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ILO INTERNATIONAL CONFERENCE: 'THE SOCIAL DIMENSIONS OF FREE TRADE AGREEMENTS'

Speaking notes for Carsten Dannöhl, Senior Adviser, International relations
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Hotel BLOOM, rue Royale 250, Brussels

- Good morning to everybody! I would like to thank the organisers, ILO and the French Government, for this invitation. It's a pleasure to be here and discuss with you this important topic.
- Before commenting on the presentation we have just heard, I would like to start with some basic considerations. And that's how the world has changed: A dominant feature of the changing global landscape is that global production is to an increasing extent organised in international or global value chains. Today's products and services are not produced in a single location, but are the result of a combination of tasks executed in different countries, with the lion's share of traded goods being intermediates. This has created a new trading environment in which business operates today.
- Additionally, we have the BRIC countries as a new feature in the global economy: Brazil, India, China, Russia – the list goes on – are all becoming more and more competitive, having globally successful companies, are integrated in the global supply chains. And they have expanding domestic markets, offering new business opportunities. And this also translates into a tough global competition to where these products are manufactured, from where these services are provided. We all face this pressure, being it the EU or the US or Japan, or anybody else.
- This raises challenges, but overall we consider this positive: opening up for trade and investment has allowed a number of countries to experience a strong economic development. And the people have benefitted from this – by greater prosperity, new jobs. China is a prime example of this development. Of course, I'm not saying that everything's perfect there – there are a number of shortcomings and issues that have to be solved. But I would argue that China certainly is better off than, let's say, 20 years ago.
- Nevertheless, the new trading environment raises the question how we deal with new challenges: one might turn firstly to the multilateral approach – negotiations within the WTO. Despite we have been and continue to be a strong supporter to the WTO, we also have to be pragmatic, and must not close our eyes from reality. The Doha round negotiations have been stalled for a number of years. Right now there is some movement in Geneva, and we hope that a deal can be reached on some issues in Bali. But we are far away from the initial very comprehensive and



ambitious agenda. Turning now to labour standards, this is not the responsibility of the WTO. The Singapore Ministerial Conference in 1996 decided to leave this issue to the ILO – and this situation has not changed until today.

- Absence of progress on the multilateral agenda has resulted in the proliferation of preferential trade agreements. And this brings us back to our main subject: how to deal with the social dimension of free trade agreements.
- I have read with a lot of interest your study. It provides an excellent overview on this important topic. But the question is how to deal with it in practice.
- As I'm representing European business, my main knowledge is how the European Union is dealing with this issue. And you describe in your study as the "promotional approach". What does it mean in practice? I take as an example the EU-Korea FTA, and the social provisions contained in the so-called "sustainability chapter":
 - There is no harmonisation of standards due to the regulatory autonomy of both sides. This, by the way, is an essential point of all FTAs the EU is negotiating and does not only concern social or environmental issues. However, the EU and Korea commit to high levels of environmental and social protection.
 - Both sides commit to respect the four core labour standards, as well as the effective implementation of ILO Conventions.
 - Both sides commit not to weaken or reduce their existing protections in order to encourage trade and investment.
 - There is no dispute settlement, but
 - Obligation for transparency and cooperation
 - An institutional mechanism by the establishing of a committee on sustainable development
 - Creation of advisory groups, composed of civil society including business and trade union representatives
 So the approach is to use soft pressure, consultation and transparency, naming and shaming, and publicity in order to encourage enforcement.
- The EU-Korea FTA is of course an agreement between partners that have a comparable level of protection. The situation is different when we look at the EU-India FTA negotiations. Here we face strong opposition from India which considers this as interference in its domestic politics. In other words, it would undermine its regulatory autonomy. "Disguised protectionism" is another reproach. So the EU faces opposition from some of its trade partners with whom they are negotiating.
- Often attention is also turned to the business community, and the question is asked what companies could and should do. I agree, the business community has to take up its responsibility as well. And I think there are also a number of good examples:
 - In many cases European companies having invested in developing countries provide better paid jobs.
 - Global companies have also company-wide ethical standards that they apply globally.



- Via their Corporate Social Responsibility policies European companies include already a large number of social and environmental concerns in their business operations. And they apply these CSR policies in Europe and abroad.

However, companies cannot solve the problem alone. Companies operate in a legal environment created by states. Trade law and trade treaties lay down legally binding obligations on states. And it's the states that have to ensure that these laws and standards are implemented and respected by everybody via the necessary enforcement mechanisms.

- Before coming to an end, I would like to make a few comments on two options described in Chapter 4 of the study: establishment of labour development plans, and engaging non-governmental actors.
- Establishment of labour development plans: this reminds me a bit of the EU's General System of Preferences (GSP+) where preferences are granted to countries when they respect certain environmental and social standards. But this is a unilateral EU measure for which developing countries basically can apply. It's worthy to further reflect whether such a measure could also be introduced into FTAs. I would expect it to be challenging. A question that comes to my mind is how far this would affect the regulatory autonomy of the country with which we negotiate. Would our negotiating partners be willing to accept this?
- Engaging non-governmental actors: This I do overall support, and via this soft pressure – by transparency, naming and shaming, etc. – can be very helpful. The EU has already introduced this into its bilateral FTAs, for example with Korea.
- These are my introductory remarks. I thank you for your attention and look forward to our discussion.
