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LOOKING BEYOND DOHA

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The multilateral trading system

The multilateral trading system embodied in the WTO contributes to enhanced security, transparency and stability in international trade and to a better management of globalisation through multilateral rules and disciplines and the judicial settlement of disputes.

The world needs a strong multilateral trading system. It is the most effective means of expanding and managing trade for the benefit of all and provides a unique framework for dispute settlement.

The European Union has always been committed to the Doha Development Round, whose central purpose is to promote a fairer and more pro-development trade system based on multilateral rules.

The July 2008 WTO mini-ministerial meetings

Governments' latest attempt to salvage a deal in the Doha Round of trade talks broke down at the end of July 2008, as ministers acknowledged that they were unable to reach a compromise on modalities after nine days of mini-ministerial meetings in Geneva.

A very large number of problems which had remained intractable for years had found solutions, even though the negotiations foundered on the extent to which developing countries would be able to raise tariffs to protect farmers from import surges under a 'special safeguard mechanism'. Differences over cuts to farm subsidies and industrial tariffs, which had long seemed virtually intractable, appeared to be bridged to a significant extent and even the always tricky issue of preference erosion was reportedly close to being finalised.

EU negotiators were involved over the last days of the talks in trying to help broker an agreement on the very area that led to the collapse. The European Union negotiated openly and in good faith and did everything it could to contribute to a successful conclusion.

After the collapse of the talks, WTO Members expressed a desire not to abandon the negotiations and to preserve the progress made in agriculture and NAMA and other areas of the talks, representing thousands of hours of negotiation and serious political investment by all the Members of the WTO, which should not be wasted.

Nevertheless, the path towards putting the negotiations back on track is unclear.

Some Members suggested that there were some parts of the package that had almost been negotiated or where there was a consensus, which could move forward. Other called to implement some actions that had already been agreed, such as duty-free quota-free market access for LDCs, aid for trade and the "enhanced integrated framework" of assistance to LDCs.

Nevertheless, choosing to move ahead in the talks on a disaggregated basis would require a consensus decision among all WTO Members. That could prove difficult, given the varying degrees of importance that different governments assign to particular issues. There would be resistance to dismantling the Doha Round package, given the institution's traditional 'single undertaking' approach, under which 'nothing is agreed until everything is agreed'.

Benefits of a successful conclusion

A successful conclusion of the Doha Round, providing for genuine further market opening and stronger multilateral rules, could be the robust stabilizing factor needed by a world increasingly worried about financial and economic crises and an important parameter in stimulating worldwide economic growth, development and employment and effectively contribute to the MDGs and to the integration of developing countries into the world economy.

All WTO Members would benefit significantly from a more open and fairer multilateral trading system should the DDA be finalised.

Prospective costs of failure of the Doha Round

The European Parliament is convinced that the costs of failure in the WTO negotiations would be substantial. In fact, the alternative to a successful Round is not the status quo but a serious degradation in the trading system.

The first loss would be the possible welfare gains from new WTO reforms (with expected benefits ranging from about fifty to several hundred billion dollars).

The second cost would be systemic erosion. In fact, the credibility of the international trading system and the WTO as an institution would be seriously undermined. The poorest and weakest members, who benefit the most from a strong multilateral rules-based system, would be the most disadvantaged. Members still would adhere to obligations under existing agreements, but there would be less confidence in using the WTO as a forum for trade negotiations.

On the other hand, there would be more emphasis on WTO litigation in the absence of an effective process to liberalise trade. WTO Members would make more use of the dispute settlement process to "litigate" desired changes in the practices of other members, but big players would have less incentive to comply with adverse rulings.

The third cost would be the risk that the international trade system drifts into the doldrums of bilateralism and regionalism. Trust in the principles of multilateralism and in international cooperation would be weakened. Major trading nations would refocus their negotiating efforts on bilateral and regional trade agreements, and the number of such initiatives would proliferate.

The fourth cost would be increased protectionism. Multilateral trade negotiations act as a buffer against protectionist impulses since new trade barriers or subsidies could disrupt ongoing negotiations. Protectionist measures could escalate in the future in response to slower growth and rising unemployment as the global boom weakens amid high energy costs and associated inflation.

Fifth, the breakdown of the trade talks could cause adverse shocks in financial markets. Markets already are sensitive to threats of new trade protectionism and their effects on capital flows.

Finally, the cost of not being able to use multilateral trade negotiations to catalyze domestic economic reform.

Bilateral and regional trade agreements

Bilateral and regional trade agreements (RTAs) are changing the world trade landscape. The number of agreements in force now surpasses 200 and about a further 70 are under negotiation or consideration. The number of bilateral agreements as well as the world share of preferential trade has been steadily increasing.

As agreements proliferate, a single country often becomes a member of several different agreements. Each agreement has different rules of origin, tariff schedules, periods of implementation, and together they complicate customs administration and create complex rules for economic operators. Some countries place bilateralism at the heart of their trade policy. Major players are also increasingly turning towards bilateralism, which may shift the focus from the multilateral level. This can be both a cause and a consequence of reduced ambition and commitment in the WTO talks.

The existing provisions of the WTO require RTAs to be recognized as an exception to MFN treatment and non-discrimination. However, they do not work as a brake on the formation of RTAs.

The relationship between the multilateral trading system and bilateral agreements as an alternative/complementary policy tool is a complex one. Many argue that the overlapping, complex, diverse and unpredictable RTAs are inherently discriminatory and contribute to a fragmented world trade system, also undermining the WTO and its basic principles. Others claim that pursuing trade liberalisation through bilateral deals is a useful complement to the multilateral level.

RTAs can build on WTO and other international rules by going further and faster in promoting openness and integration, by tackling issues which are not ready for multilateral discussion and by preparing the ground for the next level of multilateral liberalisation. RTAs can have a harmonising role and may complement and strengthen the multilateral system.

But RTAs can also carry risks for the multilateral trading system. The drawbacks seem to outweigh the advantages and there are important economic and political costs associated with slow progress or failure at multilateral level and the proliferation of RTAs. Bilateral deals weaken the multilateral system. They can complicate trade, erode the principle of non-discrimination and exclude the weakest economies.

The WTO system is more transparent and more predictable than the "spaghetti bowl" created by the hundreds of overlapping RTAs that generate uncertainty for exporters. Very often, RTAs may penalise countries with limited bargaining power and multilateral liberalization has a greater positive impact on development.

Furthermore, RTAs and parallel negotiations at multilateral, regional and bilateral levels strain the institutional capacity of governments. RTAs are complex to negotiate and especially developing countries' capacity is very limited to cope with ongoing parallel negotiations.

The future of the WTO

An important analysis of the future of the WTO and the institutional challenges it faces was carried out in 2004 by the Advisory Board chaired by Peter Sutherland. However, no practical action was taken with regard to the recommendations set out in the report delivered in January 2005.

The debate on the decision-making process, mandate, functioning and future of the WTO should be resumed in the light of the latest developments, with a view to increasing both its effectiveness and its legitimacy.

The European Parliament considers that some aspects deserve our attention:

- the appropriateness of the institutional structure of the WTO;
- the need to ensure consistency and coordination with the action being taken by other international organisations;
- the importance of the parliamentary dimension of the WTO in order to enhance the democratic legitimacy and transparency of WTO negotiations;
- equal and effective participation by all members, particularly LDCs;
- the importance of capacity building and technical assistance for developing countries;
- the introduction of a more democratic system of decision-making at the WTO that takes into account the views of the entire membership, which comprises countries at varying levels of development;
- the need to examine various methods and procedures with a view to facilitating, on a case-by-case basis, the emergence of consensus;
- a plurilateral approach with opt-in or opt-out agreements, for certain groups of countries or certain sectors, in cases where a consensus cannot be reached;
- the limits of the formula of the "Rounds" of negotiations involving all WTO members on a very wide range of subjects;
- the redefinition of the role and the format of the Ministerial Conferences;
- the need to disconnect as much as possible multilateral negotiations from the national political situation of the different WTO Members;
- strengthening the role of the WTO Secretariat, enabling it to take initiatives and suggest compromises;
- the possibility of examining proposals and compromises prepared by independent panels of experts;
- the issues of external and active transparency;
- the involvement of the civil society;
- the reform of the dispute settlement system;
- etc. etc.

Conclusions

The multilateral negotiations now face an even more uncertain future, despite considerable headway towards an accord.

Nevertheless, the European Parliament attaches the utmost importance to safeguarding what has so far been achieved by the multilateral trade system and remains firmly committed to the success of the Doha Round.

The collapse of the mini-ministerial meetings of July 2008 should not stop but, on the contrary, animate the reflection on the multilateral trading system, the future of the WTO and the way forward. It is true that an agreement based on the consensus of all WTO members is long and costly to negotiate. However, the Doha Round should deliver on development, including free access of LDCs to all developed country markets, substantially reducing agricultural subsidies that hurt the producers of the South, aid for trade, trade facilitation, special and differential treatment justified by development reasons, as well as better rules. Developing countries would not be able to achieve these elements in the framework of fragmented regional and bilateral deals.

Therefore, it is necessary to continue to promote a regulated multilateral system, which gives priority to development and incorporates non-trade dimensions (environment, health, poverty eradication, social standards, and respect of decent work norms).

We believe that a successful conclusion of the Doha Round must remain our objective.