

HEARING WITH THE WTO DIRECTOR-GENERAL, MR. PASCAL LAMY

INTRODUCTORY REMARKS

Let me briefly introduce what I hope will be an interactive exchange with you, starting with a word of welcome to WTO premises and a word of gratitude for what both the Inter-Parliamentary Union and the European Parliament have been doing to convene this meeting, once more under the WTO's roof. I won't expand too much on why I believe your presence here is important to us. As Senator Oliver said yesterday, you are in many ways the "House of Parliaments" and we are the "House of Trade". This bridge between the two houses is extremely important to us, for one simple reason: we believe that we are accountable to parliamentarians. Of course, WTO remains an organization between governments but these governments are accountable to you. This accountability and your own engagement and involvement in our trade issues is conducive to strengthening the multilateral trading system and provides legitimacy for what we do.



Let me also thank you for the initiative you took this year, as usual, to participate actively in our public forum. Many of you were present this year at the Steering Committee. The Parliamentary Conference of the WTO took the initiative to meet on the sidelines of the forum. During this public forum we also had a special workshop on fair trade organized by the Assemblée Parlementaire de la Francophonie. I am mentioning this to indicate that our cooperation is based on concrete engagement and interaction.

Let me give you a summary of the state of play and where things stand in the WTO. As you know, we have different activities in the WTO. First, we make rules: a WTO rulebook exists; our members believe that a few chapters should be amended and this is part of our activity. Some parts of this negotiating activity concern the Doha Agenda; other parts are outside this Agenda but are nevertheless active. The second business we are in is monitoring and surveillance to ensure that the rules for world trade are enforced and implemented by our members. This sometimes leads onto our third activity, which is disputes and litigation. If one of our members believes that another member is not complying with its commitments, WTO has a proper litigation process for adjudication. Finally, we have a whole range of activities around Aid-for-Trade and technical assistance to ensure that the less developed members of the WTO benefit from support to build their trade capacity to a degree that enables them to benefit from the rules of open trade.

I will focus on the areas that I think you are most interested in, namely monitoring and surveillance and rules-making legislation negotiations. I am putting monitoring and surveillance first, which I haven't always done, because we are still struggling against extremely strong headwinds as far as the macroeconomic world outlook is concerned. I think that it is pretty clear that we have not yet exited the crisis despite macroeconomic and financial endeavours by countries. The reality is that the low-growth crisis worldwide is likely to persist for some years to come – how many remains to be seen. This creates a context that raises serious issues as far as trade is concerned. As the crisis bites into economic and social systems, protectionist pressures inevitably are flaring in a number of countries, most of which are WTO members. This creates a danger for world trade, and this is why the first front on which we are operating today is a defensive one. We have to keep pushing

back protectionist pressures to ensure that the level of trade opening we have constructed over the last 50 years is not damaged and does not regress. This is not small beer. As you know, we have developed a specific monitoring process; we regularly track all trade policy developments worldwide, irrespective of whether they are trade restrictive or trade opening. We regularly publish our findings and regularly discuss the situation with our members in open sessions and also with the G20, which, together with other international organizations such as UNCTAD and the OECD, have tasked us with keeping a very strong eye on developments. The findings thus far show that there hasn't been any serious outbreak of protectionism although there have been worrying spots in some of our members. The priority today is stability.

WTO's core business lies in opening trade for populations. If this is to be achieved trade must be kept open, and this is what mobilizes many of our forces for the moment. We all know that efforts must be continued to keep opening trade, including for various economic and technical reasons. The reality is that patterns of world trade have changed tremendously over the last 10 or 20 years. We have moved from a world where one country produces a finished item for export to another country to a system of national, regional and global value chains that have scattered the various production processes. It is therefore extremely important to ensure that these value chains are not clogged, since this brings to people what really matters about politics today, namely jobs.



In order to keep opening trade, we have to resolve a number of differences that remain on the WTO's negotiating agenda. As you know, the Doha Agenda has not been concluded, and in view of the explanations given for this, I do not see any strong reasons why it will be concluded as a package in the future. However, this does not mean that progress cannot be achieved. Some elements of this package are 'low hanging', such as trade facilitation and a number of dispositions in favour of developing countries including some elements of the agriculture package. There are possible outcomes that would bring benefits to traders, industries and businesses and therefore jobs.

Trade facilitation is not headline-grabbing news, but is of major importance, particularly given the proliferation of these value chains. The average cost of moving trade through borders worldwide amounts to approximately 10 per cent of world trade. However, the average trade-weighted worldwide tariff is 5 per cent. It therefore costs twice as much to pay for administrative procedures than it does for tariffs. If the trade facilitation agreement, currently under negotiation, was to unfold, we estimate that in five years the 10 per cent cost would go down to 5 per cent. This is therefore of major importance, particularly for small businesses that are prevented by the cost of processing trade from entering the global market. Once this cost is reduced, you not only facilitate trade generally, but also open the door to global trade to many small businesses, notably in developing countries.

There are several other issues on the negotiating agenda, including some parts Doha Agenda that can be "early harvested", and areas that do not belong to the Doha negotiation agenda, such as the revamping of the information technology agreement at a time when an increasing proportion of world trade is in IT products, and a deal on services market opening. It remains to be seen if the result will be a multilateral or a plurilateral one.

We also have important activities in government procurement, notably the accession of China to the government procurement agreement, which has been under negotiation for a number of years. The current deadlock in the Doha Agenda does not preclude the negotiation of further trade opening agreements. I think that a number of issues could be closed at the next WTO Ministerial Conference to be held in Indonesia at the end of 2013.

That is roughly the landscape in which we are operating, and I now look forward to hearing your views and questions.

EXCERPTS FROM THE DEBATE

Mr. D. Van Der Maelen (Belgium)



There has been fierce criticism of the composition of the high-level panel to define the future of trade. There is only one member from Africa and one from Latin America and there are no representatives from the LDCs. The panel has a very strong corporate presence, but inadequate representation from civil society. Furthermore, the exclusion of UNCTAD may result in failure to address the development dimension. How do you react to this criticism? When will the panel submit its report, and how can we ensure that members of parliament are more involved in the discussions regarding world trade for the twenty-first century?

Mr. P. Lamy (Director-General of the WTO)

The composition of the panel reflects the purpose of the panel, which is to give WTO members a proper view of how trade works today and the real obstacles to trade now and for the future. I needed a true representation of the reality on the ground, and for that reason half of the panel is from the world of business. Continental representation is balanced: there is one representative the United States, one

for the European Union, two for from Asia, and one for Africa. There are at least one, if not two, members from civil society. UNDP is represented on the panel in order to cover the development dimension. I have heard about the criticism and respect it, but the composition of the panel is my decision. The group is small in order to ensure that the discussions are fully interactive.

The report should be ready in Spring 2013, depending on the workload. WTO members will consider the findings of the report. However, my intention was that it should provide elements of understanding of new trade patterns, new obstacles to trade and the role of trade for development and job creation. However, there was a strong request expressed by WTO members during the public forum that the panel should be a little more precise about the future agenda of the WTO. Although the agenda of WTO is a matter for its members, I think that it may be an area for consideration. If so, the issue would be open for discussion among our members, by the public at large and including parliamentarians.

Mr. C. Caresche (France)

The Doha Round has been ongoing for more than 10 years now. Countries in the greatest difficulty might benefit from consolidation of the results achieved thus far, but this is not consistent with the single undertaking. What actions are being taken to ensure that actions taken by WTO are consistent with the work done by other international organizations such as the International Labour Organization, the International Monetary Fund and the United Nations Framework Convention on Climate Change?

Mr. O. Ahmadi (Islamic Republic of Iran)



Although Iran has met WTO conditions, we are still waiting for the accession working group to meet and Iran continues to have observer status at the WTO. Can you please explain this?

Mr. N. M’Mithiaru (Kenya)



In the negotiations on the Doha Development Agenda, we have been told that nothing is agreed until everything is agreed. However, this is unlikely to work in practice since, as time goes on, more and more issues will emerge, and it will be increasingly difficult to reach agreement. Is an early harvest possible?

Mr. P. Lamy (WTO Director-General)

WTO’s doors are open to new members and we have a waiting list of between 20 and 25 countries. The procedure for membership is set down in our rules, and involves the candidate country providing information on its trade regime for consideration by the membership, and the establishment by the

membership of a working party to begin negotiations to align that country’s trade regime to WTO standards and market access negotiations. The process has been working reasonably well – there were four new accessions last year and there will probably be three this year.

The system works on the basis of consensus, which is required at several stages of the procedure. Iran has given us a good description of its present trade regime, but so far there has been no agreement among the membership on the composition or chair of the working party. Although the Secretariat does provide a lot of support for accession, including facilitating the provision and exchange of information, it has no input in politically sensitive or diplomatic decisions, such as the composition or establishment of the working party.

The Doha Round was envisaged as a package and as single undertaking where nothing is agreed until everything is agreed, and this has resulted in the deadlock. In December 2011, it was decided some items of the package, including trade facilitation and certain aspects of the agricultural negotiations, could be taken out of the single undertaking, and that any agreement reached could be implemented provisionally pending the conclusion of the Round. The results of this "early harvest" approach will have to be assessed to see whether it can work in practice, or take negotiators back to square one.

In theory, it should not be particularly difficult to ensure consistency in the international negotiating arena since each organization is member-driven, and each organization has the same members. Since the approach taken by the members should be consistent, the actions of the organizations should, by definition, be consistent. However, in practice, sovereign States are not always consistent in their actions in different international organizations, and difficulties may arise where regulations exist in one area, but not in another. This is apparent in the area of climate change, since there are rules concerning trade opening but none on how to reduce carbon emissions. Organizations can act within the limitations of their mandates, but the sovereignty to address inconsistencies remains within the hands of the membership. Sometimes they decide to act, sometimes not. For example membership of the ILO and the WTO, which is the

same, decided to grant WTO observer status at the ILO, but did not grant the ILO observer status at the WTO.

Mr. Y. Fujita (Japan)



How do you deal with the negative aspects of free trade agreements, including their exclusivity? What can be done about the dangers of finance-led globalization?

Mr. P.C. Chacko (India)

Does the introduction of new issues into the negotiations mean that we are not serious about the Doha Round, and will those new issues become new trade barriers?

Mr. C.M. Mulder Bedoya (Peru)



Since climate change has an impact on trade, is WTO planning to discuss any mechanism to ensure that those primarily responsible for climate change, namely China and the United States, provide compensation?

Mr. P. Lamy (WTO Director-General)

There are areas where bilateral preferential trade opening is conducive to multilateral trade opening, and there are areas where this is not the case. Generally speaking, bilateral or preferential agreements concern tariff reduction, and the more bilateral tariff preferences are spread in the system, the less preferences there will be at the end of the day. As far as practical obstacles to trade are concerned, such as customs duties, or in the areas of service market opening and preferential market access opening, such agreements present no problem, and there is an inbuilt synergy in their multiplication and multilateral trade opening. A contradiction may arise in areas that are more and more important in trade issues, namely non-tariff measures. The multiplication of different standards developed as a result of various bilateral agreements may scatter the playing field, rather level it, and here the case for multilateral agreements is far stronger than for bilateral agreements.

In addition, the balance of forces in negotiating trade opening agreements is much fairer on a multilateral level, such as WTO, rather than on a bilateral one. For these reasons, I believe that multilateral trade opening rules should have primacy, including with respect to standards and non-tariff barriers, despite the fact that, for political reasons, bilateral agreements may be sometimes easier.

I agree that the origin of the crisis has to do with a lack of global regulation in the most globalized industry of all, namely finance. The need to adopt global standards was highlighted many years before the crisis, but no agreement was reached on the adoption of global prudential standards. The differences in the prudential regimes and financial regulations in many countries led to the crisis. Global regulation, and the introduction of global prudential standards in the financial industry is necessary, and this is what is happening with the negotiation of the Basel standards. Some progress has been made. The expectation is that, in a few years from now, the global financial industry will be much more regulated than it has been. A number of changes will have to be made to the business model of banks and to the financial industry in general.

I don't think that there are old or new issues in trade matters. There are simply issues that traders, industries or countries encounter. Obstacles that arise, whether they are tariffs or trade distorting subsidies, have to be addressed in order to create more of a level playing field. The distinction to be drawn is not between old and new issues, but between issues where WTO members have a mandate for negotiation, and issues where they do not. WTO has a mandate to negotiate a reduction in peak tariffs in agriculture, but this has so far not been agreed because of other elements of the Doha Round. Given the developments concerning food prices in 2008, we have more problems with export restrictions in agriculture rather than import restrictions.

However, we do not have an agreement between our members to negotiate export restrictions in agriculture. Therefore we have an old issue, namely peak tariffs in agriculture, coupled with a new issue that is not mandated, namely export restrictions in agriculture. This is where the problem lies. The single undertaking was very convenient for a long time because some countries have a big appetite for negotiating a reduction in import tariffs, and little appetite in negotiating constraints on export restrictions. For other countries, the opposite is true. This is the situation in which we find ourselves, and the question is whether a proper political balance can be found in order to mandate new negotiations dovetailing the previously negotiating agenda and a new negotiating agenda.

The fact that we have not yet reached agreement on the Doha Round has a lot to do with the United States on one side and China on the other. The same is true of climate change. There is a fundamental disagreement between the United States and China regarding the respective level rights and obligations of developed countries vis à vis emerging countries. With regard to climate change, the United States considers that China should abide by the same levels of obligations as the United States, whereas China agrees that it should have greater obligations than other emerging economies, but not the same as the developed countries. The rest of the membership has not been strong enough to create a coalition to push the United States and China to reach an agreement.

Trade compensation, although possible, is a formidably complex issue since there are extremely difficult technical considerations to be taken into account in order to measure the carbon footprint of an import or export. The reality so far is that countries that have been serious about climate change and countries that adopted carbon taxing systems decades ago have been doing very well and have never felt the need for compensating these carbons taxing systems with border systems or trade obstacles.

In view of time constraints, I will be pleased to provide written responses to those of you who have not had enough time to ask me questions here today.

