cases, it remains that one of the negotiators is a great economic power (the US or the EU) and the other party is either an individual, or a group of developing countries. This has a significant impact on the pacing and content of negotiations in comparison with WTO processes. The big powers take this opportunity to place issues strongly contested, and eventually discarded in the context of the WTO, back onto the negotiating table. This includes, in particular, advanced liberalisation arrangements on agriculture and services, leading many critics to refer to such agreements as "WTO plus". With regard to the EU, it is worth noting that, whilst the pursuit of EPAs originates from the Cotonou Agreement (2000), and thus predates the Global Europe Agenda of the European Commission (2006), this does not exempt EPAs from the Global Europe policy which spells out an aggressive agenda for trade negotiations with the South, as well as restructuring within Europe. Other serious concerns raised with regard to certain forms of regional agreements, such as the EU EPAs, are that they threaten to weaken regional integration processes amongst countries of a similar level of development.

CIDSE's recent report provides evidence of the fact that regional trade agreements frequently result in arrangements that are of primary benefit to the greater economic power, and that instruments available to protect local markets and food security in developing countries are neither automatically nor fairly incorporated into such agreements. It could be concluded, therefore, that although regional trade agreements *per se* are no worse than multilateral trade agreements for growth and for the protection of food security, the difference in the political dynamics involved in regional trade agreements means that they will often result in more inequitable trade arrangements in which the ability of developing countries to promote their economic development and protect the food security of their population is further eroded.

Advanced liberalisation arrangements emerging from regional or bilateral trade agreements result in a range of negative impacts on the populations of developing countries. Import surges and increases in food prices affect the rural and urban poor the most, and whilst a number of national and international traders benefit from such agreements, many poor and smaller farmers are forced to leave agriculture. Whilst economic restructuring may in many cases be in the longer term interests of the developing countries in question, without the necessary compensation and adjustment arrangements in place such changes will simply mean an increase in the wealth of a few, and the economic displacement of millions. The correlation between the impact of trade agreements on the population of poor countries, and the continuation and increase of legal and illegal emigration from the South to the North is unquestionable. Although it is too early in the case of certain agreements to define clear lines of cause and effect, the existing evidence and trends cannot be ignored and merit significant research over the coming years.

Whilst bilateral and regional trade agreements offer an alternative to the multilateral standstill, it is not necessarily a positive one for developing countries and certainly not for small farmers in these countries. The situation of the latter is one of the most important criteria for CIDSE to judge whether trade agreements promote poverty reduction, as the rhetoric often claims, or are causing more damage to those who remain voiceless in these processes. Clearly, the pursuit of new trade agreements—whether in a multilateral or bilateral forum—should not purposefully or inadvertently reduce a countries' policy space in pursuing human and economic development and the fulfillment of its national and international obligations, including human rights, food security, and the protection of the environment. It is thus essential to emphasise the need to take nontrade issues into account in such processes.

The WTO offers—relatively speaking—a more transparent forum for decision-making in comparison to bilateral negotiations, and one in which developing countries have more negotiating leverage. Clearly, however, if the WTO and the multilateral system is to have an effective future, internal and external transparency, as well as participation and accountability will need to be enhanced and improved. Furthermore, contentious institutional issues such as the review of the dispute settlement mechanism, the single undertaking and the consensus principle, which have contributed to the protracted nature of the Doha Round, will need to be addressed in order to make these important features of the WTO more effective.

What steps should European trade policy take to help less developed countries reap the benefits of global trade?

What should be the relationship between European trade policies and policies on development?

In addition to its important role in international trade the EU is also a major donor, accounting for around 90% of global commitments to scale up aid levels. For this reason the coherency of EU policy is extremely important, and is something that the EU has up until now failed to achieve. First and foremost the aim should be to make EU policies consistent with Millennium Development Goal no. 8, of achieving a global partnership for development, and with the Monterrey Consensus on financing for development, in order to ensure the coherent pursuit of an overall objective of the eradication of poverty in the world. This requires coherency in trade and development policies. Failure to increase the coherence of global trade rules with global development goals thus far has not only prevented developing countries from harnessing the potential of trade for their economic and social development, but has resulted in a trade model which prioritises markets over people.

Small-scale farmers from developing countries have suffered from the dumping of Northern exports on their local markets for decades. The EU must end dumping and trade-distorting supports that devastate agriculture in poor countries. The EU should substantially reform its agricultural subsidy regimes to ensure an end to the dumping of products on global markets. In the context of the WTO, all developed country Members States should commit to a short deadline to eliminate, through a tiered formula, all Amber Box supports (trade distorting subsidies). A clear frontloaded schedule should be set up for eliminating export subsidies and support, and a thorough review of the Green Box is needed to ensure that any remaining domestic support has minimal trade-distorting effects and contributes to public goods such as environmental protection and securing the livelihoods of small farmers. Disciplines are also needed on the Blue Box and Green Box, in order to thwart “box shifting”.

With commodity prices in the daily headlines, the urgency of agreeing trade rules which promote agriculture and support the food and livelihood security of the world's poor is clear. The WTO Agreement on agriculture should be rebalanced by guaranteeing developing countries the right to protect their borders via quotas and/or quantitative restrictions as long as Northern subsidies remain. Least Developed Countries need special treatment, including duty-free, quota-free access to richer countries' markets, and exemption from any reduction commitments. In a joint letter addressed to Trade Ministers at the beginning of June, more than 200 civil society networks and organisations around the world, including CIDSE, emphasised the importance of policies that support sustainable small scale farming, safeguard local production from dumping, and allow poor countries the range of instruments, including quotas and tariffs, that are necessary to build resilient food and agricultural systems. Specific attention was drawn to two measures in the current Doha Round of trade negotiations, namely Special Products (SP) and Special Safeguard Mechanisms (SSM). Special and Differential Treatment for developing countries must constitute an integral part of all elements of the Agreement on Agriculture. However, the WTO agriculture modalities paper issued on 19 May, in contrast to issues in other areas where various views are accommodated, fails to reflect proposals made by the 40 plus developing countries, known as the G33, who have been championing these instruments. If the current text were adopted these instruments' objectives of promoting food livelihood security and rural development would be totally undermined. CIDSE therefore supports the G33 call for a revised draft which is more balanced, factual and comprehensive. Such a text is essential before any further steps in the Round should be made and certainly before any Ministerial meeting. CIDSE urges the House of Lords to call on the UK Government to support the G33 request for a revised text and for the UK Government to support an agreement which includes operable and effective SP and SSM provisions.

CIDSE asks the UK government to work to ensure the principle of coherence in the formulation of EU policies with its Member States' international obligations and commitments with regard to development and human rights. This includes consideration of all policies that influence the capacity of countries to mobilise resources for financing development, including development and trade policies. The EU cannot and should not continue to use its development policies to compensate for trade policies at the multilateral and bilateral and regional levels which neither ensure global food security nor sustainable development.

Included below is a summary of the main points raised. We thank you again for this opportunity to contribute our views to your inquiry and we look forward to the results of your work on these important issues.

SUMMARY

The EU, the US and other powerful trading blocs must take stock of the failure of the dominant paradigm of liberal trade policies as part of export-oriented economic growth, promoted as the model for developing countries by the WTO and the international financial institutions. This model does not provide, and has never provided, an automatic path to poverty eradication.

Issues of content, process and organisation have made agreement on multilateral trading rules particularly challenging. Bilateral and regional trade agreements offer an alternative to the multilateral standstill, but this is not necessarily a positive one for developing countries and certainly not for small farmers in these countries. Bilateral negotiations are, in general, far more unbalanced than multilateral negotiations and frequently result in arrangements that are of primary benefit to the greater economic power. These include advanced liberalisation arrangements on agriculture and services, leading many critics to refer to such agreements as “WTO plus”.

Advanced liberalisation arrangements emerging from regional or bilateral trade agreements result in a range of negative impacts on the populations of developing countries. The existing evidence and trends cannot be ignored and merit significant research over the coming years.

The pursuit of new trade agreements—whether in a multilateral or bilateral forum should not purposefully or inadvertently reduce a countries’ policy space in pursuing human and economic development and the fulfillment of its national and international obligations, including human rights, food security and environmental protection. It is essential to emphasise the need to take non-trade issues into account in such processes.

The WTO offers—relatively speaking—a more transparent forum for decision-making in comparison to bilateral negotiations, and one in which developing countries have more negotiating leverage. Clearly, however, if the WTO and the multilateral system is to have an effective future, internal and external transparency, as well as participation and accountability will need to be enhanced and improved. Furthermore, contentious institutional issues such as the review of the dispute settlement mechanism, the single undertaking and the consensus principle, which have contributed to the protracted nature of the Doha Round, will need to be addressed in order to make these important features of the WTO more effective.

The eradication of poverty in the world requires coherency in trade and development policies. Failure to increase the coherence of global trade rules with global development goals thus far has not only prevented developing countries from harnessing the potential of trade for their economic and social development, but has resulted in a trade model which prioritises markets over people.

The EU cannot and should not continue to use its development policies to compensate for trade policies at the multilateral and bilateral and regional levels which neither ensure global food security nor sustainable development.

10 July 2008

Memorandum by EEF and UK Steel

1. EEF is the representative voice of manufacturing, engineering and technology-based businesses with a membership of 6,000 companies employing around 800,000 people (see www.eef.org.uk for further information). Comprising 11 regional EEF Associations, the Engineering Construction Industries Association (ECIA) and UK Steel, EEF is one of the leading providers of business services in employment relations and employment law, health, safety and environment, manufacturing performance, education, training and skills.
2. UK Steel, a division of EEF, is the trade association for the UK steel industry. All companies who melt steel, and most downstream processors are members.
3. This submission focuses on European trade policy from a UK manufacturing perspective, but with specific reference where relevant to the steel industry.

Question 1: What are the future prospects for multilateral trade negotiations? What effect will the rising number of bilateral agreements have on the existence and further development of multilateral agreements?

4. It is very difficult to forecast whether the current round of multilateral trade negotiations (the DDA) will produce an acceptable outcome for UK manufacturing. While WTO Director General Pascal Lamy earlier this month welcomed the issuing of revised negotiating texts on agriculture and non-agricultural market access (NAMA) as paving the way for future progress in the Round, we note that there remain wide differences between the views of the different groupings.

5. The key areas of negotiation for UK manufacturing that still form part of the DDA are NAMA and rules. The negotiating text for NAMA still contains wide ranges for the two coefficients to be used, and leaves the flexibilities to be enjoyed by developing countries completely open. With EU tariffs on manufactured goods already low (and in the case of some sectors, including steel, already set at zero), it is imperative that the NAMA negotiations produce real market opening for UK exporters. It is particularly important that substantial tariff reductions be secured from emerging countries, many of whom have rapidly developing industries in competition with UK manufacturing.

6. We are concerned that the draft negotiating text on rules appears to favour the USA. The text would for example undo the rulings by the WTO Appellate Body that the US practice of “zeroing”⁷ is not WTO compliant. In general, we fear the opportunity could be missed to narrow the wide margins of discretion that currently exist in the application of trade defence instruments, which leads for example to the EU applying a noticeably more liberal regime than the USA.

7. As for future rounds of multilateral negotiations beyond the DDA, we note that if the DDA is concluded, it is likely to be on a basis that is far less ambitious than the goals that the UK and EU originally set. While there is likely to be very little appetite to embark on a fresh round of negotiations in the immediate aftermath of the DDA, the EU must continue to pursue its trade liberalising agenda.

8. The protracted lack of progress in the DDA has resulted in a wave of new bilateral trade negotiations. Although little has come of the USA’s original bilateral ambitions, at least partly due to Congressional antipathy, the EU’s own plans are developing more successfully. While we support in principle any initiatives that lead to improved market access for UK manufacturers, we do tend to prefer the multilateral approach, for two reasons:

8.1 Having a plethora of bilateral agreements risks administrative complexity and therefore uncertainty for businesses.

8.2 One of the great successes of the Uruguay Round was the agreement on a dispute resolution system (the DSU) with real teeth. It is therefore essential that the authority of the WTO should not be undermined.

Question 2: What role can European trade policy play to stimulate growth and create jobs in Europe?

9. It is EEF’s belief that trade, provided it is conducted according to common rules adopted by all trading partners, is always beneficial to economic growth, and thus to job creation. European policy can and does facilitate trade in a number of ways:

9.1 The pursuit of a liberalising agenda in the DDA and through the negotiation of bilateral trade agreements.

9.2 The use of the Trade Barriers Regulation, bilateral trade negotiations and WTO dispute settlement proceedings to break down trade barriers in foreign countries.

9.3 The Commission’s market access database is developing into a valuable tool for exporters.

9.4 The use of its trade defence instruments offsets the unfair advantages enjoyed by dumped and subsidised imports which might otherwise lead to job losses in European industries.

⁷ Zeroing is the practice whereby sales at non-dumped prices are excluded from the calculation of dumping margins. This artificially inflates the level of anti-dumping duties levied on imports into the USA.

Questions 3 and 4: *What should be the relationship between European trade policy and policies on development, climate change and depletion of natural resources?*

Have developing countries benefited from multilateral trade agreements? What steps should European trade policy take to help less developed countries reap the benefits of global trade?

10. DEVELOPMENT: The European market for manufactured goods is already extremely accessible to developing countries, with very low tariffs and non-tariff barriers generally, and additional specific market-opening regimes available to developing countries (eg the Generalised System of Preferences).

11. Of course, where a developing country has little manufacturing capacity, open access to European markets for manufactured goods will confer little economic advantage. In these circumstances improved market access for agricultural products would appear to be the best way of encouraging development.

12. EEF does not subscribe to the view that hiding behind high trade barriers of their own is a viable policy for aiding economic progress in developing countries. Artificially increasing the price to their consumers of manufactured goods (assuming those goods are fairly traded) will put a brake on economic growth. Nevertheless, EEF recognises that market failures (such as slow or corrupt administrations, poor infrastructure) place additional burdens on enterprises in developing countries. Thus:

12.1 High import tariffs are frequently one of the few secure ways of raising government finance.

12.2 High tariffs might also be thought necessary to support the emergence of infant industries.

Such measures can only be short term palliatives, as they will ultimately slow down economic growth. EU governments and the Commission must devote increased resource to trying to help developing country governments eliminate such market failures.

13. Several newly-industrialising countries, such as Brazil, India and China, however have very advanced manufacturing facilities in a range of sectors. It is economically inefficient for those industries to remain shielded from international competition while enjoying tariff-free access to the developed world's markets.

14. CLIMATE CHANGE: As a general statement of principle, EEF's view is that environment-related trade measures should be limited to ensuring that the performance of imported goods comply with national standards. They should not relate to the environmental performance of the processes used to manufacture the goods, unless such trade measures are an integral part of a widely-supported multilateral environmental agreement (MEA). Process-related trade measures, particularly for "heavy" industries such as steel, can quickly lead to back-door protectionism.

15. Therefore, EEF's strong preference is for EU environmental measures to be designed so as to avoid imposing uncompetitive cost burdens onto industry. In the specific instance of the EU Emissions Trading Scheme (ETS), EEF's view is that energy intensive industries should continue to receive free allocations of permits, but based on EU-wide performance benchmarks, and related to those industries' technological capability to reduce their emissions. Internalising the cost of carbon for industries such as steel, cement and aluminium would raise their costs to uncompetitive levels and result in the progressive flight of production, and the associated emissions, to countries where the cost of carbon was not internalised. The net environmental benefit would be zero.

16. However, if additional cost burdens are placed on EU manufacturing, then these will need to be offset by some form of border adjustment measure, imposing internalisation of carbon costs on imported goods while exempting exports from those internalised costs. The immense complexity of constructing such a system to make it WTO-compliant is one reason why EEF prefers a zero-cost ETS. A system that was not WTO-compliant would risk plunging the EU into a major trade war.

17. Nevertheless, there is one proposal that would fit neatly with a benchmark-based allocation system and provide national treatment to imported goods, thus making it WTO-compliant. Once performance benchmarks had been established for EU-manufactured goods, those same benchmarks could be applied to imported goods. Imports from plants whose emissions were higher than the EU benchmark would be obliged to purchase ETS allowances before the goods could be placed on the market—in exactly the same way as would happen for EU companies. Conversely, imports with associated emission levels better than the EU standard would receive allowances for sale. EEF believes this idea merits further development.

18. At some stage, it is hoped that a global climate change agreement will be signed that commits all parties to similar levels of effort and similar means of compliance. At that stage it could be necessary for the signatories of that MEA to agree to a common border mechanism to prevent non-signatories from gaining unfair market advantage at the expense of the global environment.

19. Depletion of natural resources: EEF is concerned that a number mineral resources are beginning to become scarce. This scarcity lies behind the surging market prices of a number of non-ferrous metals for example. The only sensible policy response is an increasing drive for resource efficiency throughout the world.

20. These scarce minerals are however frequently located in just a few countries, and there is a growing tendency for these countries to give unfair advantages to their own consuming industries by placing export restrictions, both tariff and quantitative, on those raw materials. This could threaten the long term survival of EU manufacturing if it is denied equal access to raw materials, or is forced to pay higher prices than overseas competitors.

21. The Commission is attempting to oppose export restrictions through the provisions of the EU's bilateral agreements and the WTO as appropriate. Export tariffs however are not banned by the WTO.

Question 5: Is there still a need for Trade Defence Instruments, and if so, how can these be designed to ensure that their effects are targeted and proportionate?

22. Trade defence instruments remain an essential means of helping to ensure that our trading partners observe WTO rules and trade fairly, and of providing a safety valve for disruptive trade flows.

23. Firstly, the Agreement on Subsidies and Countervailing Measures and the EU regulation that gives effect to this agreement provide an important means of ensuring that foreign governments do not unfairly subsidise domestic producers at the expense of EU manufacturers. It helps apply at an international level the same type of market discipline that the EU's state aid rules achieve within Europe.

24. Safeguards protection is used to provide a temporary safe haven for an industry suffering from sudden and damaging surges in imports. The requirement to compensate trading partners for their loss of concessions tends to mean that safeguard measures are normally of short duration. Measures can only last longer than four years if there is evidence that the domestic industry is restructuring. Thus the instrument can ensure that an EU industry is not destroyed by foreign competition while at the same time encouraging it to adapt to the new market circumstances. For these reasons, EEF believes that safeguard measures are a proportionate response. However, the compensation requirements, and the fact that measures must be applied against all trading partners, also mean that safeguards are rarely used.

25. Anti-dumping measures have become more contentious. They essentially discipline import surges resulting from discriminatory pricing practices. When the exporting country is employing predatory pricing there is a clear analogy to the EU's internal rules on abuse of a dominant position. Given the virtual impossibility of using safeguards measures, EEF supports anti-dumping as a means of providing temporary safe havens for EU manufacturing sectors from the worst effects of surges in discriminatorily priced imports.

26. The anti-dumping Regulation, and the working practices of the Commission, already provide significant scope for ensuring that duties are only applied to the specific types of products being dumped and causing injury, and that duties are only maintained for as long as they are necessary. The steel industry for example has experience of duties on imports of its raw materials being suspended, or the product scope of the measures being modified. In any case, EU measures are generally terminated after five years under the "sunset" clause. For these reasons, EEF maintains that anti-dumping measures are already targeted and proportionate.

27. EEF does not believe that anti-dumping measures should be used to protect EU industries from competition based on genuine competitive advantage—that would in the long term be economically inefficient. Equally however, overseas producers enjoying genuine competitive advantage should have no reason to dump in European markets. It is thus unlikely that companies found during to be dumping do in fact have a genuine competitive advantage.

28. The WTO anti-dumping agreement was designed specifically to address unfairly priced and injurious imports of manufactured and agricultural goods. EEF suggests that it is not normally in the long term interests of consumers for local producers of such goods to be eliminated by unfairly priced imports. Despite this, the EU is unique in considering the interests of direct consumers of dumped goods in proposing whether to impose measures. We welcome the use of the Community interest clause for these purposes. However, EEF rejects the notion that macro-economic effects, such as the possible impact of measures on inflation, should be a relevant consideration.

29. Finally, EEF notes that the EU's anti-dumping practices are among the most liberal in the world, and are more liberal than the WTO agreement itself. EEF is not in principle opposed to further reform of the EU's practices, but any such reforms should be part of a negotiated agreement mandating revised norms on all WTO signatories.

Question 6: *What is the best approach for ensuring that Intellectual Property Rights are protected? Do these rights hinder development goals—and if so, how can an appropriate balance be struck?*

30. The Uruguay Round TRIPS agreement already in theory contains reasonable protection for IPR associated with manufactured goods. Nevertheless, we are increasingly hearing stories of imported products bearing UK companies' branding, but of inferior quality. UK manufacturers are not just losing market share to such imports, but the value of their brands can also suffer. The issue would appear to be that stricter policing of the existing rules is required.

Question 7: *Services represent 77% of European GDP and employment. What are the best mechanisms to remove barriers to trade in services? Is the GATS still fit for purpose?*

31. EEF has no views on this matter.

Question 8: *Is there still a role for the WTO in the 21st Century?*

32. The WTO remains critical as the means for solving trade disputes and for ensuring that trading partners keep their borders open in compliance with WTO rules.

26 February 2008

Memorandum by Mr Jonathan Peel, Member of European Economic and Social Committee

1. INTRODUCTION

1.1 I very much welcome this opportunity to submit evidence to your Lordships for this important and timely Inquiry into European Trade Policy.

1.2 This evidence is being submitted in my personal capacity as a UK Member of the European Economic and Social Committee (EESC), on which I sit as part of the Employers/Industry Group (Group I). As the appointed Rapporteur I am currently drafting the Committee's Opinion on the "New trade agreements negotiations" which result from the Commission's "Global Europe" Communication of October 2006. As this draft is not due to be considered by either the EESC "REX" Section or the EESC Plenary before April, it is not yet an official EESC Opinion. This submission is mainly based on the research I have undertaken in preparation. A French Member from the Various Interests Group (Group III) is co-rapporteur. My expert has been Mr Michael Hindley, a former Vice-President of the European Parliament's "REX" Committee. Previously I have given evidence to the sub-committee (then on behalf of the UK Food & Drink Federation) after the failure of the WTO Ministerial meeting at Cancún, which I attended (as I did the WTO meeting in Hong Kong two years later).

1.3 This submission does not attempt to answer all the questions posed by the sub-committee or each question equally. Some are dealt with necessarily at greater length than others whilst the question "what role can European trade policy play to stimulate growth and create jobs in Europe?" is dealt with throughout.

2. WHAT ARE THE FUTURE PROSPECTS FOR MULTILATERAL TRADE NEGOTIATIONS? IS THERE STILL A ROLE FOR THE WTO IN THE 21ST CENTURY?

2.1 The conclusion of the Doha Round remains a strategic political necessity, despite its original deadline having been passed over three years ago. Only negotiations at multilateral level can change the underlying rules of trade, such as decrease globally the overall levels of tariffs and subsidy (notably in agriculture). There has been an exponential growth in world trade since the founding of the GATT in 1947, set up not least to try and avoid the levels of protectionism prevalent before the Second World War, but each of the eight Trade Rounds before Doha has taken longer to conclude than its predecessor, the most recent (Uruguay) Round taking eight years. The Doha Round was launched nearly seven years ago, but has as yet no clear end in sight.

2.2 With its emphasis on development, the Doha Round rightly aims to encourage trade among lesser developed countries, and growth in "South-South" trade in particular. The longer this takes to conclude, it is this opportunity to help less developed countries reap the benefits of global trade that is being lost. Bilateral agreements do not often include such countries.

2.3 Trade offers the most effective, deepest and most enduring means of building contact between countries and regions, from which other contacts and ties will most readily grow. Indeed international trade and investment are the key drivers of European economic growth and of the external dimension of EU competitiveness. As the “Global Europe” Communication stresses, “our prosperity depends on trade”.

2.4 The encouragement of trade, the lowering of tariffs and the removal of other trade barriers globally, is seen by many to be of critical importance in achieving widespread acceptance of the more positive and beneficial aspects of globalisation. The major emerging economic powers like China, Brazil and India—all included in the Commission’s new strategy—are adopting less restrictive trading practices, a key sign of how the pace of globalisation is growing exponentially.

2.5 Increased economic ties through increased trade enables cultural and contacts at civil society level to be strengthened considerably. Many believe these ties will also promote and encourage the acceptance and development of best practice in the promotion of Sustainable Development and in environmental improvement as well as the development of higher social and employment standards, although this is not yet a certain outcome.

2.6 Nevertheless as stated global trade Rounds have become progressively harder to conclude successfully: there would appear to be three causes in particular for the length of the current Doha Round negotiations. First, there is the major emphasis on agriculture (only introduced in the Uruguay Round), where the EU, US and many other developed countries (notably Japan and Korea) have major defensive interests. Some countries are major agricultural exporters (eg Australia, Brazil, Argentina), whilst others, such as Egypt, are net food importers. Others are largely dependent on a single, protected, crop, such as sugar, whilst a country like India has huge rural populations living at or near subsistence levels. The complexity of the issues involved makes achieving a balanced deal very difficult, but that is an essential goal if trade benefits are to be achieved here too, which gives clear evidence for the need to persevere with the WTO (or a similar institution) in this century.

2.7 Secondly, with over 150 Members, reaching agreements within the WTO has become far harder. Gone are the days of the “Green Room” when the larger players could come to an agreement which other Members then had little option but to accept. Now, as Cancún showed, smaller or less developed countries are able and therefore more likely to hold out for “better” terms, which effectively means that the threat of a veto is never far away. Equally that gives clear evidence of the need to persevere if the gains from progressive trade liberalisation over the past 60 years are to continue to be won, particularly for less developed countries. The concept of the Single Undertaking may therefore need revisiting if only to prevent certain agreed advances (eg the EU offer in Hong Kong to phase out export subsidies) from being lost.

2.8 A third major reason for the length of the current negotiations may well be their overall complexity, notably agriculture formulae, which makes the detail and substance harder for some negotiators from smaller states to understand fully without detailed training, which may be outside their affordability. The issues being more remote from the world outside the WTO as well, this could lead to uneven pressures on negotiators from vested interests. However, a notable impression is that more commercially oriented pressures for a successful outcome are far less in evidence now than during the Uruguay Round. Perhaps as many of the key goals of industrial trade liberalisation have already been achieved, this has mainly left the more esoteric or fundamental ones outstanding.

3. MULTILATERAL VERSUS BILATERAL NEGOTIATIONS

3.1 Yet provided that bilateral agreements are, and are seen to be, compatible with multilateralism these may eventually strengthen the latter—provided that they are confined to providing support for the multilateral approach and do not thwart it.

3.2 In its “Global Europe” Communication, the Commission reaffirmed its overall commitment to multilateral trade liberalisation. It stressed that this initiative was not in place of multilateralism but a commitment to keeping momentum going. This new initiative was clearly the result of the lack of practical progress in the Doha Round. As such it is welcome as a statement of intent to pursue a liberalising agenda. These new FTAs must “serve as a stepping stone, not a stumbling block for multilateral liberalisation”, as the Communication states.

3.3 At the time of publication of the Communication, it very much appeared that the Commission was sending a strong signal that the EU had lost faith in the multilateral process and were unilaterally turning their backs on progressing the Doha Round negotiations. This impression was strengthened by the clear, renewed emphasis both on the more “middle income” trading partners (as opposed to “ldcs”) as well as on the three outstanding “Singapore Issues”, namely competition, investment and public procurement. These the

Commission aimed to reintroduce into these negotiations, having been forced to drop them from the Doha agenda during the WTO Ministerial meeting in Cancún, not least due to opposition from developing countries.

3.4 In retrospect the Commission's initiative appears to look more practicable. There is still a lack of clear progress in the multilateral agenda, with the original deadline for modalities now five years ago, and a very real sense that unless some sort of deal is now reached quickly there will be a further long delay. Within 12 months there will be a new US President, whilst the current Commission term of office is due to expire in 2009—when elections in India are also due.

3.5 Gains made bilaterally can stimulate the multilateral process as a result of the more in-depth discussions and the closer alignment of positions brought about by these bilateral approaches. The bilateral approach may also allow more respect to regional and national differences than is the case with multilateral agreements which per force follow a broader approach.

3.6 The incompatibility of bilateral agreements with multilateral commitments under the WTO may only be theoretical for as yet none have been reported for investigation. The complexities here have been very clearly set out by Professor Patrick Messerlin,⁸ who makes the point that human (and financial) resources are so scarce in some small states and regional configurations that multilateral or bilateral negotiations is a stark and critical choice. Indeed, the Commission itself may find difficulty in finding sufficient resources to progress the Doha Round negotiations if these were to resume in depth with a number of key FTA negotiations at a critical point.

3.7 It is essential, therefore, that the Commission negotiates FTAs that can be shown to provide real added value. There must be a qualitative change in the approach to this new series of negotiations: simply to try to repeat on the bilateral level the policies which have not succeeded at the multilateral level is insufficient. However, the inclusion of the outstanding "Singapore Issues" seems to be readily acceptable to S. Korea, India and ASEAN in the negotiating briefs for these three proposed FTAs. Together with Trade Facilitation (the fourth "Singapore Issue") significant, beneficial progress can be made here.

3.8 The Communication specifically refers to a number of potential negotiations, including:

- Partnership and Co-operations Agreements, notably with China, Russia and the Ukraine.
- New Free Trade Agreements, notably with S. Korea, India and ASEAN, although the latter two had already been proposed at earlier Summits.
- Continuation of existing slow-moving negotiations, including Mercosur and the GCC.
- Central America and the Andean Community, where developmental goals are also being sought by the EU.

3.9 FTAs are by no means new to Europe. In the past they have been used to bolster economic and regulatory ties with many neighbouring countries and to support the EU's development objectives (a key goal of those agreements now proposed with Latin America). Most of the proposed new agreements are with Europe's "main trade interests", the Communication making it clear that "the key economic criteria . . . should be market potential (economic size and growth) and the level of protection against EU export interests (tariffs and non tariff barriers)". As the Communication also notes, the EU has to take account of negotiations between other major trading countries and some of the states in question, not least the growth in the number of FTAs concluded by US negotiators, notably with S Korea, Central America and the Andean Community. With the latter, the EU objectives as stated above go much wider than the strictly commercial objectives of the agreements concluded by the US.

4. AREAS WHERE THE PROPOSED EU FTAs MAY ADD VALUE, AND STIMULATE GROWTH AND JOBS IN EUROPE

4.1 These three proposed FTAs are with countries and regions of very different levels of development and with very different problems. The Koreans wish to open up their economy and have already concluded such an agreement with the United States. There is warm interest in India for concluding an FTA with the EU, where an ambitious deal that liberalises trade would offer significant economic benefits to both sides. There are of course wide variations of development within India itself. The negotiations with ASEAN are further complicated due to the lack of developed structures between its ten member states as well as the very different levels of development and capacity within ASEAN, whose three "ldc" (least developed countries) members may not actually be included in the negotiations.

⁸ Jan Tumlrir Policy Essay (ECIPE, 2007).

4.2 The EU will need to appreciate that in each case the negotiating partner will want to proceed at a pace and manner in keeping with their own traditions. There are wide differences in approach between Europe and Asia in many areas, which need to be respected. The EU cannot extend its standards without negotiation. However, opportunities to add value through FTAs whilst awaiting the outcome of the broader multilateral approach should exist in the following areas:

4.3 *Technical barriers to trade* in many countries these now constitute a greater impediment to trade creation and economic growth and pose more barriers to market access than those provided by tariffs (not least as many countries have now unilaterally reduced tariffs to develop trade and investment). In this regard standards, particularly in the field of human, animal and plant health, are regularly a major point of contention, especially as the EU maintains some of the highest standards in the world. To achieve results and avoid suggestions of “back-door” protectionism here, the EU must be prepared to intensify the training and wider capacity building already available and otherwise build on the success of its existing Trade Related Technical Assistance (TRTA) programmes.

4.4 *Tariff barriers* will be a key issue in each of the negotiations. India in particular has some very high tariffs, backed by further duties, notably the Additional Duty and the Extra Additional Duty, with in some cases an aggregate tariff of over 500%.⁹ Lack of harmonisation among ASEAN countries will be a major problem, with wide differences in applied tariff levels, and with discriminatory excise tax systems.

4.5 Negotiating the removal of as many *non tariff barriers (NTBs)* as possible must be a priority, although here the underlying problems will be as a result of overgrown bureaucracies, stifling levels of local regulation, lack of alternative employment for superfluous officials and even corruption. The WTO estimates, for example, that 93% of imports into India face NTBs of some kind, compared with just 22% for Brazil.¹⁰ NTBs are also high in ASEAN countries, but with wide variations in extent too (for example affecting 31% of imports into Indonesia, against just 2% in Singapore). For S. Korea the figure is 25%.

4.6 Huge potential gains are at stake for each negotiating party in services—possibly the most quantifiable in trade terms. Free movement of capital and finance will of course be of key importance here if all parties are to gain maximum benefit, especially negotiating an end to key Indian restrictions (including telecom, retail distribution, banking and insurance, and their ban on legal services). Major problems arise particularly over the movement of people, notably in “Modes” 3 and 4. To resolve these successfully will be especially challenging, including the granting of more open access to individual EU Member States for qualified professionals from each trade partner in turn. This may prove easier with specific FTAs.

4.7 EU SMEs would particularly benefit from agreements on *trade facilitation*, especially in advance of a final Doha agreement here. SMEs could gain more in the short term from an ambitious trade facilitation agreement than from tariff reductions. Small businesses are the most exposed to customs trading costs and often do not have necessary critical mass (in terms of economies of scales, size of sales, distribution networks, transport facilities, etc.) to deal with high customs costs arising from administrative delays, corruption and other factors, with the result that potential markets are lost. Of particular benefit would be agreements to ensure accelerated and simplified procedures, procedures for legal recourse and appeal, publication of trade regulations, minimisation of fees and charges, and above all the establishment of a “single window”—an exponentially increased use of IT for customs procedures, especially where several different government departments require virtually identical information.

4.8 This will be of particular importance in the negotiations with India. According to the World Bank,¹¹ it takes an average of 10 days to export goods from India (7 from Brazil) and an average of 41 days to import goods into India (against 24 for Brazil). There is as well a wide variation between ASEAN members, especially between Singapore and Thailand.

5. WHAT BENEFITS COULD BE GAINED BY INCLUDING THE THREE “SINGAPORE ISSUES”?

5.1 Public, or Government procurement, as the EU states, is an area “of significant untapped potential for EU exporters”. The EU should look to emulate its existing FTA with Chile which sets the Government Purchasing Agreement (GPA) of 1994 (the renegotiation of which is not part of Doha) as the minimum standards to be sought, and which should be backed by the EU offering technical assistance and other “capacity building” if required to enable other parties to comply. The US has been looking to achieve this goal too, but that will not be easy here, especially with India.

⁹ CBI Briefing Paper, March 2007.

¹⁰ WTO “Market access: Unfinished Business—Post Uruguay round Inventory”, 2003.

¹¹ World Bank, “Doing Business 2007”; September 2006.

5.2 Improving investment conditions in third countries will be important in ensuring growth both in the EU and in the “receiving” countries. Many of the EU’s key trading partners maintain a high degree of protection from foreign direct investment through discriminatory regimes, authorisation rules that involve major administrative and/or bureaucratic costs, whilst in addition there are too many sectors that are entirely, or partially, inaccessible to European investment, especially in the services sector (notably in India as described above). The key to the negotiations will lie with the removal of unnecessary restrictions, and to ensure that the negotiations and the process then in place are fully transparent and that the resulting authorisation procedure within the FTA partner should be fair, quick and efficient. The US FTA model also involves a comprehensive approach, including investor protection.

5.3 The EU’s aim to include some provisions on competition in FTA negotiations is welcome, although results will be hard to achieve. Many of the problems regarding investments and trade facilitation stem from the lack of adequate competition regimes (or by a serious lack of implementation) in other countries, which together with resulting market distortions impede and distort global trade and investment flows. These all remain fundamental issues of global governance. The existing EU agreements with South Africa and Chile both provide for co-operation between the Commission and the local Competition authority.

6. IPR

6.1 The emphasis in the Communication on strengthening IPR provisions is welcome, in particular its offer of support to SMEs and others trading with the emerging economies. Developing the EU’s strategy for protecting intellectual property rights and strengthening enforcement activity is essential if the EU is to meet its aim to reduce IPR violations and the production and export of fake goods. Enforcement is key here. The TRIPs agreement must be fully implemented by FTA partners: a primary objective for the EU in concluding these FTAs should be to obtain solid commitments for concrete enforcement of existing IPR legislation together with sufficient control and measurement of results achieved, rather than start afresh. Europe’s Research and Development capacity and capabilities, rightly emphasised in the Lisbon Strategy, are a significant factor in maintaining EU competitiveness in a world where strong economic challenge is increasingly coming from outside Europe.

7. DEVELOPMENT AND CLIMATE CHANGE

7.1 As Sustainable Development includes economic, social and environmental considerations the inclusion of environmental considerations in the EU’s brief for these negotiations is timely. One possible route would be to extend the special incentive arrangements relating to the environment in the EU’s current “GSP Plus” package, already in effect with Latin American but with notably few countries in Asia, to all negotiations. The ratification, implementation and monitoring of the relevant international conventions could form the basic starting point, backed by appropriate financial assistance where necessary, dependent on the levels of development and the institutional capacity for effective implementation of the countries concerned.

7 March 2007

Memorandum by Food and Drink Federation

The Food and Drink Federation (FDF) is the voice of the UK food and drink manufacturing industry, the largest manufacturing sector in the country. In representing our members’ interests, FDF is focussing upon three core priorities: food safety and science; health and wellbeing; and sustainability and competitiveness. European trade policy falls under the latter.

As a major importer and exporter, our industry supports trade liberalisation. To remain competitive in the global market, FDF requires European trade policy to: secure access to competitively priced agricultural raw materials for further processing; retain some border protection for processed food and drink products in recognition of the higher prices the Common Agricultural Policy (CAP) requires us to pay for raw materials; and secure improved market access for our exports to third countries.

FDF members’ exports consist primarily of high quality, value-added goods. Our priority markets for improving access for our exports are the US, Canada, the European Free Trade Agreement states, the Middle East and East Asia. On imports, the EU seldom imposes high tariffs on products that cannot be produced within the EU, such as certain fruits and vegetables, oils, coffee and tea. Tariffs on more sensitive products, such as meat and dairy, are often prohibitively high and imports are only possible within tariff quotas.

1. *What are the future prospects for multilateral trade negotiations? What impact will the rising number of bilateral agreements have on the existence and further development of multilateral agreements?*

Markets work best when they operate free openly and freely. Accordingly, FDF supports multilateral trade negotiations currently being pursued under the Doha Development Agenda (DDA) to produce further trade liberalisation and a fairer and clearer set of multilateral trading rules. It is clear that political impetus is the key to successful multilateral trade negotiations. We therefore urge the European Commission to be ambitious in its approach to encourage a successful conclusion to the DDA.

FDF supports the development of bilateral Free Trade Agreements between the EU and key trading partners as a way of making early progress given the challenges to be resolved under the DDA. Bilateral agreements can raise standards as a benchmark for subsequent multilateral agreements and, moreover, they can help speed up this process. Nevertheless, a rising number of bilateral agreements could result in an overly complex set of trading rules. FDF members, who operate in increasingly open and competitive international markets, therefore prefer the multilateral process as the best approach to trade liberalisation and consider bilateral agreements to be complementary.

2. *What role can European trade policy play to stimulate growth and create jobs in Europe?*

European trade policy is an essential part of stimulating growth and creating jobs in Europe. The UK food and drink manufacturing industry is the largest manufacturing sector in the country and is important in so many respects. In particular, we create wealth by generating about £21 billion of Gross Value Added to the UK food chain each year and we create jobs through employment, development and career opportunities for over 400,000 people across the UK.

The UK food and drink manufacturing industry operates in a global market and is one of the world's largest importers and exporters of food and drink products. Our industry imported £24 billion worth of food and drink products as well as exporting almost £10 billion worth food and drink products in 2006. Without a strong and competitive European trade policy, FDF members could not continue to expand their businesses and access new markets opportunities. This in turn would have a negative impact on economic growth and job creation.

3. *What should the relationship be between European trade policy and policies on development, climate change and the depletion of natural resources?*

European policies should be joined up. The European Commission should consider the impact of both internal and external policies on the EU industry's ability to trade competitively both at home and abroad. A number of domestic policies undermine, or threaten to undermine, our industry's competitiveness. For example, whilst successive rounds of CAP reform are moving EU agriculture towards market orientation, further reform is required to safeguard the long-term competitiveness of the food and drink industry. Moreover, EU and Member State biofuel incentives or the imposition of mandatory biofuels' targets are of serious concern as they give rise to competition between food and fuel.

FDF therefore encourages the European Commission to press for completion of CAP reform in a manner which ensures a level playing field between member states and leaves the EU competitive with the rest of the world. We also urge the Commission and UK Government to ensure its biofuels' policies avoid conflict between food and fuel given the adverse implications for food supplies—availability, price and consumer inflation.

4. *Have developing countries benefited from multilateral trade agreements? What steps should European trade policy take to help less developed countries reap benefits of global trade?*

Developing countries can benefit from improved market access opportunities that multilateral trade agreements can provide. Moreover, the EU has many initiatives to help developing countries reap the benefits of global trade including Economic Partnership Agreements (EPAs) and Everything But Arms (EBAs) initiative.

FDF supports the rapid conclusion of the EU's Economic Partnership Agreements (EPAs) with African, Caribbean and Pacific (ACP) countries. A gradual transition towards trade liberalisation will allow ACP countries to participate in the global trading system and foster economic development. EPAs will not only provide market access opportunities but also regional integration and the strengthening of supply side capacities.

5. *Is there still a need for Trade Defence Instruments, and if so, how can these be designed to ensure that their effects are targeted and proportionate?*

Goods being exported at a price below their normal value due to subsidies, tax breaks or soft loans, for example, amount to unfair trade and lead to injurious effects on companies and sectors which are placed at a disadvantage. Trade defence instruments (TDIs) play a legitimate and necessary role in correcting the injurious effects of unfair trade and are therefore supported as a remedy. However, TDIs can themselves give rise to unfair trade if they are designed merely to protect domestic industry from the rigours of legitimate global competition. The FDF supports the former but not the latter.

TDIs must take into account the changing patterns of EU interests in the context of globalisation. For example, some EU companies have off-shored all or part of their production but still retain the vast bulk of their economic activities in the EU where value is added and employment remains significant. They do not sell directly to the market where production takes place, so EU TDIs ought where possible to seek to embrace their interests within a widened definition of European interests.

6. *What is the approach for ensuring that Intellectual Property Rights are protected? Do these rights hinder development goals—and if so, how can an appropriate balance be struck?*

Intellectual property right (IPR) infringements are a serious concern to the UK food and drink industry, as some of our members' brands have been fraudulently copied in third countries. The strong connection consumers have with certain brands is vital for a successful company. Counterfeit food and drink products threaten to destroy a brand's reputation through lower sanitary and qualitative standards, which more importantly can endanger consumer health. FDF does not agree with the view that IPR can hinder development goals. Our members' branded products have the right to protection on the global market. European trade policy must consider necessary mechanisms to ensure that third countries adhere to brand registration and protection regulations.

7. *Is there still a role for the World Trade Organisation (WTO) in the 21st Century?*

FDF agrees that there continues to be a role for the WTO in the 21st century. Ukraine has recently been approved as a new member of the WTO—its 152nd member—and hopefully, Russia will also be joining shortly. Countries still want to join the trade organisation and are prepared to reform their legislation, open markets and implement WTO-compatible measures in order to join. The WTO is the only global international organisation dealing with the rules of trade between countries. It enables its members to settle trade disputes fairly, take advantage of markets openings and gives them a clear set of multilateral trading rules.

26 February 2008

Memorandum by Ms Linda Kaucher, Researcher, London School of Economics

SUMMARY

The EU Trade Commission is including offers of labour liberalisation in its trade agreement negotiations on both multilateral and bilateral agreements. There is now, without doubt, a very high level of public concern in the UK on immigration, including labour migration, to date mostly focused on the commitments within the EU. Yet trade negotiations involving labour immigration from the rest of the world, are proceeding without public information or debate, or Parliamentary or press attention. Trade commitments, including those on labour liberalisation, are effectively irreversible, and member states will lose their power to adjust their labour immigration once those commitments are finalised.

This submission draws attention to this aspect of EU trade policy, focusing primarily on the EU GATS offer, tabled on 2 June 2005, and the EU/India Free Trade Agreement, due to be finalised in Spring 2009. In addition, the relevance and implications of the European Court of Justice decision on the Laval case are highlighted.

This submission has most relevance to question 2 on the Call for Evidence—What role can European trade policy play to stimulate growth and create jobs in Europe?

This submission indicates how EU labour liberalisation trade commitments may negatively affect EU workers, as well as potential negative broader effects.

I would be happy to attend an oral submission session in relation to the issues raised here.

1. The general understanding is that “trade agreements” are concerned with cross border trade in agriculture and manufactured goods. Considering the importance of services to the economies of the global North, there may also be an expectation that these are included. But there would be a little expectation that labour liberalisation, referred to in the General Agreement on Trade in Services (GATS) as “the movement of natural persons” or “Mode 4”, is also included in the EU’s trade policy, negotiations and commitments.
2. Despite the high level of public concern in the UK about migration and labour migration, information on such commitments that the EU Trade Commission is making on behalf of EU member states and affecting their populations, is difficult to obtain, is not put into the public sphere and is not debated in the UK Parliament.
3. The labour liberalisation aspect of EU trade policy trade is the focus of this submission.
4. The high level of public concern in the UK about labour migration is mostly focused on labour migration within the EU. As a member state, the UK is committed to the free movement of labour within the EU, under the current rules of the EU. However trade agreement commitments to labour liberalisation that the Trade Commissioner is making on our behalf, involve the movement of labour from outside of the EU, into the EU.
5. In the UK, newly introduced immigration regulations concur with the trade agreement offers that are being made, in prioritising highly skilled and skilled temporary workers. However unlike national immigration regulation, trade agreement commitments, including those on labour migration, are effectively permanent. Once finalised, such commitments at the EU level override member states’ right to regulate in order to adjust labour migration. An offer under the GATS is subject to the Most Favoured Nation rule, which means that it is an offer to all 150 WTO member states.
6. Neither the recently introduced UK immigration regulations, despite their focus on “skills shortages”, as yet undefined, or the labour liberalisation offers that the EU has included in its revised GATS offer (tabled at WTO 2 June 2005) have any numerical limits.
7. For these reasons, this Committee may be minded to give due consideration to this particular aspect of EU trade negotiating.
8. The fact that trade agreement commitments are effectively irreversible once made serves to emphasise the importance of full public debate, with consideration of the implications of such commitments, before they are made, on labour migration and on the full range of trade liberalisation commitments.
9. In Brussels, the lobbying mechanism for transnational capital, the European Services Forum, led by Lib Dem Lord Valance of Tummel, pursues labour liberalisation at both the multilateral level, in the WTO GATS, and in the opportunities afforded by bilateral Free Trade Agreements (FTAs) such as the EU/India Free Trade Agreement.
10. Corporate sector lobbying to encourage labour liberalisation may have several congruent aims. One is to increase the easily available supply of ready-trained workers, while encouraging a competitive wage market with downward pressure on wages and working conditions to increase profit, or “competitiveness”. But in addition, labour liberalisation enables overseas companies providing outsourcing operations to bring their own imported workforce. Thus it serves to facilitate low cost outsourcing here, allowing corporations to offload employer responsibilities, without the disadvantages associated with offshoring.
11. Clearly, however there are other perspectives to be considered, related to jobs, effects on labour standards, and the broader social effects of such employment shifts, as well as the implications of increased migration, for instance affecting housing supply and public services.
12. Women, of whom a high percentage are employed in services areas, may be particularly disadvantaged by labour liberalisation especially in its inherent encouragement of outsourcing. The female labour force is traditionally “expendable”, when labour conditions change; and women are often in effect disadvantaged in employment by the legal requirements of maternity leave. With a significant shift to further outsourcing, employment security for women is likely to suffer. This is due both to shifts in labour demand from parent company to outsource company, which often entails a shift from secure jobs to temporary contract employment, or, worse, the loss of jobs to migrant workers. Consequently, financial insecurity flowing on from labour liberalisation may negatively affect the birthrate of the indigenous population.
13. Similarly, the effect on the skills training of young people should be taken into account. While the Government has encouraged young people to acquire a “skills edge” by undertaking university education, the trade commitments in labour migration apply to highly skilled and skilled labour. Therefore home trained graduates, who have acquired a study debt, will be subject to intense job competition and downward pressure on earnings and labour standards, from the influx of highly skilled and skilled migrant labour. This is a disincentive to train, as it has proven to be in Australia in relation to Information Technology training, even though the Australian immigration system is being proposed as the model here. In this way, “skills shortages”,

the justification for trade agreement labour liberalisation, rather than being existing phenomena, are actually being created, in the process.

14. A further reason for urgent attention to the labour migration aspect of trade agreements is the fast tracking of the EU Free Trade Agreement negotiations. In the EU/India Free Trade Agreement, labour liberalisation, that is access for Indian workers into the EU, is a high priority for the Indian Government.

15. According to the Secretary of State for BERR, Gareth Thomas, (holding answer to Parliamentary written questions, 10 December 2007), the India/EU FTA is due for completion in Spring 2009. This highlights the urgency of debate on these issues.

16. For reasons of historical background, language and the lead role the UK has in services (according to this Committee's 14th report "services account for an even higher share of employment in the United Kingdom than in the Eurozone"), and especially in financial services, highly dependent on IT, any labour liberalisation aspect of trade commitments between the EU and India is likely to have an amplified effect in the UK, within the EU.

17. Although the Committee's own 14th report (2005) concluded that negative effects from migration were unlikely in the foreseeable future, events, migration numbers and public opinion have significantly undermined this prediction in the intervening years. In addition, that report failed to take account of the social consequences of significant migration.

18. Further, the report showed that the Committee had accepted several sets of evidence, for instance from the Immigration Minister, Tony McNulty, and from UNICE, that were factually incorrect. For instance, EU commitments under international trade agreements, which include the movement of temporary labour, can indeed undermine national migration policies, as the policy space for the government of a member state is lost once an EU trade commitment is finalised.

19. In addition, evidence from the Commission's Directorate General for Justice, Freedom and Security, referred to in the Committee's conclusions on its 14th Report, claiming that temporary workers return to their home country is now much less likely to be true, when current UK immigration regulations allow workers on temporary work visas to apply for residence and, eventually, for citizenship.

20. The contributing factors in how the entry of temporary migrant workers, without numerical limits, may affect labour conditions here, must include reference to the European Court of Justice decision on the *Laval v Swedish Construction Union* case, handed down in December 2007.

21. Although the case involved an EU company, this court decision is highly significant for labour liberalisation commitments in trade commitments.

22. A subsidiary of Laval, a Latvian construction company, was bringing Latvian workers onto Swedish work sites, at Latvian rates of pay. The Swedish Construction Union took industrial action against the company, with the consequent bankruptcy of Laval's subsidiary. Laval took the case to the European Court of Justice. While the Court affirmed workers right to take industrial action, the decision made it clear that this is subordinated, in the judgement, to the right of business to establish. One implication of the Court's decision is that, without a minimum wage being established in the host country member state, a company can pay home country rates to migrant workers. This, then, effectively forces the establishment of a minimum wage, along with a single, minimal, national bargaining agreement.

23. The result is a simplification of the requirements on EU businesses establishing in another member state. Only the minimum wage requirement, and the requirements of the single, minimal bargaining agreement have to be met—regardless of skills levels; indeed, the ECJ judgement suggests that the Court will not consider as "reasonable" any industrial action with demands beyond that.

24. It is notable that in the negotiations on the EU/India trade agreement, not only is this very language of business' "right to establish" being replicated, but that this part of the negotiations that is proceeding most smoothly, with least disagreement between BERR and the Indian Government.

25. Within EU trade policy, liberalised establishment conditions parallel to those for EU companies are being offered to overseas companies. Therefore the principles established in the recent ECJ rulings in respect of EU companies are likely to be relevant to any similar dispute between an overseas company establishing in the EU and EU workers.

26. The overall effect on working conditions is potentially very severe, putting UK workers in competition with workers from outside the EU who need only to be paid the minimum wage, regardless of skills. Labour migration concerns to date in the UK have been, primarily, a labour competition issue for unskilled workers, but these trade commitments in the areas of skilled and highly skilled work involve a competitive creep in the

attack on labour standards, up the skills ladder, including for those who have been encouraged to enter University.

27. Meanwhile, although in some member state parliaments EU trade offers and negotiations are discussed, the UK public has not been allowed to know what is being negotiated on its behalf.

28. The EU revised GATS offer, including Mode 4, was tabled on the weekend of the Dutch and French referenda on the EU Constitution, and was not publicised.

29. The Round of GATS negotiations for which the EU offer is made, is not finalised. However, it is unlikely that an offer will be retracted during negotiations, especially as a “modelling” process is being used to encourage greater commitments from countries; it is more likely that an offer will be further advanced. And still more likely if those who may be negatively affected, notably UK workers, are unaware.

30. The transnational services investment lobby, represented in the UK by International Financial Services London, in Brussels by the European Services Forum and in Geneva by the Global Services Coalition, is fully aware and is actively lobbying for the inclusion of the entry of temporary migrant labour into the EU in trade agreements. However, this Sub Committee, the Lords EU Committee, and members of both Houses of Parliament, are charged to act in the interests of the UK population.

29 February 2008

Memorandum by Glenys Kinnock MEP, European Parliament

MULTILATERALISM AND BILATERALISM

1. Currently, the EU's over-riding priority is to ensure a successful, and timely, conclusion to the DDA negotiations. But DG Trade, it seems, remains willing to take new initiatives and risks that could detract from the EU's ability to achieve that goal. On 4 October 2006, the European Commission adopted a Communication setting out its new trade policy strategy *Global Europe: Competing in the World*. This represents a contribution to the EU's Growth and Jobs Strategy, but more significantly, a desire to be part of the race for Free Trade Agreements.

2. In the current situation, some of Europe's main developed and developing trading partners are increasingly engaged in bilateral and regional FTAs. The Commission proposes to conclude a series of agreements with partners, mainly advanced developing economies, for example, ASEAN, South Korea, Mercosur, India, Russia and the Gulf Cooperation Council.

3. This kind of approach is entirely consistent with the EU's trade practices since the mid 1990s. This has involved the adoption of a twin-track approach—multilateral and bi-lateral—intended to promote a single, integrated trade policy agenda. If that agenda gets blocked in one channel (the multilateral) then it is taken up in the other channel (the bilateral). Most recently this approach was demonstrated in the EPA negotiations, when, following the rejection of negotiations on a wide range of trade related issues at the Cancun WTO Ministerial, and again at the Hong Kong WTO Ministerial, the EC began to aggressively advocate these issues in an EPA context, with, in the immediate months following Ministerials, “new generation issues” (particular services and investment), becoming the focus of EU presentations in meeting after meeting on EPA negotiations. The EC was and is still consistently advocating a WTO+ approach.

4. It is maintained that the EU's new trade strategy “will help pave the way for the next generation of global trade liberalisation, ensuring that FTAs are a stepping stone for progressive liberalisation, within the WTO system” (Mandelson). But do FTAs really strengthen the multilateral system? Surely the multilateral trading system continues to be the most promising venue for broad-based and non-discriminatory trade liberalization and should continue to be the EU's priority and preference. Providing equal opportunities for trade would enable both EU members, and others, to exploit their comparative advantage in ways that are not narrowed or distorted by bilateral and regional preferences.

5. With respect to bilateral and regional free trade agreements, there should be demands for rigorous evaluation of the likely impact on EU members, chosen partners and third countries that might suffer erosion of their preferences. There may, indeed, be cases in which the interests of the EU and potential partners could be served through well-tailored bilateral FTAs without harming others but they are likely to be rare.

6. The EC's current list of criteria for choosing FTA partners inevitably excludes least developed and marginalised countries, and the implications of this “spillover effect” must be addressed before bilateralism is pursued. The difficulties of bilateral negotiations, and the risk of unintended side effects, suggest that we should adopt a cautious and case-by-case approach to any proposed negotiations.

EU TRADE POLICY AND INTERNATIONAL DEVELOPMENT

7. The overall aim of the EU's trade strategy is to support internal processes of reform and to work towards the more effective engagement of the EU economy with the challenges of globalisation.

8. It is clear that for the EU, particularly in the agricultural sector, internal reform and restructuring comes first, and market liberalisation follows. This is why complete Duty Free Quota Free (DFQF) access for rice, bananas and sugar were deferred under Everything But Arms (EBA) in favour of least developed countries. EU rice sector reform was only agreed in 2003, sugar sector reform was only agreed in 2005, while proposals are only now on the table for the reform of the internal EU banana regime.

9. At the appropriate juncture (i.e. when internal reforms are approaching completion or are firmly in place), and only at the appropriate juncture, does the EC abandon systems of tariff based protection domestically and seek to promote greater market openness in those markets where European companies feel themselves best placed to compete. Eg: The EU-South Africa Free Trade Area Negotiations: In 1994 the South African government proposed an approach to liberalisation of food and agricultural product trade which accepted as its starting point "full liberalisation in principle, with a limited number of exceptions for sensitive products". The EU firmly resisted this approach because at that time the process of CAP reform was only just beginning and the EU had a long way to go in its internal reform processes before it could contemplate such an open approach to trade liberalisation. The net effect of this EU position was that after five years of hard negotiations South Africa was able to secure the elimination of duties of only 61% of its agricultural exports to the EU.

10. Only after 14 years of CAP reform, which has seen the EU shift assistance for its agricultural and food products sector from support for agricultural prices to support for agricultural producers, has the EC become able to advocate such an approach.

11. As the expansion of EU financing of agricultural programmes since 1992 illustrates, the EU approach to the creation of an environment of free trade is limited to the elimination of tariffs and those trade related areas to which the EU gives priority. In 2005 the OECD estimated that farmers in developed countries received \$279 bn in subsidies—an amount equivalent to more than 60% of the GDP of all sub-Saharan African countries combined.

12. The UK has taken forward the issue of CAP reform as part of the wider debate on the future of Europe. The UK Presidency achieved a consensus on a general review of the EU budget structure at priorities—an important part of the Budget review will be the CAP. The UK's starting position has never been that it should simply be abandoned or slashed overnight but that we need a properly planned process of reform.

13. The EC approach evidently does not extend to the elimination of all forms of agricultural support which have an impact on production decisions and trade outcomes. The EU argues that this would undermine its sovereign right to set broader social and environmental policy priorities.

14. The EU claims that its new forms of agricultural support are "non-trade distorting", despite the fact that its own reports on the cereals regime reveal that in the absence of direct aid payments most EU cereal farmers would "reduce their arable farming by at least 50%". The EC's approach to free trade is therefore biased while its defence of this policy is unconvincing.

EPA NEGOTIATIONS: TOOLS FOR DEVELOPMENT?

15. I have been following the EPA negotiations from the outset. Negotiations started with the best of intentions—to agree WTO compatible trading arrangements that would contribute to poverty alleviation, development and regional economic integration. The stated aim was to replace the market access arrangements that had been in place since the mid-1970s, but had not had the intended impact on expanding trade and contributing positively to economic growth in ACP countries. But by the December 2007 deadline, conflict and contention surrounded the process. The Commission negotiators had approached the talks on EPAs as if they were conventional free trade area negotiations focused on market opening, rather than as tools for development. One senior Commission official described DG Trade's approach to me as "the worst PR disaster in years". With the exception of the Caribbean, the depth and breadth of agreements have had to be scaled back, with WTO-compatible interim deals on mainly goods trade being signed in haste. The parties will now continue negotiations towards more comprehensive EPAs.

16. In December 2007, ACP Ministers, including those that had already initialled interim deals, collectively expressed "serious concern" over the status of EPA negotiations. They "deplored the enormous pressure that has been brought to bear on the ACP states by the European Commission". Particular concerns were expressed at "the declaration by the European Commission that the non-conclusion of interim trade agreements could lead to serious disruption of the ACP-EU trade". In this context ACP Ministers underlined

the importance of regional markets and emphasised “the need to prioritise regional integration processes within the ACP, over free trade with the EU”.

17. Perhaps the biggest casualty has been regional integration. It has been reiterated time and time again that regionalism is one of the key components of a progressive development strategy, indeed the six ACP negotiating groups were expected to evolve into free trade areas or customs unions. But as the deadline drew closer, the Commission’s policy of concluding separate deals with individual states or groups of countries, effectively splintered the regions, creating tension and suspicion between them. By pressing countries to sign individual or sub-regional EPAs, many ACP countries have now committed themselves to liberalising to the EU before they have decided what to liberalise to each other (in the case of Common Market for East and South Africa, for example), leading to defensive between regional neighbours and the danger of greater barriers to regional trade.

18. We still do not have a clear picture of what has been concluded by each country and how. But it certainly appears that EPAs will end up closely resembling the EC’s ambitious bilateral agreements, with very few development concessions thrown in. It has been estimated by the International Food Policy Research Institute (IFPRI) that a full implementation of EPAs in 2035, EU exports to the ACP would actually increase by €29.4 billion while ACP exports to the EU would fall by €6.5 billion.

19. The lessons from the lengthy time-frame the EU required for its own internal adjustment to prepare for market opening, and the vast financial outlays required in support of this process, have not been influential in determining an appropriate content and time-frame for trade liberalisation for African countries under the proposed EPAs. In the EU, there is €55 bn a year to support the process of change and yet ACP agricultural producers are supposed to restructure their economies and to cope with a liberalised trading environment in circumstances where they are drought prone, flood prone and still using hoes and donkeys to plough their fields. These are all realities we have to take into account when pursuing market liberalisation and trade agreements with developing countries. The European Commission must engage with the ACP in an open discussion about those practical realities so that we can find practical solutions.

20. Concerns about the initialled interim agreements focus on the following: Pace and scope of ACP market opening; Scope of EU market opening (Rules Of Origin); Inadequate safeguard clauses for ACP countries; Services and investment; Regional integration; Commitments on development; Dispute settlement, Monitoring, Evaluation and Review Mechanism. The ACP were heartened by what they perceived to be a commitment by President Barroso at the EU-Africa Summit in December 2007, to provide opportunities for adjustment and re-assessment of the interim agreements. Despite this, the extent to which these interim trade can be revised remains uncertain. Recent declarations by Commissioner Mandelson suggest that he does not want to reopen and renegotiate interim deals. This is felt to be inconsistent with the fact that, for instance, the Central and West African deal contains explicit reference to the possibility of adjustment at regional level and similarly Namibia’s contains annexed reform to amendment. In the interests of parity and consistency, and where some have secured concessions actually denied to others, it should be agreed that such provisions can be integrated, if so desired, into ACP countries or groupings final EPA.

21. Now is the time for building bridges and for a fair process involving a considered assessment of the content of the interim deals. It also means seeking ways to support identifiable priorities on capacity, on regional integration, and development concerns. There has to be a more participatory approach, more transparency, respect and understanding for ACP regional and national interests. It must be clear too that development finance is not dependent or conditional on the signing of an EPA so that finally there is provision for adjustment of interim agreements including the right to bring into one EPA what has been agreed in another.

22. In order to successfully fulfil its mandate to conclude Economic Partnership Agreements with the ACP that are first and foremost tools for development, building on and strengthening the regional integration process, the EU needs to work on a development friendly trade package.

23. We urgently need a further opening of EU markets to ACP products. In order to significantly increase exports from ACP to developed country markets, access should be extended to all ACP products and all ACP countries, including non-LDCs. Agricultural products are particularly important as agriculture is the main occupation in ACP countries. It is essential that these benefits apply to goods for which ACP has good export potential, such as textiles and apparel, footwear, sugar, rice, fruits and vegetables. In order to truly grow through trade, Africa must be able to add value to its own goods, and not remain a source of cheap primary products or basic commodities. It is also essential that trade privileges are extended to the larger economies which are not LDCs so that they become drivers for growth across the continent.

24. The EU should address the need for reform of rules of origin. The complexity and strictness of the rules of origin requirements, especially in the EU, make these programmes extremely difficult to access and add an average of 10% to export costs. The amount of ACP content required by these programmes also varies, making

it complicated for ACP producers to export to different markets. Both the Commission for Africa and the World Bank recommend a low value-added rule of origin of 10% which would allow African countries to import low-cost inputs, contribute value to the final product and still qualify for duty free access. These types of adjustments would cost developing economies very little and make ACP products much more competitive.

25. The EU should maintain support for “less than full reciprocity” for developing countries in all trade negotiations. ACP should not liberalise abruptly. Like other regions (eg the EU), it should plan a gradual transition during which firms can adjust production and governments can adjust revenues.

26. Through the DDA, the EU should reduce/eliminate the subsidies that harm ACP producers. Priority should be placed on those subsidies which have the greatest impact on the ACP, including rice, sugar, poultry, cotton, and fruit and vegetables. In 2013, 55% of the total European budget will be spend on either agriculture or subsidies for the richest countries in the European Union. The UK needs to work with like minded partners in the EU to ensure to reform the EU budget so that it spends our money on what really matters to people.

27. The EU must undertake enhanced Aid for Trade commitments that address ACP supply side constraints. Development aid has been promised by the Commission as an integral part of EPAs. Indeed Europe’s proposals will be very costly. Tariff liberalisation will cause substantial loss of customs revenue. Conservative predictions suggest that the Gambia, for example, would lose about 22% of government revenue as a result of loss of import tariffs under an EPA. In addition, the EU’s proposals would place a costly administrative burden on ACP economies. A recent Commonwealth Secretariat study estimates that the overall cost of adjustments for the entire ACP would amount to €9.2 billion. The EU claims that money for the 10th European Development Fund, covering the period 2008–13, and pledged at €22.7 billion will be enough to cover both ongoing development assistance plus additional EPA adjustment costs. The Member States promised a further €1 billion a year but I think we can fairly assume since it has not yet been committed it is unlikely to ever materialise. ACP governments have put pressure on the EU to make binding commitments in the legal text of each EPA to provide the resources necessary. However, the EC argues that EPA negotiations are about trade, not development aid.

28. Special provisions must be effectively sequenced and coordinated between trade policy and poverty alleviation strategies so that there will be real and positive effects. Currently, intra-African trade accounts for less than 10% of the region’s exports, which trade with Europe accounts for approximately 40% of exports. ACP countries must have the ability to develop trade and poverty alleviation strategies that not only enhance trading relations with developed countries, but also encourage stronger and more complex regional trading relationships.

23 February 2008

Memorandum by International Chamber of Commerce (ICC) United Kingdom

1. The International Chamber of Commerce (“ICC”) is the largest, most representative business organisation in the world. Its thousands of member companies in over 130 countries have interests covering every sector of private enterprise. The United Nations, the World Trade Organisation (“WTO”), and many other international intergovernmental bodies are kept informed of the views of international business through ICC. ICC United Kingdom (“ICC UK”) is the British affiliate of ICC. Members in the UK include 17 of the top 20 FTSE companies, many smaller firms, law firms and business associations.

2. ICC UK takes an active role in policy discussions on international trade and investment, and we very much welcome the opportunity to respond to this call for evidence. This submission has been produced in consultation with the membership of ICC UK and is based on existing positions formulated by ICC. In the interests of brevity, this response is focused on a number of key issues falling within the terms of the inquiry. Should you wish any expansion or clarification of our views we would be happy to respond to any written queries and also to provide oral evidence to the Committee.

What are the future prospects for multilateral trade negotiations? What effect will the rising number of bilateral agreements have on the existence and further development of multilateral agreements?

3. The Doha Development Agenda (“Doha Round”) has progressed slowly, with periodic crises and a string of missed deadlines and opportunities. Most recently, several months of intensive consultation and negotiation on agricultural and industrial tariffs, on the basis of draft modalities texts circulated in July 2007, failed to produce the breakthrough which could have heralded the conclusion of the Doha Round in early 2008. While this is clearly disappointing, ICC believes that a good deal can still be struck even at this desperately late hour—particularly as there are many hard-won, trade-enhancing measures already on offer. What is needed now, above all, is decisive leadership at the highest political level to facilitate rapid progress

on the contours of a balanced package of measures which substantially improve market access in agriculture, industrial products and services, advance the important task of trade facilitation, and strengthen WTO rules. The appearance of revised modalities on agricultural and industrial tariffs in February 2008 should be regarded as the starting gun for the last great effort to bring the Round to a conclusion in 2008.¹²

4. Beyond the very substantial gains which would accrue from a balanced Doha Round agreement,¹³ it is also essential that WTO members give due consideration to the long-term importance of safeguarding and strengthening the multilateral trading system. This system has shown itself to be what is arguably the greatest success story of international cooperation and represents a major driving force for growth, job creation, and wider consumer choice. It also plays a vital role in helping to keep in check the ever-present threat of protectionism and fragmentation—a particularly salient issue at the current time when major imbalances in the international economy and concerns over a possible global economic downturn are fuelling protectionist sentiment. The European Union (“EU”) should therefore continue to commit to the multilateral system as the central plank of its trade policy.

5. While the number of preferential trade agreements (“PTAs”) notified to the WTO has increased in recent years,¹⁴ these figures should be viewed in an appropriate context so as to avoid overstating the importance of PTAs to the international trading system. In this connection, it is particularly instructive to note that:

- (i) more than 20% of the current PTAs notified to the WTO consist of intra-European trade agreements which are a “mechanical” product of the EU’s single market programme. As a consequence, changes in intra-European policy have a disproportionate and distortionary impact on the number of PTAs notified to the WTO. This is perhaps best exemplified by the 2004 enlargement of the EU to encompass 10 Central and Eastern European states which lead to 12 bilateral agreements disappearing from the WTO scoreboard at a stroke.
- (ii) the increasing number of PTAs notified to the WTO also reflects to an extent the growth of the WTO membership itself. Research has shown that factoring the (increasing) number of PTAs by the (increasing) number of WTO Members suggests a much lower rate of increase in the number of PTAs—in fact, about a quarter of the headline figure usually cited according to one study.¹⁵

6. Nevertheless, the intent shown in the last two years by the European Commission to negotiate more bilateral agreements raises an important question as to whether this change of (political) emphasis can be reconciled with the EU’s primary commitment to multilateralism in trade.¹⁶ While empirical evidence is too limited to draw strong conclusions as to exactly how PTAs affect the multilateral system, it would seem fair to suggest that regional or bilateral agreements can be substantial complements to the WTO system—enabling parties to conclude levels of liberalisation beyond the current multilateral consensus, and providing opportunities for trading partners to address specific issues that do not register on the existing WTO menu. Moreover, by eroding existing preferences and acting as laboratories of international cooperation, PTAs can serve as the “building blocks” of future rounds of multilateral liberalisation.

7. In this context, the key question is not so much regionalism or multilateralism, but how best to ensure that the two are compatible.¹⁷ To this end, the new WTO transparency mechanism adopted in December 2006 should be viewed as a welcome institutional initiative to encourage countries entering PTAs to adopt rules that lead to greater complementarity with existing multilateral arrangements. Specifically, by mandating the WTO Secretariat to prepare a report on notified PTAs, the mechanism should function to inform the rest of the WTO membership to some of the rules and practices in PTAs that adversely affect the integrity of the multilateral system as a whole. A strengthening of the WTO rules disciplines under the Doha Round in particular the conditions imposed by GATT Article XXIV on countries entering into free trade agreements—would further enhance the integrity of the multilateral system and the principle of non-discriminatory trade.

¹² This objective implies, as a best-case scenario, that following agreement on the modalities around Easter, agreement would be reached on all other subjects, and on the conversion of all agreements into legally binding commitments, by the end of 2008. This would leave time for US acceptance of the deal, on the basis of a Doha-specific trade promotion authority, in the “lame-duck” session before the advent of the new President.

¹³ The UK Government’s 2004 Trade and Investment White Paper cited World Bank research estimating that an ambitious Doha Round agreement could see global gains of \$250 billion–\$600 billion per year by 2015. More recent models of more moderate Doha scenarios suggest estimates of real global income gains of \$95–\$126 billion per year by 2015.

¹⁴ Throughout its existence (1948–1994), the General Agreement on Tariffs and Trade (“GATT”) received only 124 notifications of PTAs. But since the creation of the WTO in 1995, over 160 additional arrangements covering trade in goods or services have been notified. As of 1 March 2007, there were 194 notified PTAs in force.

¹⁵ See: Patrick Messerlin (2007) “Assessing the EC Trade Policy in Goods”, Jan Tumlir Policy Essays No 01.

¹⁶ See eg: European Commission (2006) “Global Europe: competing in the world”, Brussels, 4 October [available at: http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc_130370.pdf].

¹⁷ Particular concerns in this respect include the effect of differing rules of origin which have been shown to stifle technological developments, networks and joint manufacturing, and to unduly restrict third-country sourcing, leading to substantial trade diversion. By the same token, the growing maze, or “spaghetti bowl”, of competing PTAs with incompatible regulatory structures and standards represents a threat to the predictability of the WTO system.

8. To complement developments at the international level, and having regard to the 2001 Gothenburg Council Conclusions,¹⁸ ICC UK suggests that the European Commission should systematically undertake an impact assessment of any proposed E PTA, having particular regard to possible effects on the multilateral system. Specifically, this should encompass an evaluation of: (i) consistency with the principles of transparency and predictability under the WTO rules of origin; (ii) compatibility of regulatory structures and standards; and (iii) the EU's administrative capacity to manage concurrent bilateral and multilateral trade negotiations.

What should be the relationship between European trade policy and policies on development, climate change and depletion of natural resources?

9. In view of growing global concerns related to international climate change, there is a strong case for creating an open global market in environmental goods and services so as to accelerate the diffusion and deployment of clean energy and "climate friendly" technologies. This process of liberalisation can be best achieved through the Doha Round trade and environment mandate which includes a commitment to reduce or eliminate tariff and non-tariff barriers to trade in environmental goods and services. Although these negotiations have regrettably faltered to date, achieving a far-reaching and flexible deal on this dossier should be viewed as an underlying imperative of the EU's climate change strategy. Should a multilateral agreement ultimately prove elusive, the E may wish to give consideration to the possibility of negotiating a plurilateral WTO agreement on low emission goods similar to those which have already been agreed in sectors such as information technology and government procurement.

10. As Commissioner Mandelson has noted, while the global response to climate change can be strengthened by the right trade policies, it can also be weakened by the wrong ones.¹⁹ In this connection, the level of attention paid in recent months to the idea of imposing taxes on carbon intensive imports is a cause for particular concern. Even if such a tariff could be justified under current WTO rules, it is clear that leaving the door open to pursuing a punitive approach to international cooperation on climate change is politically clumsy—particularly at a time when the Parties to the UNFCCC are committed to negotiate a new international agreement on climate change by 2009. More fundamentally, restricting imports easily leads to covert protectionism, which would adversely impact global economic growth while doing little to advance the EU's climate change objectives. We would urge European legislators to give much further consideration to these issues in the context of the European Commission's recent legislative proposals on climate change and energy.

11. To the extent that there are concerns regarding the international competitiveness of European industry in view of the carbon disciplines imposed by the EU's ambitious commitments to mitigate climate change, we suggest that these should be addressed through a recalibration of the proposed methodologies for allocating carbon allowances and/or an easing of restrictions on the use of offset credits in the EU Emissions Trading System post-2012. The EU may also wish to consider how positive sanctions—such as the offer of access to finance for technology transfer—could be employed to encourage developing and emerging economies to enter into future international/sectoral agreements on climate change.

12. With a view to ensuring that trade and climate change objectives are advanced in a mutually supportive manner, we would also urge European policy makers to give further attention to the benefits of promoting more intensive high-level engagement and interaction on the issue of trade and climate change at the international level. Having regard to the recommendations forwarded by trade ministers at the recent UN Convention on Climate Change, specific steps should include: (i) encouraging future hosts of UNFCCC meetings to hold further dialogues of trade and economic ministers; (ii) strengthening and enhancing engagement between the WTO and UNFCCC; and (iii) further empirical study of the interface between trade and the environment.

Have developing countries benefited from multilateral trade agreements? What steps should European trade policy take to help less developed countries reap the benefits of global trade?

13. Open avenues for trade and investment are essential to enable developing countries to seize opportunities for accelerated and sustained development. Whilst income disparity between developing and developed countries is still large, broader access to information and technology-laden capital and imports offers developing countries the ability—and moreover the incentive—to narrow this gap. One recent World Bank

¹⁸ [Available at: http://ec.europa.eu/governance/impact/docs/key_docs/goteborg_concl_en.pdf].

¹⁹ Commissioner Peter Mandelson (2006) "How trade can be part of the climate change solution" [available at: http://ec.europa.eu/commission_barroso/mandelson/speeches_articles/sppm136_com_en.htm].

study finds, for example, that openness to trade and investment has facilitated rapid technological progress leading to income growth and poverty reduction in many developing countries over the past two decades.²⁰

14. In addition to the substantial economic and societal benefits which accrue to developing economies from integration into the world economy, the rules-based multilateral system plays a vital role in insulating developing countries from the vicissitudes and “power politics” of international trade by providing greater certainty about the terms of engagement between nations. Two major achievements of the Uruguay Round of the GATT are particularly worthy of mention in this regard. First, the high percentage of bound tariffs agreed for agricultural and industrial goods has served to render the world trading system more stable and predictable. Second, the establishment of the WTO Dispute Settlement Understanding (“DSU”) moved disputing parties from a power-to a rules-based orientation in settling their differences. As a consequence, a new development over the last 10 years has been the more frequent use of the DSU by developing countries which have instigated more than 40% of disputes under the WTO as compared to 30% during the years of the GATT. Notably, the DSU is increasingly employed by developing countries to solve disputes amongst themselves: 42% of developing country complaints under WTO have been directed against other developing countries as opposed to merely 5% under the GATT.

15. WTO rules and procedures also allow developing countries to enjoy increased bargaining power in international trade negotiations. Without the WTO system, developing countries would have to deal with each of the major economic powers individually, and would be much less able to resist unwanted pressure. While the role of the largest countries remains central, by forming alliances, pooling resources and accessing technical expertise, developing countries are able to exert much greater influence over the outcome of multilateral negotiations.²¹ Once entered into, multilateral agreements are easier to maintain—both for governments and local industries—than a multiplicity of bilateral agreements with overlapping and complicated rules of origin requirements.

16. Nevertheless, for a majority of least-developed countries, the integration into a fast-paced and competitive global economy is not an easy task. The challenge for WTO members is therefore to make the prosperity that flows from multilateral liberalisation available to the fifth of the world’s population still living in deep poverty. To assist this process, capacity building for those countries unable to finance improved border management should form an integral part of any WTO agreement on trade facilitation under the Doha Round.

17. In this connection, ICC believes that WTO members should make binding commitments through the Doha Round to: (i) encourage WTO members to integrate the private sector perspective in their efforts to improve facilitation; (ii) build capacity to manage change in member customs authorities based on common standards and compatible practices; (iii) assist the private sector in developing countries to fully understand and utilise improved trade facilitation rules and practices; (iv) measure the benefits achieved through the process of capacity building; and (v) promote a coherent approach towards capacity building amongst governments and international organisations.²² With regard to the latter, we would urge European policy makers to give further consideration to how the new EU strategy on “aid for trade” can be best co-ordinated with the activities of other donors, not least as part of the WTO’s ongoing work in this field.

Is there a need for Trade Defence Instruments, and if so, how can these be designed to ensure that their effects are targeted and proportionate?

18. While free and open markets will always be in the best interests of all economic actors, there remains a general worldwide business interest in a transparent and balanced trade defence policy, providing a remedy to ensure “fair” competition in the global economy. Over the past decade however, anti-dumping actions have proliferated.²³ The WTO reports that a worldwide total of 2,938 anti-dumping actions were initiated in the period from 1 January 1995 to 30 June 2006. These levels of activity suggest a substantial burden on international trade and it is thus timely for all WTO members to reflect on their conduct of actual cases, and

²⁰ World Bank (2008) “Global Economic Prospects 2008: Technology Diffusion in the Developing World” [available at: <http://go.worldbank.org/TC26UFESJO>].

²¹ 10 See eg: Sheila Page (2002) “Developing Countries in GATT/WTO Negotiations”, Overseas Development Institute Working Paper [available at: http://www.odi.org.uk/iedg/participation_in_negotiations/wto_gatt.pdf].

²² For a full set of business recommendations related to capacity building under the Doha Round see: ICC (2007) “Updated ICC recommendations for a WTO agreement on trade facilitation”.

²³ It should be noted that anti-dumping activity in the first six months of 2007 dropped to a record low since the creation of the WTO in 1995. Recent analyses have suggested whilst the overall trend in anti-dumping activity is likely to be significantly upward from current levels, it is highly unlikely that anti-dumping activity will increase to the levels seen around 1999–2001. For a full discussion of recent trends see: Cliff Stevenson (2007) “Global Trade Protection Report 2007”.

the positions they take in Doha Round negotiations on anti-dumping disciplines. The European Commission's recent decision to shelve proposals to reform the EU's trade defence mechanisms—owing primarily to Member State divisions regarding how non-producer interests should be factored into investigations—is therefore particularly disappointing.

19. As a general point of principle, the application of antidumping measures should be transparent, consistent and predictable in order to minimise the harm and costs these measures can create for business and the multilateral system as a whole. In the context of the ongoing Doha Round negotiations, this can be best achieved by agreeing on clarifications and improvements to the GATT Anti-Dumping Agreement (“ADA”) based on existing standards of international best practice. Suggested steps include: (i) establishing a mechanism to monitor implementation of the ADA and periodically publishing recommendations on best practice, at least every two years; (ii) enabling access to meaningful non-confidential information and the disclosure of legal and factual determinations in a timely fashion; (iii) establishing stricter requirements to be followed in the determination of dumping, injury and causation; and (iv) establishing standards of initiation, model/standard questionnaires, and standard investigation timelines to reduce the burden of anti-dumping proceedings.

20. It is clear that the anti-dumping negotiations present a difficult challenge to WTO members who will have to find a delicate balance between competing objectives, such as the promotion of transparency and protecting confidentiality. In this regard, the leadership of the EU will be key if the Doha Round is to help achieve an appropriate balance and encourage a more harmonised, disciplined and transparent approach in the implementation of the ADA.

What is the best approach for protecting intellectual property rights? Do these rights inhibit development goals—and if so, how can an appropriate balance be struck?

21. ICC has consistently advocated cost-effective and non-discriminatory systems for the protection of intellectual property rights, and therefore strongly supports the objective of the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS”) to narrow the gaps in the way these rights are protected around the world, and to bring them under common international rules. ICC attaches primary importance to the effective implementation by WTO Members of their commitments under TRIPS and continues to support the basic principles of the Agreement—namely, national treatment and most-favoured-nation treatment; non-discrimination among sectors and fields of technology; and the maintenance of an adequate balance between rights and obligations.

22. The question of how the intellectual property system can respond to the specific needs of developing countries is a complex issue which has been debated in numerous fora, most notably the World Intellectual Property Organization in the context of its “Development Agenda”. In practice, however, many countries at all stages of development are using the protection of intellectual property to grow and expand local innovation based industries. This is reflected by the changing geographical landscape of patent protection, as the boom in patent applications in northeast Asia have made the Republic of Korea and China respectively the fifth and fourth largest patent offices in the world, with 50% of all patent applications in China in 2004 being domestic in origin. In similar vein, the enactment of a new patent law in India in 2005 has led to increased investment into pharmaceutical research and development in India by local and multinational companies—indeed, the management consultants McKinsey estimate that by 2015, US and European pharmaceutical companies will spend US\$1.5 billion annually in India on clinical trials alone.²⁴

23. Despite this progress, a good number of countries that are currently obligated to implement the TRIPS Agreement have, in fact, not done so. ICC believes that, rather than reopening the TRIPS Agreement, technical assistance should be provided to these countries in order to build up their capacity to implement the accord fully.

24. A major concern for business at the current time is the pronounced growth of counterfeiting and piracy worldwide. Once a problem associated with CDs and luxury goods, counterfeiting and piracy now seriously damage an enormous range of industries. Aside from the economic drain associated with this phenomenon, counterfeit goods pose a major risk to consumer welfare, particularly in the case of pharmaceuticals. However, government resources allocated to combating counterfeiting and piracy are often woefully inadequate

²⁴ T Padma (2005) “India's drug tests”, *Nature* 436 (28 July 2005) [available at: <http://www.nature.com/nature/journal/v436/n7050/full/436485a.html>]

compared to the scale of the problem. ICC's Business Action to Stop Counterfeiting and Piracy ("BASCAP"), in collaboration with other business organisations, has succeeded in making this issue a higher priority on the agendas of some governments, but much work remains to be done.

28 February 2008

Memorandum by UK Sporting Goods Industry Association (UK)

The UK Sporting Goods Industry welcomes the House of Lords review and we hope it will lead to significant steps towards articulating a new EU trade policy favoring ambitious bilateral trade agreements, a more rigorous pursuit of EU economic interests in overseas markets, and greater recognition of the complexities of global supply chains.

1. PROSPECTS OF MULTI-LATERAL DEVELOPMENTS

In a global trade environment in which we are working as an industry—multi-lateral trade agreements are the preferred solution, as it controls dramatically the complexity of managing international trade. But in the current international political climate it is unlikely such agreements have the possibility for significant, and many third country governments defend their interests via bi-lateral agreements, there is no alternative to EU than to follow such an approach. Otherwise the international competitiveness of EU-located industries could suffer comparably. Bi-lateral agreements are seen as a second best alternative, as each agreement is potentially different from others, which makes it difficult to follow and make use of it for our industry's advantage. Further to that each has its own schedule and dynamic—so it will create constant need for adaptation and follow-up.

We continue to support moves to conclude negotiations on the Doha Round that stalled in July 2006. Multilateral trade opening undoubtedly provides the greatest scope for reducing both tariff and non-tariff barriers and provides the most inclusive approach to supporting global growth. The WTO also provides the best environment for developing countries to secure their negotiating objectives and obtain meaningful access to the world economy. We remain a committed and supportive partner of the Commission and other governments in seeking an early re-start to negotiations on the Doha Round. However, it is not clear that, even if talks can be re-started, the WTO alone can effectively meet our level of ambition in key areas such as intellectual property or certification and labeling requirements. Alongside efforts to re-start the Doha negotiations, we strongly support the decision by the Commission to launch FTA negotiations with major trading partners in Asia, notably India, ASEAN and Korea. These countries have massive potential markets and urgent action is needed to tackle the regulatory issues and NTBs that hold EU market share at minimal levels. European exports of clothing and textiles to India represent only 0.6% of the EU's worldwide exports in this sector, and have even declined in recent years. In the longer term, FTAs with Russia and Ukraine will provide key opportunities to tackle a number of vital issues including an ambitious level of market access, IPR protection, and reform of export restrictions on raw materials such as hides and skins.

We believe that FTAs with the EU's target countries will be meaningless if they cannot secure significant new market access and meaningful action to eliminate NTBs. Accordingly, we strongly support the EU's intention to negotiate comprehensive, WTO-plus agreements. These should cover:

- Substantial tariff reductions for sports footwear, textiles and apparel with the goal of zero for zero tariffs.
- A high level of ambition on protection of intellectual property rights.
- Reform of cumbersome certification and labelling requirements.
- A rapid end to export restrictions, particularly for raw materials.
- Enhanced trade facilitation and simplification of customs procedures.
- Simple rules of origin consistent with the Commission's objectives in the reform of the EU rules of origin.

We welcome the European Commission's statement in November 2006 that a trade strategy that supports leading European players on the global market can offer no place to protectionism. Short-sighted protection of weak EU industries by closing our markets simply undermines our calls for others to play by the rules, pushes up prices for the consumer, and may support one set of jobs in the EU at the expense of other European jobs.

While FTAs proposed by the Commission are vital for new market access, China is clearly the defining relationship for the EU in trade terms. The size of the market, the power of the country through its manufacturing capacity and continued competitive cost base, and its importance as a member of the WTO

make it a formidable negotiating partner. A free trade agreement is not on the menu in the immediate term, but we wish to underline the importance of maintaining a comprehensive and rigorous dialogue with China on trade policy issues. We also believe the Commission should work towards agreement on Market Economy Status for China in 2008.

A more determined push for increased market access should form a second arm of the new approach to China. We are concerned at the lack of transparency in dealings with the Chinese authorities, the existence of cumbersome certification requirements and import authorisations, and delays in customs clearance. In a country that presents huge opportunities both for manufacturing and for sales, where EU exports more than doubled from 2000-2005, and where European sporting goods companies are in the process of opening retail outlets on almost a daily basis, speedy resolution of these issues is critical.

2. EU TRADE POLICY'S ROLE FOR STIMULATING GROWTH AND JOB CREATION

As we are living in saturated markets we depend on an open trade environment to secure current jobs or create new jobs with different value-creation levels, compared to pure assembly and production jobs.

Restrictive trade policies will only foster non-competitiveness of industries, while limiting chances for export of advanced products and services. In contrary an open trade policy with securing of IP on a global basis secure high tech and high value jobs in Europe.

The UK & EU Sporting goods industry with its fast pace of technological change and focus on continuous innovation (new sports creating new demands, requirements for advanced products and fashion orientation etc) needs a trade policy focused on further liberalization to contribute to European value creation or growth and job-security for our employees.

Trade objectives that support global supply chains

The European sporting goods industry is a leading exponent of the strengths of the European economy and of the evolution in EU trade priorities. With over 40 billion Euros in annual sales, our brands are among the most recognised in the world. Our exports support European growth and jobs and we provide millions of jobs in developing countries. Our industry has supply chains that encompass innovation and high quality design in Europe, labour-intensive sourcing and manufacturing operations in a wide range of developing countries, rapid dispatch of finished products to market via global logistics chains, and sale of goods to consumers across Europe, other industrialised countries, and in a growing number of emerging markets, both directly and indirectly through selective distribution.

The European sporting goods industry needs a trade strategy that keeps pace with these developments. Policies should ensure that European and global consumers can have access to the goods they want at affordable prices by tackling both tariff and non-tariff barriers (NTBs) and putting a stop to unjustified trade-distorting measures such as anti-dumping actions. Equally, unique designs must be protected by stringent and well-enforced intellectual property laws and trade policies must continue to support industry's considerable efforts to promote sustainable development and fair labour standards.

Today the EU is now operating in a much more complex global trading environment. Preserving and creating jobs is no longer a straightforward proposition in the context of global supply chains. Today, a trade strategy needs to maintain and promote manufacturing jobs in a competitive European textile and garment industry, while at the same time supporting the expansion of jobs in design, brand building and retail in European firms whose manufacturing is carried out elsewhere. The consumer's voice is an increasingly powerful factor in such debates. These issues have become prominent and highly controversial with the imposition of safeguard measures against imports of clothing from China and the recent anti-dumping actions against leather footwear imports from China and Vietnam.

Most importantly, the time has come to recognise that European competitiveness and jobs are dependent upon high quality, high value-added sectors. The European sporting goods industry is a key example of this, encompassing branding, fashion design, and the development of innovative technologies for textiles and clothing, equipment and shoes. This not only secures quality jobs in Europe, but also boosts investment in research and development, supports global logistics companies, many of which are European, and contributes to EU export earnings with the expansion of sales in emerging markets.

3. RELATIONSHIP BETWEEN EUROPEAN TRADE POLICY AND POLICIES ON ENVIRONMENT

We support the introduction of an EU based tariff reduction involving the import of sustainable designed and produced products, regardless whether products are fashion or sports related. This would give brands an incentive to increasingly switch to sustainable production.

Our arguments:

- The EU should support EU based companies in deepening the partnerships between them and their suppliers through the collaboration, joint development and sharing of protocols, standards and solutions aimed at tackling environmental and social issues. In turn, EU based companies could commit themselves to retaining long term partnerships.
- Environmentally and socially sustainable products are in general more knowledge intensive and therefore require more complex production techniques. Instead, of moving away from existing suppliers in developed nations, EU based companies should be encouraged to raising the overall knowledge level of their partnership with these suppliers. This approach would contribute to a bottom-up transfer of knowledge and thus positively impacting local economic development.
- The EU should stimulate the introduction of a Cradle to Cradle approach covering the whole sportswear value chain; EU based companies should take the lead in involving all actors along the value chain.

Set clear EU wide principles on the environment and society for all EU based actors active in the sportswear industry, including consumers, retailers, etc. Currently, the main emphasis seems to be on the role of sports brands, whilst the responsibilities of major retailers, agents and manufacturers seem to receive insufficient attention.

Our motives:

Facilitate roundtable, agenda setting discussions between stakeholders from both North and South. The aim of these discussions should be to:

- Support the development of a fair, just and effective regulations regime. At this moment there is increasing tension between Hard and Soft Law, as well as growing questions involving the validity, legitimacy and application of most soft law codes. In addition, there seems to be an abundance of different voluntary codes of conduct produced and applied on both an individual as well as industrial level. Often the relationship between these codes is unclear, as well as, their reach across different actors within the supply chain. For example, retailers are increasingly developing their own standards and codes, yet it is increasingly unclear how they relate to the codes applied by the brands.
- Create a culture of partnership and constructive problem solving between civil society, government and the private actors. At this moment, the relationship is for a large part, still overtly reactionary, negative and one based on defence and mistrust. This culture proves increasingly unproductive for all involved, emphasizing publicity success over profound improvements.

The EU could support its companies in becoming drivers for positive change in the development, environment and climate change debate, through a number of practical solutions.

Our suggestions:

Provide independent and objective information to the public at large and all relevant stakeholders, on current issues as well as key positive developments in the industry. At this moment, there seems to be an abundance of mostly biased information produced by brands, retailers and NGOs that negatively impacts the public debate and thereby hampers constructive efforts aimed at achieving positive change.

Assist companies improving the effectiveness and validity of current auditing and monitoring processes:

- Train local auditors and monitors.
- Work with and train local environmental and labour law experts that can act as local representatives for EU based companies.
- Create a working relationship with local NGOs, providing them the opportunity to engage in profound and constructive partnerships to solve longstanding social and environmental issues.

4. HAVE DEVELOPING COUNTRIES BENEFITED FROM MULTILATERAL TRADE AGREEMENTS

A typical example for success of multilateral trade-agreements for developing countries is GSP, especially in the past, when customs duties were considerably higher. With the GSP instrument it is possible to create foundations for competitiveness in a global context.

In successful developing countries, the aid given via import advantages by the EU using such tools like GSP created infra-structures for business, especially needed in supply and delivery—logistics (harbours, roads) but also in modern communication-technologies.

5. TRADE DEFENCE INSTRUMENTS

TDI's are still necessary to prevent unfair trade behavior. The current proposal of DG Trade is a positive step towards a more modern application reflecting EU interests on a broader scale. The limitations of existing TDI instruments need to be overcome as many of the most recent Anti Dumping (AD) investigations clearly demonstrate—eg the leather footwear case.

We welcome the European Commission's decision to initiate a review of trade defence instruments. The EU needs effective defences against unfair trade practices, but too often in today's globalised economy they have served to protect one set of interests in Europe at the expense of other, equally European, interests. Recent cases have shown the divisive nature of such policies and the damage that can be inflicted on competitive industries and ultimately the consumer.

Consumers, retailers and businesses who source overseas now routinely demand the right to greater choice and lower prices. Trade defence instruments therefore need to acknowledge that European importers and retailers depend on third country markets and their comparative advantages as a crucial part of the supply chain. Where production and distribution networks are globalised, antidumping measures effectively apply a discriminatory tax on European companies that seek to lower their input costs through the open world trading system.

We welcomed the European Commission plans to reform TDIs to ensure that new rules take into account the diversity of European interests. In particular, we believe that the criteria for initiating antidumping investigations should be more rigorous, particularly in arriving at a broad-based assessment of economic harm. In cases such as footwear, where manufacturing of most athletic shoes moved to Asia over 15 years ago, the influence of manufacturers in Europe should correspond closely to their true market share.

6. INTELLECTUAL PROPERTY RIGHTS

Continued co-operation on intellectual property rights should be a top priority. Our sector continues to be challenged by increasing numbers of counterfeit product and ongoing trademark infringements. While the Chinese legislative framework is strong and implementation is being reinforced through a number of measures including the recent Action Plan on Intellectual Property Rights Protection, it is clear that local enforcement must be a priority if the fight is to succeed. We therefore welcome the Commission's commitment to continue to drive forward EU co-operation on IPR enforcement with a number of priority countries including China, as well as Russia, ASEAN, Turkey and others.

8. IS THERE STILL A ROLE FOR THE WTO IN THE 21ST CENTURY?

Our commitment and belief in the multi-lateral trading system and the WTO is the best organisation to ensure we have a rules-based trading system for all global trading nations.

28 February 2008
