

## **The Doha Round is Alive; and more important than ever**

**Lord Brittain**

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### **INTRO**

- Welcome all and thank you for taking the time to join me this evening.
- At the end of August last year I took a phone call from a good friend telling me that I would shortly be receiving a phone call from his good friend, the Prime Minister, asking me to take a sabbatical from my normal work as Vice Chairman of UBS Investment Bank, to become his Trade Adviser
- Now I am in literally the last hours of that assignment. On Monday I return to the banking world. So I am pleased to have this opportunity to reflect on the highlights of a busy six months, share my thoughts on the future of international trade and, let me tell you in advance, attempt to enlist your active support for the Doha Round of trade negotiations.
- My task in these six months has been to help to define an overarching trade and investment strategy. Much, but not all, of what I have done is reflected in the White Paper, published last month. I'm sure you've all read it from cover to cover. But if not - please do! It has the admirable qualities of being not only very informative, but also quite short.
- It includes references to many of the areas I have been working on in the last months
- Including: improving access to trade finance and the overall package of support for exporters; encouraging inward investment and working to ensure that migration policy does not deter important foreign investors; reducing red tape within the UK and at its borders; and increasing coordination between the group of Whitehall departments who have made trade a priority.

- And on the international side; advocating a more open Single Market in Europe; supporting EU Free Trade Agreement negotiations; furthering the emphasis on commercial diplomacy and high level interventions to improve market access; and, saving the best until last, forming and implementing a strong strategy to push for progress on the Doha Trade Round which seeks to liberalise world trade to a greater extent than ever before.
- I won't attempt to discuss all these today, as I want to focus on the Doha Round, but you are welcome to ask questions on any of them later if you wish.

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- The Prime Minister has identified the conclusion of the Doha Round as the Government's top trade priority. And since trade is vital for the growth strategy of the UK, the EU and emerging and developing countries, that means Doha really is top of the in-tray.
- This has been demonstrated in the PM's interventions at the G20 in Seoul and at Davos. Together with Germany, Turkey and Indonesia, the UK sponsored a Trade Experts Group, chaired by the LSE's own Peter Sutherland, which produced a very important report setting out the path to completion of the Round.
- Beyond our borders, the Geneva negotiations have been revived, and I really believe an agreement could be reached this summer.
- I am not alone in this belief. Over the last six months, I have been to the US, China, Japan, Brazil, Mexico, Geneva and Brussels. All the ambassadors I met in Geneva - from countries large and small - and all the ministers I met in capitals share the view that 2011 is a make or break year.
- I hope, without any attempt at brainwashing, that you will also leave here tonight with a real feeling of optimism that free trade can prevail, but that is not guaranteed.

At the very least, I would like you to take away three powerful arguments:

- **Firstly**, much of the final deal is already agreed.

- **Secondly**, what we are looking at is the most ambitious multilateral deal ever, bringing huge benefits to developed and developing countries the world over.
- **Thirdly**, and this is where I think you'll need the most convincing - completion *is* politically possible.

#### **MUCH OF THE FINAL DEAL IS ALREADY AGREED**

- Only very few commentators appreciate the scope of what countries have already agreed in the Doha Round. Currently, it is safe to say that there is already agreement on around 80 to 90% of what would constitute the final deal.
- To take only one example from Agriculture, the most advanced area of the Doha negotiations:
  - The EU would reduce its duties on agricultural imports by close to 60%, with the highest and most distorting tariffs cut proportionally more.
  - This is the most radical opening of a market of this size ever negotiated. Other protected markets like Norway, Switzerland, Canada and Japan would also undergo radical market opening.
  - In addition, Trade-distorting domestic support to agriculture is being slashed. The EU has accepted the need to reduce their ceiling for support *by up to 80%*, and the US *up to 70%*.
  - For both countries, the reduction in the ceiling will only impact modestly on the level of support currently granted to their farmers, but in both cases it will force them to change the design of farm policy to reduce its adverse impact on agricultural trade.
  - But the Doha deal goes far beyond correcting distortions in agricultural trade.
  - On industrial goods, the core of an ambitious agreement is already there,
  - Among developed countries, which represent 2/3 of world demand, tariffs would be virtually eliminated, with no tariff remaining above 8%.

- In the US market, the amount of duties paid on imports would go down by \$12bn, almost halving the current amount of duties currently paid.
- China already has relatively low levels of duties. But as the world's largest exporter, and as such one of the largest overall beneficiaries of the Doha Round, China has a responsibility to go even further. The current draft modalities would lead to a 22% reduction of duties levied on Chinese imports.
- Other big emerging economies would undertake much less new market opening, chiefly because their current applied tariffs are on the whole much lower than the rates they bound into their WTO schedules in the previous Uruguay Round. India has already reduced its tariffs substantially over the last decade, and it deserves some credit for this.
- Nonetheless Brazil and India would both cut their current levels of duties by 8%.
- Under the terms of the current package, the protection faced by EU and US exporters would be reduced by 22%
- Some additional sectoral initiatives, i.e. cuts beyond the agreed formula in key industrial such as chemicals, industrial machinery and information technology, can help bridge the remaining gap
- They seem achievable in at least the seven areas where momentum genuinely exists. Among these seven sectors, three (chemicals; electronic and electrical products; and industrial machinery) cover 50% of world trade of industrial products and therefore represent considerable potential economic gain.
- In services, I'll admit, there is quite a way to go. Both developed and developing countries need to create real new opportunities for exporters, but also to bind in some of the voluntary steps already undertaken. This agreement would do more than any other element to significantly raise the value of the Doha Round and close the deal.
- The notion of legally binding existing voluntary actions is very significant since it insures against future protectionism.

- The Trade Facilitation negotiation is a clear success story of the Doha Round. WTO members have tabled more than 70 new proposals for improving the transit of goods between markets.
- Even for a developed market like the US, the World Bank estimates that the costs of shipping a standard cargo container are about 5% of the average shipment value for exporters and 6% of average shipment value for importers.
- As a result, projections for increased trade due to the proposed improvements in trade facilitation are substantial: up to \$450billion annually. Importantly, these gains accrue disproportionately to developing countries.
- The least developed countries also stand to benefit as for 97% of goods, they will not pay any duties or be subject to any quotas.
- Finally there are the immeasurable benefits of significantly reinforcing the multilateral framework.
- Based on these examples alone, I believe it is already quite evident that the Doha Round constitutes a substantial package of considerable importance to the global economy and to developing countries in particular. It is this that makes me and others believe that it is worth striving to get the round completed and these changes definitively agreed.

### **THE MOST AMBITIOUS MULTILATERAL DEAL EVER**

- As it stands, based on the offers made in 2008, the deal goes far beyond what any other multilateral round has ever achieved in terms of reduction of obstacles to trade.
- Estimates point to a minimum \$360bn of new trade as a result of the current Doha texts on agriculture and industrial goods.
- This would be substantially increased by a proper package of new market access in services.
- It also goes far beyond what any bilateral trade deal could ever achieve. While deals between a handful of nations can be deeper in terms of tariff reductions and the removal of non-tariff barriers, the multiplier effect of 153

countries participating in the Doha Round – both developed and developing – is overwhelming.

- It is this powerful combination of what's already been provisionally agreed, and what more we could now do, that makes me and others believe that the Round is worth striving for.
- But we have been at this stage for over two years now – and it's this year, in 2011, that it is really politically possible to conclude the Round.

### **COMPLETION IS POLITICALLY POSSIBLE**

- The G20 in November described 2011 as the “Window of Opportunity”. I believe that if the deal is not done in 2011 it may never be achieved.
- This is not something that can be proved. But when you have been doing something like this for as long as I have, you get a feel for these kinds of things. I became Commissioner at the start of the final year of the Uruguay Round, so it is a feeling I recognise.
- One of the factors to consider is that from 2012 the US, China, India will enter into their domestic political cycles. It is highly unlikely that in an election year, or year of government change, any leader would be prepared to use political capital on such complex international issues.
- If we wait until the political changes settle down in 2014, the round will be 13 years old, the deal agreed in 2008 will be out of date and the global economy will have moved on.
- But to make the most of the present opportunity requires ambition, flexibility and trust on the part of all the main players.
- Ambition because we need to aim high. Everyone needs to put in 100% of the effort. As the EU Ambassador to the WTO said to me, I'm not optimistic, I'm not pessimistic, I am determined.
- Flexibility to negotiate. Every country has their requests and their red lines. That is to be expected - encouraged even, as it shows they are approaching the negotiation seriously. But every country needs to recognise that their requests must be balanced by their offers. Of course, it is the job of

negotiators to fight hard to make sure they get the best deal for their country, but this must be in the spirit of achieving the deal, not just being obstructive.

- This brings us to trust. Negotiations are a lot smoother if the negotiators on each side know each other, if there is personal chemistry and most importantly trust. Particularly for this negotiation where speed is of the essence, each side needs to be able to dispense with the posturing, and seriously discuss what they have to offer and what they would like in return.
- In the Uruguay Round the main bulk of the negotiation was between the EU and US
- This time, the pressure is building on a different, larger group, still including the EU and US but also including China, Brazil, and India. The US and China in particular will be critical to achieving a breakthrough in the coming weeks. As in other areas of global economics, the relationship between China and the US is very significant, and even more so in political terms than in economic terms. What each of them is offering to the other is critical in convincing the most difficult parts of their respective domestic constituencies of the value of the deal.
- During my visit to China in December, I met with Vice Premier Wang Qishan. He assured me that China would not be an obstacle. Shortly after that the Chinese government made a statement recognising the importance of a timely conclusion to the DDA and promising to work hard towards this.
- This is not surprising as it is in their interests to conclude, they stand to be one of the major winners. I met the Chinese Ambassador in Geneva yesterday and am convinced that this mandate continues.
- On the US side, the problem is not preference or policy, but priority. The US assures us that they are committed to the round, and President Obama gave warm words in Seoul about his readiness to take a good deal to Congress. However any President can only give priority to a handful of issues and at the moment, even within trade, the Doha Round is not one of them. Instead the US is focussed on bilateral agreements with Korea, Columbia and Peru.

- Nobody can contest that the DDA is of a totally different order of magnitude than any of these FTAs, or of the three combined. To take only one aspect, the DDA will get rid of all industrial tariffs across the Atlantic, which is the largest bilateral trade relationship.
- Concluding the DDA will above all create jobs – something we all sincerely want and need.
- A recent study shows that the Doha Round would increase US national income by \$37.9 billion. Not only that, but it would add 393,000 jobs to the US economy.
- While some do better than others, **every single state** in the US will gain jobs as a result of concluding the Doha round. In California, it's nearly 45,000 – in Texas it's over 30,000 – even Wyoming, the smallest state by population, stands to gain 600.
- It will take pressure from business and other world leaders to raise it up the agenda.

## CONCLUSION

- I believe 2011 is the defining year for the Doha Round.
- If we don't make sufficient progress toward the final agreement in order to conclude the round this year, the fate of the Round will be at stake. We are faced with an objective deadline; not a deadline artificially set but one which is imposed by the current international context.
- There are no other negotiating formats or other channels to achieve equivalent gains. Abandoning the Doha Round and attempting to re-launch a WTO agenda around new negotiating objectives would be extremely unlikely to succeed.
- At a time when the world is facing huge economic, social and environmental challenges, the fate of the Doha Round could have defining consequences on the capacity of nations to act co-operatively or not on other more difficult issues like environment, poverty and peace-keeping.



- These other fields of complex international cooperation would be seriously affected by the failure of such a crucial deal for development and global growth. The shock-waves of failure here would be felt durably and in many different areas, with immeasurable consequences.
- So I will remind you one final time of the arguments I would like you to take away, and pronounce to the world:
- **One**, much of the final deal is already agreed.
- **Two**, we are looking at the most ambitious multilateral deal ever, bringing enormous benefits the world over.
- **Three**, really is politically possible. Businesses, NGOs, community and world leaders need to work together to achieve great benefits for all.
- I would welcome your support, in whatever roles you play, to advocate for an ambitious and rapid conclusion to the round. Thank you.