



# CANADA - UNITED KINGDOM Chamber of Commerce 1921–2006 85th Year

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## MR PETER MANDELSON EUROPEAN COMMISSIONER FOR EXTERNAL TRADE CANADA CHAMBER OF COMMERCE

### “CANADA AND EUROPE IN THE GLOBAL ECONOMY” 23 JUNE 2006

Mr President, Victor my friend, thank you for that flattering and perceptive introduction. You are very kind.

This stop over in London is a brief interval in a week that has seen the pace of the Doha Round dramatically intensifying. Earlier I had discussions with the new USTR; and then the EU- US Summit with President Bush. Next week is crunch week in Geneva, when it will become apparent whether we can make sufficient progress to complete the Round before the crucial deadline of the expiry of Trade Promotion Authority in the US next year. So you will forgive me in my remarks for the fact that Doha is very much top of mind.

But I was determined not to miss this stop over. First because of you, Victor Dahdaleh. What you've done in this glittering programme you've put together for your term of office as President of the Canada United Kingdom Chamber of Commerce. What also you have brought to the many good causes that you have supported so generously, not least to enable the London School of Economics just down the road to remain one of the world's pre-eminent academic institutions. And what you are – a business dynamo, a public spirited figure, and a big hearted personality all rolled into one.

Second, because of the importance I attach, in my life past and present, to the relationship with Canada. Canada in many ways should be a role model for Europeans. You have shown how to address perhaps the major challenge facing the European Union: how to get the British and French to sort of work together! You have a social model not unlike Europe's and parts of Canada have had to learn to adjust to painful economic change. And most impressively of all, perhaps better than any



nation in the world, you have welcomed migrants, you have integrated them successfully and you have created a Canadian citizenship in which people from all manner of backgrounds – including you Victor – can justly feel proud.

Canada is equipping itself well for the world of globalisation. The question for me in the next few weeks is whether the global community shares that resolve by making a success of the Doha Round.

#### **Doha: what is at stake?**

I came to my job as European Trade Commissioner a convinced multilateralist. Multilateralism in all spheres is for me the counterpart of our increasing global interdependence.

The multilateral trading system is the engine room of the global economy. But if we want the whole machine to function better, we have to make the WTO system work. Because it binds everyone, the multiplier effect of a global deal is so great that there is no bilateral oiling of the wheels can match it.

The WTO system has worked well up to now. Successive Rounds of trade liberalisation have pushed down barriers and generated huge gains for the global economy. In the last decade, hundreds of millions of people have been lifted out of poverty as their economies have integrated into the multilateral system.

The current Round holds out the prospect of taking that process much further. 100 billion dollar shot in the arm every year for the global economy. A steep reduction in trade-distorting farm subsidies. New markets for trade in farm goods, manufactures and services. New aid for trade for the poorest and an opportunity to rewrite the WTO rulebook to make it easier to trade. It's all there on the negotiating table.

That is why Europe was instrumental in launching Doha in 2001. Why Europe salvaged the Round after Cancun in 2003 with its offer to end all agricultural export subsidies. Why last October Europe made a comprehensive offer to cut trade distorting farm subsidies and open our farm, manufacturing and services markets, going further than we have ever gone in a multilateral trade round. And why at Hong Kong in December we put a date of 2013 on the elimination of export subsidies, so long as others do the same.

The EU has paid into the Doha Round to secure agreement. We have done as much as anyone and more than most.

Next week I am off to Geneva. There and then WTO Member must agree the key trade-offs on agricultural market access, domestic farm support and industrial tariffs that will allow the Doha negotiation to enter its final phase. This is the crunch time for others to match Europe's efforts and take the final difficult steps towards an agreement. And if they do, Europe will be flexible too.

The burden of this work falls on the big players: the EU, the US, the emerging economic of the G20. Not because we can make a deal alone – at best we can facilitate an agreement among the wider membership. But the United States needs to follow Europe in making an ambitious offer to reform its farm markets. And the big emerging economies of the developing world – the Chinas and Brazils – need to live up to their growing weight in the global trading system by making offers to open their own markets. Unless these gaps are bridged there will be no final deal.

As we prepare for Geneva, it is a useful moment to reflect on what the Round stands to achieve and to reaffirm Doha's status as a Development Round.

### **The shadow of 9/11**

Doha was launched in the shadow of September 11, 2001. It was an assertion of our common commitment to use multilateralism to shape our world for the better. In the case of the WTO this meant putting trade and trade liberalisation at the service of development and social justice.

However in my year and a half as Trade Commissioner I have been struck repeatedly by the fact that Doha Development Agenda has been negotiated in the absence of any wider public consensus on the link between liberalisation and development.

Although every successful example of economic development in the twentieth century points to the value of economic liberalisation and progressive market opening, the perception remains that liberalisation is something developing countries must endure, not something they profit from. This perception was reinforced by the collapse of negotiations at Cancun and the apparent schism within the WTO that set developed world against developing world.

Since Cancun, the accusation that Doha is betraying the poor has been hard to shake and I want to confront it today. The EU – and I personally – have been repeatedly accused by NGOs of not doing enough to shape a pro-development outcome to Doha. I cannot say strongly enough that I believe this charge is undeserved. I believe the argument for an ambitious Round is also the case for a Round that delivers the most for development. I want to defend that case today.

### **First, farm reform...**

In most people's minds trade justice starts with farm reform in the developed world. They are right on this essential point: the dumping of subsidised food on markets that could be served by local producers, must end. Europe is already undertaking radical reform towards this goal, cutting trade distorting farm supports by 70% and eliminating all farm export subsidies by 2013.

Doha is an opportunity for developing countries to lock in this reform. Doha also remains the best and only chance to secure similar

commitments to reform from the US which has so far undertaken no reform at all. The alternative is a 2007 farm bill written with the interests of Kansas rather than Kenya in mind.

### **...and new agricultural market access.**

The Doha Round is also committed to new market access in agriculture. Agriculture in general was not touched by previous trade rounds and remains highly protected, in the developing world as much as the developed world. International competition helps put farming on a sustainable competitive footing. It lowers prices for consumers and generates new income for farmers in highly competitive developing countries like Brazil. That is why Europe has already offered to cut its average farm tariff in half to just 12% and cut its highest farm tariffs by 60%. These are huge cuts for a single trade round and press against the limits of what is politically possible and economically viable for Europe.

Are these cuts also a necessary part of a development Round? Yes and no. It simply does not follow that because almost half of the world's poor are subsistence farmers that cutting farm tariffs will somehow lift them out of poverty. Half of the world's poor may live by farming, but only 11% of the poor world's trade is in farm goods – and that number has been going down steeply for three decades. Those countries that have successfully reduced poverty in the last five decades have been those who have moved from subsistence farming to an economy based on manufactures and services.

Tariff cuts will do little to help farmers in Kenya. Or Tanzania, or Uganda. In fact, in some cases they will actually erode the preferential market access for agricultural goods that Europe already offers to African countries, who almost all pay no tariffs at all for agricultural exports to the EU. Long term dependence on preferential access is a developmental cul-de-sac, a legacy of a bygone imperial age. We saw this in the Caribbean with sugar. But we also saw in the Caribbean that this preference erosion has to be compensated for, and the adjustment costs weighed when we determine the pace of liberalisation.

The reality is that global agricultural trade is a tough business, and the market can and will be cornered by highly competitive bulk producers like Brazil, Australia and the United States. For the poorest, aggressive farm tariff cuts erode existing preferences overnight. That is why the

developing world as a whole will never sign up to the frankly overambitious level of farm tariff cuts demanded by the United States.

### **Development beyond agriculture...**

This debate on subsidy cuts and agricultural liberalisation has been the ground on which the development argument in Doha has been fought out. But I have already noted that agriculture's share in trade from the developing world is falling. What it is being replaced by is trade in industrial goods. About three quarters of developing country trade is in manufactures. So are most of the tariffs they pay. And most of the tariffs that they pay they pay to other developing countries. Is there a development argument for tearing down these barriers? All the evidence says there is.

### **...in manufactures**

The EU is often accused of being too aggressive in its demands for developing countries to open their services and manufacturing markets. In reality, in both areas the EU has asked for cuts only from a small number of advanced developing countries, and this at a level less than the developed world, with a right to shield some sensitive sectors from cuts completely. The EU fully accepts and believes that it is important that progressive liberalisation allows for flanking measures to temporarily shelter growing "infant" industries.

But progressive liberalisation of trade between developing countries - South-South trade – would provide new markets for developing countries in the huge emerging markets of China and Brazil and India. It would start to unlock some of the potential that is tied up behind the tariff barriers of the developing world. I fully appreciate that tariffs can be a source of revenue for governments in the developing world. But the growth in trade that follows careful liberalisation replaces tariff revenue with the fiscal returns from a growing economy and a booming entrepreneurial sector.

### **...and services**

The EU is also accused of being too aggressive in proposing liberalisation of services trade. But services trade can provide a vital means of transferring expertise between developed and developing countries, and when it brings foreign investment with it, is an important way to build the transport, communications and banking sectors that are the backbone of a growing economy.

Just one example: I have recently travelled to Malaysia where a decade of foreign investment and imported foreign experience in the construction sector has underwritten the development of a thriving local construction industry – so much so that British expatriate managers are feeling the competitive pressure from their less expensive local colleagues

Gains from services trade are notoriously difficult to predict because they come in the form of knowledge and technology transfer: a sort of virtuous snowball effect. But there is little doubt from the research available that an ambitious services deal could outstrip the gains for developing countries from new trade in agriculture and even industrial goods over time. The EU has been a key advocate of an ambitious services deal in the Doha round. We have backed India in its call for greater access in what is called Mode 4, which is access for temporary skilled workers. But at every turn this agenda has been painted by NGOs as anti-development.



### **...and in trade facilitation**

But the greatest benefits for developing countries in this Round are likely to come, not from the market access, but from the trade facilitation. This is the unglamorous work of securing international commitments to standardised customs practice in every market and at every border.

Developing countries have proportionally the most to gain here, for the same reason that it takes two hours to clear a container through Liverpool and twenty days to clear it through Adis Ababa. Modern standards –and the financial assistance to implement them –go straight to the heart of boosting trade flows and address the persistent, if unmentionable, problem of corruption in developing countries.

Some modelling of trade facilitation gains by the World Bank and the CEPII suggests that a basic package of trade facilitation measures could be worth about 2% of the value of global trade, somewhere between a third of a billion and about a billion dollars a day.

And those new revenues accrue overwhelming to the same areas that are penalised by lack of modern standards today, particularly Sub-Saharan Africa. A trade facilitation deal could add more than 8% to Southern Africa's GDP by 2020 – the equivalent of doubling the Continent's official development assistance. But these rules can only be negotiated multilaterally. Without Doha, there will be no change.

### **No simple answers**

There are no simple answers to the question of how to shape the global trading system to the benefit of the developing world – if only because the developing world is so diverse in its capacities and needs. But the development argument deserves better than slogans and dogma. It merits an honest assessment of the economic evidence. The argument that the developing world should contemplate walking away from the Doha table is simply wrong.

I have set out the parameters of an ambitious deal. If we can secure a Doha agreement that cuts farm subsidies and provides new market access in agriculture, manufactures and services; that widens the preferential access granted to the Least Developed Countries; that provides a large new package of trade related assistance to developing countries and rewrites the WTO rulebook to make it easier to trade then Doha will have delivered for the development. It will have delivered for all of us.

### **Moving to a deal**

The question that remains of course is how we unlock this wider deal. I believe that all sides understand well enough where we can converge. No more bluffing. It is time to blink. Let me be as frank as I can.

For its part Europe has offered to add to its offer of last October if others show similar flexibility and willingness to go further. I have a mandate. I understand the limits of that mandate. Europe will match others in its willingness to make tough decisions.

Brazil and the emerging economies of the G20 need to make a significant offer to open their

manufactures and services markets, subject to all the conditions that I have already outlined. Obviously the EU can benefit from greater market access in these huge emerging markets, but so can the exporters of the rest of the developing world. Ultimately these economies benefit themselves from greater openness – that is why Brazil and India have been unilaterally lowering these industrial tariffs for a decade. We are asking them to take one further step.



The United States needs to make a serious offer to cut its trade-distorting domestic farm subsidies. The current US offer would leave US spending limits higher than the last US binding in Geneva in 2001. It would raise the bar on US farm spending, not lower it. This is clearly not acceptable. The US will have to give more if it wants to get more.

There is a three way bargain here, and it begins with the United States. The G20 wants steeper cuts in US farm subsidies before it is willing to table the required cuts in industrial goods. Washington can unlock this by stepping forward with a realistic offer. If this happens the EU will meet them both with a strengthened offer to provide new market access in agriculture. Of course there is much more to the negotiations than this trio of issues. But this is the key that will unlock the wider deal we need.

**So I hope you wish me well for my week in Geneva – and for the success of the progressive multilateralism that Europe and Canada stand for.**