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**THE FUTURE OF TRADE: THE CHALLENGES OF CONVERGENCE**

**Exchange of views on the Report by the High-Level Panel on Defining the Future of Trade, convened by WTO Director-General Pascal Lamy**

International Trade Committee in the European Parliament

Brussels, 28 May 2013

Reinhard Quick, Chairman of the BUSINESSEUROPE WTO & FTA working groups

- Mr. Chairman, honourable members of the European Parliament. Thank you very much for giving me the possibility to present the main elements of the Report on the Future of Trade. My name is Reinhard Quick, I am the chairman of the BUSINESSEUROPE WTO and FTA Working Groups. Mr. Thumann, the President of BUSINESSEUROPE and a member of the Lamy group has asked me to replace him today. He apologizes for not being here today.



- Overall, the report is an interesting summary of the current challenges that the multilateral system is facing. It is therefore not surprising that the report does not address the outstanding issues of the DDA but raises more general trade issues, both systemic and specific.
- For instance, this report takes into account the new trading realities under which we are all operating today – in particular global value chains. Here the WTO has to find answers. If one believes in the so-called new trade narrative, namely that products nowadays are ‘made in the world’ then one has to ask the question how international trade rules should support global value chains. Such issues are tariffs, trade facilitation, standards and non-tariff barriers and investment. For example we think that in order to support value-chains, the WTO should aim at comprehensive tariff liberalisation along the value chains, in particular tariff elimination for intermediate products. If you permit a personal view: tariff liberalisation for environmental goods, for example, would not respond to a liberalisation along the value chain. If you think how many input products are needed



to produce a solar panel or a wind-mill then you might understand why I question the tariff elimination for the finished product. Of course liberalisation is good, in general, it would however be much better if it were to affect the whole production process.

- I will not go into details about the first and second chapters of the report: they provide some very useful statistical data about global trade, the benefits of trade liberalisation, and trade opening seen in a wider policy context.
- There is, another issue that deserves some special attention: non-tariff measures. While tariffs still exist and continue to hamper the free exchange of goods, they are overall on the decline in comparison to the growing influence and trade restrictive effects of non-tariff measures. We welcome that all members of the panel share this assessment. And the WTO must find ways to tackle these issues in order to shape the trade environment of the 21<sup>st</sup> century. The issue here is finding



a balance between regulation motivated and justified by public policy motives and regulation which has some protectionist tendencies. It will not always be easy to find such a balance, yet the report is quite clear that here only discriminatory issues need to be addressed, not however the policy space of WTO members.

- Another example is the absence of clear WTO rules on competition and on subsidies for energy and raw materials. This is why most major economies use trade defence (the EU, the US, China and India are the largest users of trade defence) to restore a level playing field. Of course, we need strong WTO rules on anti-dumping and anti-subsidy to prevent trade defence measures from being abused for protectionist purposes.
- **BUSINESSEUROPE** has also advocated for a long time the creation of a horizontal mediation mechanism (currently discussed in the Doha negotiations). This would be an effective means to deal with small-scale NTM conflicts at a quicker pace without having to recourse to the WTO dispute settlement system. This



mechanism should be used to deal with the numerous small NTMs (i.e. customs problems) that can be solved rapidly to the mutual satisfaction of trade partners.

- Turning now to the 3<sup>rd</sup> chapter of the report, let me now briefly outline the future of the WTO.
- We fully support that the core principles of the WTO – non-discrimination, national treatment, MFN, transparency – these principles must be maintained in order to further open up trade at a global scale. And the WTO and its member must be the driving forces for the implementation of these key principles.
- We also share the view concerning consensus decision-making: for transparency reasons WTO members vetoing the adoption of decisions should provide reasoned explanations for their position. The WTO system must now not allow individual members to block important negotiations without sufficiently explaining their reasons.



- Another important issue are preferential trade agreements: Right now new trade liberalisation takes place bilaterally and not multilaterally. Preferential trade agreements also advance free trade. There is of course the risk of the so-called “spaghetti bowl”. Nevertheless, PTAs should be considered positive if they generate more trade openness than trade diversion.
- Look for example at the EU-US TTIP project. In our view this FTA is a joint effort to increase trade by advancing liberalization and regulatory cooperation. The additional growth generated by this FTA will also stimulate trade with other countries significantly as the EU and the US are the largest export markets for the rest of the world. In addition, such agreements are not per se exclusive as they can create incentives for others to join: Japan’s recent decision to join the Trans-Pacific Partnership is an example in that perspective.
- Notwithstanding the fear of a “spaghetti-bowl” I am not concerned about the future of the WTO. I am rather certain that the importance of the WTO will grow. Why?



If TPP and TTIP are genuine 21<sup>st</sup> century agreements, then we will have a blueprint for future WTO rules. If PTA create too much divergence we will have to clean up the “mess” in the WTO again. There is no other body available to do this job. And lastly if the FTA approaches fail, we again will have to move to Geneva. So, ladies and gentlemen, all roads lead to Geneva.

- The report also includes a list of issues which are relevant to the WTO. Let me focus on a few of them:
  - Export restrictions: We think that the WTO should better address export restrictions. Export quotas are prohibited but export taxes and dual pricing systems of raw materials need to be addressed.
  - Competition policy: The lack of a level playing field in the competition between state-owned enterprises and private companies is an increasing concern. Should international competition rules be negotiated? Should these rules also apply to state behaviours?



- International investment: We regret that investment has been dropped from the Doha agenda, as we think that in a globalised world – with global value chains – there must be a clear international legal framework. Current bilateral arrangements cannot be satisfactory substitutes, despite the fact that they can be complementary in the absence of a multilateral agreement.
  - The role of the WTO Secretariat should be strengthened.
- Finally, the report calls upon WTO members to ensure convergence in four areas:
    - Convergence of trade regimes among WTO members;
    - Convergence between the multilateral trade system and other bilateral or plurilateral trade initiatives;
    - Convergence between trade and domestic policies;
    - Convergence between trade and public policy non-tariff measures.



- Let me conclude by saying that BUSINESSEUROPE supports these calls for action.
- I thank you for your attention and look forward to our discussion.

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