

# Chairman's Statement

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## **Informal Roundtable Meeting - Moving Ahead in the World Trading System**

**Le Manoir de Gressy, Gressy-en-France, Seine et Marne, near Paris, May 11-13, 2001**

### **Chairman's Statement**

{/SINCE the start of the year, governments have been considering whether to launch a new “round” of multilateral trade negotiations at the World Trade Organization's fourth ministerial conference, to be held in Doha, Qatar, on 9-13 November next. It would be the first WTO round and, following eight GATT rounds, the ninth since World War II. ./}

*To help clarify the issues involved, a panel of independent trade-policy experts sponsored by the Cordell Hull Institute, Washington, is preparing a report for publication prior to the Economic Summit in Genoa, Italy, on July 20-22. A draft of the report was reviewed at an international roundtable meeting of senior trade officials and independent experts at Gressy-en-France, near Paris, just before this year's ministerial meeting of the Organization for Economic Cooperation and Development.*

*The Gressy meeting was private and informal. Officials attended from Australia, Brazil, Canada, the European Commission, France, Japan, Mexico, New Zealand, Sweden and Switzerland, as well as the WTO and OECD secretariats. Independent experts attended from Korea, the Philippines, Singapore and the United States. The 30 participants are listed separately.*

*At the meeting it was agreed that, rather than try to issue an agreed summary, I should produce “a chairman's statement” on what appeared to me to be the salient features of the draft report and discussion. Below, then, is my personal account.*

IF THE LAUNCH a new round of trade-liberalizing negotiations at the World Trade Organization's ministerial conference in Doha, Qatar, this November continues to look doubtful, enough time must be left to draw up an action program for “clearing the decks” of impediments. If ministers cannot agree on a negotiating agenda, they need to have a Plan B to hand, so that a thorough preparatory process can be initiated. On all sides it is acknowledged that the WTO system cannot afford at Doha another debacle like the Seattle ministerial eighteen months ago.

Those are among the conclusions in the wide-ranging report of a panel of independent trade-policy experts sponsored by the newly formed Cordell Hull Institute in Washington. A draft of the report was reviewed at a recent international meeting of senior trade officials and independent experts at Gressy-en-France, near Paris, and is now being finalized for publication ahead of the Genoa Economic Summit in July.

Critical to reaching agreement on a WTO round is a recognition that labor standards, along

with sanctions to enforce them, have no place in the multilateral trading system. Although earlier urged by President Clinton, and by many members of the U.S. Congress, labor standards in the WTO system are opposed by nearly all 142 member countries.

Accordingly, including in U.S. “fast track” negotiating authority a remit to press for enforceable labor standards in trade agreements would be a “launch breaker”, for there is no willingness to negotiate with the United States on such terms. 11

But there are other impediments to agreement. Several developing countries are having problems implementing the commitments they made in the Uruguay Round negotiations of 1986-94 and are therefore reluctant to take on new ones. Failure to take this seriously has turned a problem into an obstacle. Moreover, the dodging of institutional issues in the WTO system, highlighted at the Seattle ministerial, has not made it easier to conduct core business, to address new issues or to consider a WTO round. 12

### **Current State of Affairs**

Repeated high-level calls for a new round to be launched at the forthcoming WTO ministerial meeting are greatly at odds with what is happening at working level. Preparations in capitals and in Geneva are a long way behind schedule. There is something more fundamentally wrong here than the WTO decision-making process. 13

### **Little Change since Seattle, but?**

Not much has changed since the third WTO ministerial conference. A sense of drift still characterizes WTO deliberations. In most countries, including the United States, political leaders are still not speaking up in support of the rules-based trading system. At this juncture, only a few months before the Doha meeting, governments are no closer to agreement on a negotiating agenda than they were at the Seattle meeting. 14

Other capitals are looking to the change of administration in Washington to lead in due course to the restoration of momentum in the WTO system. But the new U.S. Administration is not yet in a position to provide effective leadership. 15

Building a consensus in Geneva is still being held up by uncertainties about the policy of the United States where, on key issues, President Bush's Administration differs from the previous one, most conspicuously over workers' rights and the environment. The need to provide some guidance to other governments, however, is complicating the Administration's plans to secure from Congress a “clean” trade-negotiating authority - which needs to be free of unacceptable demands if negotiations are to proceed. 16

## Much Change in the WTO System

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Unfortunately, there remains in Washington a tendency to discount the multilateral consensus<sup>20</sup> building process, as if agreement among the European Union, Japan and the United States is all that matters. Sure, without agreement among the majors, accounting for two thirds of the world economy, there can be no progress at multilateral level. There can be no overlooking, though, how much the new WTO system is different from old system under the General Agreement on Tariffs and Trade (GATT), before the Uruguay Round negotiations were concluded.

By contrast to earlier occasions, a new round has to take into account the interests of<sup>21</sup> developing countries, four fifths of the WTO membership. Today those countries recognize their stake in the WTO system, as they did not in the GATT system, long viewed by them as “a rich man's club”. But they have to be persuaded that proposals for further change are going to be in their long-term economic interests.

As developing countries got nowhere in the 1970s with their demands for a “new interna-<sup>22</sup> tional economic order”, they were urged to participate more fully in the GATT system, which became an unstated goal of developed countries in the Uruguay Round negotiations and was substantially achieved. In the eighth and last GATT round, the developing countries made multilateral market-opening commitments for the first time and, having agreed to the negotiations being a “single undertaking”, they have become parties to all the agreements reached - as they did not with the agreements reached in the Tokyo Round negotiations of 1973-79.

The problems in launching a WTO round derive to a large extent from the failure of the<sup>23</sup> major trading powers to rise to the challenges posed at Marrakesh in April 1994 where the Uruguay Round agreements were signed and the WTO system was established. As a result the key players are at cross purposes.

## Differences Among the Key Players

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Negotiations on liberalizing trade in agriculture and services resumed in Geneva last year<sup>25</sup> under commitments made in the Uruguay Round agreements (the built-in agenda). For them to yield worthwhile results, it is generally agreed they must be part of broader negotiations, providing scope for trade offs. But general agreement ends there, viz:

1. The European Union supports a comprehensive round, provided it covers environ-<sup>26</sup> mental issues and the extension of WTO rules to investment regulations and competition laws. Japan, too, favors a comprehensive round, provided it covers extending WTO rules to investment and competition, as well as anti-dumping reform.

2. The Cairns Group of smaller agricultural-exporting countries, led by Australia, also<sup>27</sup> favors a comprehensive round. It accepts that the European Union and Japan need to

achieve progress on investment regulations and competition laws in return for progress in liberalizing agricultural trade. But it opposes the inclusion of labor and environmental standards on the agenda of a WTO round.

3. The “like-minded group” of developing countries, which includes India, Pakistan, Malaysia and Egypt, insists that the Uruguay Round “implementation problem” has to be resolved before a WTO round is launched. Besides opposing labor and environmental standards in trade agreements, the group is against the extension of WTO rules to investment and competition, but supports market-access negotiations. 28

4. As for the United States, other countries are waiting to see what sort of negotiating authority President Bush can obtain from the evenly divided Congress. President Clinton insisted on permission to press for labor and environmental standards in trade agreements - which the Congress effectively denied him in 1994, 1995, 1997 and 1999 - and he also opposed the inclusion of investment regulations, competition laws and anti-dumping reform on the agenda of a WTO round. 29

### **Prepare a Plan B in Case?**

The Cordell Hull Institute's report urges WTO members to address more specifically the impediments thwarting agreement so that, if they are not ready to launch a new round at Doha, they have a prepared fallback position. The Doha ministerial could then authorize an action program for “clearing the decks” in order to launch a WTO round as soon as possible thereafter. 30

An inconclusive ministerial would be bad enough, but trying to launch a round “by press release”, devoid of economic and business content, would be just as bad if not worse. It would also lead to gridlock, inflict damage on the WTO system and raise doubts about progress in the current WTO negotiations on agriculture and services. 32

Negotiations of any kind depend on confidence among participants. For a variety of reasons, confidence among WTO members is seriously lacking, with developing countries wary of “slippery slopes” and the Cairns Group sensitive to further European (and Japanese) temporizing over agriculture. 33

So confidence-building measures this year could greatly help in getting a WTO round off to a business-like start in a year or two 34

### **Impediments to a WTO Round**

Insistence on including labor standards on the negotiating agenda would be “a launch breaker”. But the “implementation problem”, too, is diverting WTO attention, with core business being left aside. Third, dodging institutional issues is not making the conduct of WTO business easier, for on all sides support for the WTO system is suffering. 36

## Imports from Low-wage Countries

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The old pauper-labor, or cheap-labor, argument for protection is behind the push by American interest groups and labor leaders for a “social clause” in the WTO system. It says that because of low wages in developing countries, with an abundant supply of cheap labor, industries in developed countries should be protected by tariffs that counteract the lower costs of those foreign suppliers. The argument has been popular in America since the 1920s or earlier. But it has well-known flaws:

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1. Developed countries have an advantage with another factor of production, namely an abundant supply of cheap capital, while agricultural exporters enjoy an advantage with a third factor, plenty of cheap land. Should their lower costs also be counteracted?

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2. International trade thrives on differences. If all countries bore the same costs, used the same technologies and produced the same things, there would be no point in trading. Business is about discovering differences, however small, and inventing new ones. By trading on the basis of differences, the differences themselves become narrower, prices converge, initial profits get competed away and the true entrepreneur is soon looking for new differences. That is the way with market economies.

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The social gain, as opposed to the entrepreneurial profit, comes in the form of lower prices for goods and services that used to be rare and dear. Thus the sporting metaphor of a “level playing field” is inappropriate. International trade is a positive-sum game in which everyone wins - rich and poor, productive and unproductive.

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During the Tokyo Round negotiations, the cheap-labor argument was resurrected in “human rights” clothing by President Carter; and during the Uruguay Round negotiations it was raised by President Clinton. Both times it was roundly rejected by other governments.

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At the first WTO ministerial conference in December 1996, when the United States raised the issue yet again, the concluding declaration “rejected the use of labor standards for protectionist purposes” and said “the comparative advantage of countries, particularly low-wage developing countries, should in no way be put in question”. At the same time, ministers renewed their commitment to core labor standards, but insisted the International Labor Organization is the competent body in which to pursue them.

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## A Commission on Labor Standards?

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Not all proponents of labor standards are driven by the cheap-labor argument. Others are interested in improving working conditions around the world. At the Seattle ministerial, there was provisional trans-Atlantic agreement on a work program to examine the “social dimension” of trade liberalization, but it was killed when President Clinton suddenly

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declared his preference for trade sanctions if countries did not comply with core labor standards. The President confirmed the suspicions of developing countries that all along U.S. proposals were intended to put new limits on their trade.

For a number of years the ILO has had a working party on the “social dimensions of globalization”. Last December, the European Commission proposed that labor standards be discussed, in a forum outside the WTO system, in the context of “social development”. In February, three former directors-general of the multilateral trading system - Arthur Dunkel, Peter Sutherland and Renato Ruggiero - suggested that an independent commission, including the heads of the ILO, the World Bank and WTO, address the issue in a “developmental and social context”.

At the Gressy meeting there was support for creating an international commission, perhaps modeled on the Brandt Commission, involving the heads of the ILO, the WTO, the World Bank and other relevant international bodies. It should aim to produce an authoritative assessment of issues, facts and arguments for public discussion.

### **Tackling the “Implementation Problem”**

Many developing countries are reticent about a WTO round because of problems they are having in implementing their commitments in the Uruguay Round agreements. Towards the end of the negotiations, industrial countries talked of technical and financial assistance to help them meet the kind of obligations they were assuming for the first time, but those were non-binding “offers” and anyway nowhere near enough has come of them.

At the second WTO ministerial conference, held in Geneva in May 1998, a number of developing countries argued that implementation problems should be addressed as part of the WTO work program. By the third ministerial in Seattle, they were being encouraged to set out the problems and, after the debacle there, the “like-minded group” took over the issue through the WTO General Council's “implementation work program”.

The documents now list a hundred problems, which the Cordell Hull Institute's report divides four ways into the need (i) for technical and financial assistance to implement some WTO obligations, (ii) for longer transition periods to implement some others, (iii) for some agreements to be renegotiated to reintroduce policy flexibility for developing countries and (iv) for still others to be renegotiated to curtail the flexibility they allow developed countries.

#### **(a) Need for a Technical Analysis**

The debate among WTO member countries has avoided identifying genuine problems and exploring what to do about them. It has degenerated into an argument over sorting

out the problems before or during a WTO round. It is a debate that opponents of a WTO round can probably win easily on the terms on which it is now being conducted.

The bulk of the issues, implying the re-negotiation of Uruguay Round agreements, can only be addressed in the context of a WTO round. Developed countries are not about to enter into piecemeal re-negotiations. But there is no objection to re-negotiations per se. Many agreements reached in the Uruguay Round negotiations specifically provide for their review as part of the built-in agenda. 54

At a technical level the issues need to be clarified in order to put them in perspective. The WTO General Council should instruct the Secretariat to produce a technical analysis just as soon as possible. Without a technical assessment the process will not get anywhere. 55

### **(b) New Approach to Developing Countries**

The traditional approach to integrating developing countries into the world economy through trade preferences is based on poor economics and has not lived up to expectations. Generalized tariff preferences have been hedged by quotas, safeguards and rules of origin, offering little additional incentive to new investors, undermining the point of them. Preference margins are anyway being eroded as MFN tariffs are reduced. 57

The purpose of tariff preferences in developed-country markets has been to provide discriminatory treatment in favor of developing-country exporters vis-à-vis protected domestic producers. Recent initiatives in favor of the least-developed countries in those markets, however, have focused instead on providing discriminatory treatment vis-à-vis other foreign suppliers, including other poor (not least-developed) countries. They amount to little more than reshuffling market shares among developing countries. 58

In the 1970s developing countries began to be afforded special-and-differential treatment in other ways. In the Uruguay Round negotiations S&D took the form of transition periods in which to conform to agreements on non-tariff measures. 59

The Cordell Hull Institute's report supports a new approach to integrating developing countries into the world economy through closer cooperation among the WTO, the International Monetary Fund, the World Bank and other development agencies. It would provide for flexible transition periods for developing countries to comply with WTO agreements, combined with financial and technical assistance to build the institutional, human-resource and infrastructure capacity to implement sensible trade-policy reforms. 60

At the Fund-Bank spring meetings this year there was a ministerial commitment by the World Bank to engage with the WTO in such a process. It followed the agreement by finance and development ministers at last year's spring meetings that the Bank should "mainstream" trade into country development programs. So why isn't the World Bank further along in implementing trade-related capacity building? 61

While the Bank's commitment may be understood down vertical lines of authority, the message has not spread sufficiently far along horizontal lines of authority to its operational staff, to those responsible for lending programs. 62

Secondly, the Bank is indulging itself in an academic debate over the direction of causality between openness to trade and investment, on the one hand, and economic growth and development, on the other. "There is no sense in opening to trade," some say, "if you don't have ports, roads and refrigeration facilities. It's an empty invitation". But wasn't there trade before the advent of ports, telephones, computers et cetera? 63

Thirdly, trade-related capacity building has to be pushed, with more done by the World Bank, the IMF and the WTO to raise its profile. And trade ministers in developing countries have to make the case for it as their colleagues draw up development packages for support from international financial institutions and donor countries. 64

In the longer term, trade-related capacity building should be funded by grants, rather than loans. Given the choice, developing countries prefer their borrowing to go on funding projects offering a commercial return, but some argue that funding for such projects ought to come from private capital markets. 65

### **Neglect of WTO Institutional Machinery**

Anti-globalization demonstrations in Seattle in December 1999 drew attention to - but were not responsible for - the failure of the third WTO ministerial conference to launch the first WTO round. The failure was several weeks before in Geneva where, after eighteen months of preparatory meetings, delegations could not get close to agreement on a negotiating agenda. 66

Many observers put the failure down to an unwieldy negotiating process, the intransigence of some countries and lack of leadership by the major trading powers. At the Seattle meeting itself, much was also made of a lack of "transparency" and "accountability" in the WTO system, dissatisfaction with the decision-making process and the exclusion of non-governmental organizations from the dispute-settlement mechanism. Since then there have been concerns that the WTO's dispute-settlement function, although working well, is infringing on its rule-making function and that its informal and formal consultative processes that have become "UN-ized". 68

Eschewing these issues is not making it easier to conduct WTO business or secure agreement on a WTO round. They cannot be resolved in negotiations. They need to be tackled through the WTO's permanent institutional machinery - its councils, committees and working groups - by the membership and Secretariat. And the sooner the better. 69

One way to achieve greater efficiency would be to move away from each WTO agreement or topic having its own formal proceedings. That would allow the number of meetings - 70

itself a major problem for small delegations - to be greatly reduced and allow many issues to be broached in a more cross-cutting way.

Another improvement would be to dispense with non-binding, UN-like ministerial declarations, which occupy the Secretariat and delegations for six months out of every eighteen months to two years. For an organization charged with administering the rules-based trading system, such declarations are not only unnecessary; they can be positively harmful. They have no status under WTO legal provisions. Ministerial conferences should simply issue communiqués that record and explain their decisions. 71

On the WTO's decision-making processes, the European Commission has proposed returning to something like the Consultative Group of Eighteen, which operated in the GATT system from the mid-1970s to the start of the Uruguay Round negotiations. Such a representative group may work in some circumstances, but open-ended informal consultations are probably the only way to address specific issues, enabling all member countries to participate in discussions affecting their national interests. 72

### **Compromizing on a Big Agenda**

As with launching the Tokyo Round and Uruguay Round negotiations, the first WTO round probably has to be launched, at this stage, by including all or nearly all concerns on the negotiating agenda. 73

Besides liberalizing trade in agriculture and services, there is a readiness for the agenda to cover industrial products - even though they have been the focus in previous rounds. There have been proposals to abolish tariffs under 5 percent ("nuisance tariffs") and the usual proposals to reduce tariff "peaks" and "tariff escalation". Recently there have also been proposals to eliminate all remaining industrial tariffs in order to get rid of the different rules of origin associated with the array of preferential tariffs. 75

Regarding proposals for environmental standards, the European Union might be satisfied if the main issues - the "precautionary principle", eco-labeling and multilateral environmental agreements - could be addressed in reviews of the WTO agreements on technical barriers to trade and on sanitary and phyto-sanitary measures. Whether its northern member countries would allow that is the question. 76

### **Extending the WTO System**

Looking ahead, the WTO system has to keep abreast of emerging problems with the continuing integration of the world economy, not only border restrictions and non-tariff distortions of international competition but other impediments within markets to international businesses investing and doing business in them. 77

On investment, none are arguing for a WTO round to cover the wide range of issues ad- 79

dressed in the OECD attempt to negotiate a Multilateral Agreement on Investment, which was finally abandoned in 1997. Many investment issues are already covered in WTO agreements, including the General Agreement on Trade in Services, the Agreement on Trade-related Investment Measures and the Agreement on Trade-related Aspects of Intellectual Property Rights. It is argued that, in the interests of systemic coherence, public-policy issues to do with foreign direct investment need to be codified in a WTO agreement. International competition is often restricted inside countries, as with regulations limiting entry to some industries, such as telecommunications. In some countries governments have taken insufficient interest in enacting or applying competition laws to prevent private companies restricting competition. None are arguing for a WTO round to cover all the aspects of competition (or anti-trust) laws that are covered in the United States, the European Union and other industrial countries. It is argued, as more and more developing countries introduce competition laws, that the issues should be addressed in sequence, beginning with a code on competition standards.

### **Anti-dumping in a Competition Context**

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On another vexing subject, as a result of recent findings by dispute-settlement panels, the reform of anti-dumping laws is already on the WTO agenda. More and more countries are introducing anti-dumping laws, far beyond the four traditional users (Australia, Canada, the European Union and the United States), and are basing them on Brussels and Washington practices that are heavily criticized.

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Many argue that anti-dumping laws are being mis-used as selective “safeguard” measures, which are banned, along with voluntary export restraints, under the Agreement on Safeguards reached in the Uruguay Round negotiations. It is argued, therefore, that a WTO round should review all “escape clause” provisions (emergency-protection, subsidy-countervailing, balance-of-payments and anti-dumping actions) in the context of competition policy with a view to achieving coherence among them.

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HARALD B. MALMGREN  
Washington, D.C.  
June 14, 2001

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### **Cordell Hull Institute**

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THE bipartisan Cordell Hull Institute is being established to promote independent analysis and public discussion of issues in international economic relations, focusing primarily on trade, competition and investment policies. It is a non-profit organization, incorporated in Washington, D.C., and is tax exempt under Section 501(c)(3) of the Inland Revenue Code.

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The board of directors is chaired by former U.S. Secretary of State Lawrence Eagle-

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burger. Its executive committee is chaired by Harald Malmgren, a former Deputy U.S. Trade Representative (1973-75). The board represents a wide range of experience and expertise in inter-national economic affairs, including William D. Rogers, Brent Scowcroft and Robert S. Strauss, as well as academics Jagdish Bhagwati, Robert E. Hudec and Joseph Stiglitz.

The president of the Institute is Hugh Corbet, previously at the Woodrow Wilson International Center for Scholars, the Brookings Institution and George Washington University, all in Washington. Earlier he was the director of the Trade Policy Research Centre (1968-89), then based in London, and editor of *The World Economy* (1977-89), Oxford and Boston

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