

THURSDAY 10 JULY 2008

Present

Cohen of Pimlico, B. (Chairman)
Haskins, L.
Kerr of Kinlochard, L.
Maclennan of Rogart, L.
Moser, L.
Trimble, L.
Woolmer of Leeds, L.

Witness: **Ambassador Bruce Gosper**, Permanent Representative of Australia to the WTO and Chair of the WTO General Council, examined.

Q367 Chairman: Ambassador, it is very good of you to come. Welcome to the meeting. You have seen our list of questions and we understand that you will be answering in your capacity as the Chair of the WTO General Council. We are taking a transcript and all evidence will, in fact, be published. You will be provided with a copy of the transcript, so any infelicities can be ironed out at that point. We know you have had a copy of the topics we would like to discuss but is there anything by way of a general statement you would like to say first, or would you rather we just started?

Ambassador Gosper: No, thank you very much, my Lord Chairman. The questions are fine. Some of them ask for a response as Australian's Ambassador, of course, and Australia's aspirations, so I will try to be clear in what general capacity I am giving a response on some of these questions. They are fairly wide-ranging and give scope for some responses on issues of significance for the WTO and of importance for Australia.

Q368 Chairman: Thank you very much. In which case, I will start by asking you is there a Plan B if the Doha Round fails?

Ambassador Gosper: Well, at the moment, of course, we are two weeks away, or less than that, from ministers coming here to seek to establish modalities, that is the basic framework agreement for agriculture and NAMA. There are open questions about whether or not we will be successful on this occasion. We may not be successful but that does not, of course, necessarily mean that the Round will not succeed at some point. It may be that if we are not successful on this occasion, there is a further work programme ahead for the WTO to try and bring the Doha Round to some sort of conclusion. This is by way of me saying that I am reluctant to talk about Plan Bs at the moment. People have a variety of motives for talking about Plan B. From my perspective, as Chair of the General Council and as Australia's Ambassador, the immediate objective is to conclude modalities on agriculture and NAMA. There is a reasonable prospect that can be done with some goodwill on the parts of all. If it is not successful on this occasion then ministers will have to consider the implications of that for the Round, whether there is a further process that they should indicate is necessary to enable modalities to be concluded or whether there are some more fundamental problems with the mandate for the negotiations or the way we undertake the negotiations, but that is an issue yet to be addressed.

Q369 Chairman: One issue that we have heard really very little about from anybody is services. Do you have much hope for the Round on services?

Ambassador Gosper: I should say that services is quite important, not just for the trading system but from an Australian perspective it is an important part of these negotiations. Like most developed economies, services is by far the largest component of our economy but an increasingly important part of our top ten exports. Currently, all of them are resources or services. There are no manufactured goods or agricultural items currently in our top ten exports. We are a large exporter of education services, tourism services, professional services, mostly to countries within our region, the ASEAN countries, China, India, who do

not necessarily have very liberal regimes. We do see an important outcome from this Round on services. That being said, of course, I think, somewhat unfortunately, services has been left in the vanguard of these negotiations. We did not take advantage of the inbuilt agenda on services and now it is following along behind, to some extent, the agriculture and industrial tariff negotiations. We also have an architecture for services, the GATS architecture that was negotiated in the Uruguay Round, which is not particularly conducive to producing new market opening or new market access as a general architecture. That is an issue that the trading system will need to discuss and in some fashion address over the coming years. We have to be realistic about what we can actually secure in the negotiations in the Doha Round. That being said, we have been reasonably encouraged over the last couple of months about the sort of process we have had in Geneva and some capitals. As you might know, we have had this process of developing so-called plurilateral requests where members come together, both *demandeurs* and recipients of requests, to discuss specific areas and something akin to a bilateral request offer process which has been reasonably encouraging. We have found when we step back from broad public rhetoric on these sorts of issues and talk more specifically with neighbouring countries on the restrictions they have in place on, let us say, the movement of business people, whether it is architects, lawyers or doctors, or on some of their commercial presence restrictions or the like, we can get some practical results. Certainly on the services side we see that we will get something out of these negotiations, particularly on neighbouring markets. We also have a general perspective that what we bring to the table is just as important as what we bring from the table in services. Generally we have a quite open services regime at the moment. We have full commitments in more service sectors than almost any other member, I would say. Certainly our expectation is that we will keep up that general stance, that we will be making further offers of interest to our trading partners. For instance, we have made it very clear that areas of interest to the EU in areas such as postal

services will be part of new commitments we will make in services. We will be making new commitments in Mode 4 areas. We have already indicated that we will be bringing more to the table and we already have a very liberal Mode 4 regime in Australia. We have good standing in terms of our existing commitments, the offers that we have already brought to the table and the improved offers we will bring. We will ensure that we remain at the front of the services negotiations in terms of the level of commitments that we have. That is an important perspective because we are asking others to make a contribution in this area. Certainly when it comes to assessing the outcome of this Round we will be focused on what comes out on market access as well as the Rules area. Market access for Australia is very much driven by agriculture and services.

Q370 Chairman: That is very interesting. Do you see the negotiations on services perhaps as a way of assisting or unsticking some of the negotiations on agriculture or NAMA? I do not quite know where, but anywhere in the negotiations is this likely to be helpful?

Ambassador Gosper: Certainly in a general sense it will be helpful because they bring more to the table that is of interest to more members, and some key members of the negotiations, whether it is the EU or US or India, that certainly have a strong interest in the services outcomes. There are others, of course, who are important parts of the trading system, important trading partners, who can bring some important things to the table in the area of services. I am thinking in particular here of China, but also some of the other major emerging developing countries. This is one of the things we are grappling with now, the product of the sequencing that we have adopted which puts agriculture and NAMA at the front. This is one of the reasons why we have got to this signalling conference, so that we can give all members a reminder of the meaning of the single undertaking and of what is on the table at the end of the day across market access, including not just agriculture and NAMA but services. It is

meant to provide a reassurance to *demandeurs* in this area, but also a reminder to others that what they contribute in that area is an important part of the package ultimately.

Q371 Lord Haskins: Is not the problem with services compared with goods, and the European Union has struggled with the same thing, that the single market has been remarkably successful except in this area? Does not the WTO have the same problem in that the barriers here are not tariff barriers, they are regulatory barriers, and is the WTO, and indeed the European Commission, in a position to tackle those regulatory barriers under its remit?

Ambassador Gosper: That is a very fair question because we are dealing with issues beyond, at and behind the border in the area of services. We all know that it is a complex part of the negotiations. Whether or not you have mixed competences in this area it is a very difficult question. You usually find in most economies that a very small number of ministries have responsibility for what they are negotiating, whether it is trade rules, tariffs or even agriculture, but in services, of course, you are asking people to change regulations that are applied domestically, not necessarily even at the border. For instance, during the course of next week we will have a series of bilaterals with many other members where we seek to cover professional services, tourism, telecommunications, financial services, postal services. For all of the different domestic agencies which are responsible for the legislation policy, and in many cases, of course, that is a shared jurisdiction with states, each of whom may or may not have a mutually consistent regulatory regime, so the problem for negotiators, governments, to be at a negotiating table and negotiate concessions and packages across services and with other parts of the negotiations is very difficult. It takes time and, frankly, it takes a lot of buy-in from domestic agencies many of which, even in economies like Australia which are relatively outward oriented, still need encouragement from trade ministries and industry groups to come to the table to dedicate resources to international negotiations where

the benefit that might be gained is a benefit for an industry in another market which the domestic agency might not otherwise have a particular role in. It is certainly much more complex.

Q372 Lord Haskins: Almost too hard.

Ambassador Gosper: I would not say that. It is hard work definitely, but not too hard.

Q373 Lord Moser: Ambassador, on a very general issue, there is obviously a sort of competition, if not a conflict, between bilateral and regional negotiations on the one hand and multilateral negotiations on the other. One is conscious that there are more and more of the former bilateral regional negotiations. Do you personally see them as an impediment in the multilateral progress, which is what everybody prefers, especially in the WTO context?

Ambassador Gosper: I am not sure I would describe them as an impediment. They are certainly a feature of the system, an explosion of activity in recent years, and Australia itself has been a part of that. Successive governments have made very clear that their primary focus is on the multilateral system but, nevertheless, a couple of decades ago we negotiated an agreement with New Zealand, the CER, which is very much a blue ribbon agreement. Since then we have had free trade agreements with the United States, Thailand, Singapore and, most recently, Chile. We are negotiating FTAs with Japan, China, the ASEAN members, the Gulf Cooperation Council, and have exploratory discussions with India, Korea and some other members. We have been quite involved in free trade agreements. Whether or not the Round is successful, I am not quite sure that that broad global interest in free trade agreements will dissipate. It may slow down a little bit, but a lot of it is driven on the part of the global system by broader interests than just commercial interests. At the same time, often these agreements are driven by specific commercial interests. If your car industry has interest in access to a particular market that can often be a pretty important driver of what happens. We are

generally concerned with what is happening with the proliferation of FTAs and more particularly, of course, those FTAs which we think are not strongly trade liberalising or which merely entrench some protected interests. We are trying to grapple with what that means for the global trading system. Certainly there did seem to be an opportunity in this Round to look at the rules that relate to regional trading arrangements, and in particular to look at whether the disciplines that apply to the comprehensiveness of those agreements could be strengthened. There does not seem to be much support for that. We used to be in good company. Australia had good support from the likes of many other middle economy, export oriented countries, but we do not sense that sort of strong support at this point for tackling those who are resistant to some stronger rules, whether in the United States or elsewhere. We understand how hard it will be to strengthen the rules that relate to RTAs in these negotiations. There is a big agenda that lies out there still that the trading system has to grapple with in coming years. There is still a lot of analytical work that needs to be done. Ultimately, in a very broad sense we have to find a way to multilateralise the trade gains, the access improvements, the openness that has been secured through a variety of trade agreements. This is a broad concept that we are beginning to develop and think about. It is certainly true that if you look at many FTAs, patchy though they are, there are some areas of significantly deeper discipline than is currently available in the Multilateral Trading System. Finding a way to bring the benefits of those agreements to the global community, to the multilateral system, through some multilateralisation of those sorts of agreements is a medium to longer term objective that we are beginning seriously to think about.

Q374 Lord Moser: Presumably from the point of view of an LDC trying to negotiate in both directions simultaneously it must be easier to go the bilateral or regional route in the context of what you have just said. Do you see that as a bit of a threat to the WTO's central objectives?

Ambassador Gosper: I am not quite sure what you are asking there, but there are a variety of views amongst the LDCs. In more openness of the trading system some are beneficiaries of particular preferential agreements, for instance, with some of the major economies and they worry about the competitive threats from developing countries. For the LDCs these are very difficult questions, but they are difficult questions for all of us because we want the LDCs to prosper and develop.

Q375 Lord Maclennan of Rogart: Looking beyond Doha to the role of the WTO in the years ahead, how do you see it possibly developing? It seems from what you said that there has been an explosion of bilaterals, we have got very, very slow progress on Doha, and it does raise questions about whether universal consensus, if you like, is the only way to have plurilateral agreement. I wonder if you have any views about possible structural changes that might make liberalisation more attainable on a wider scale. Are we, by insisting on universalism, if you like, allowing the best to be the enemy of the good?

Ambassador Gosper: Perhaps the issue you are getting at there is the single undertaking and a broad Round that encompasses a wide range of market access and rules issues.

Q376 Lord Maclennan of Rogart: Yes.

Ambassador Gosper: This is a perspective that has been talked about in many places. Certainly there is a view that whether or not this Round is successful it might be the last Round, as such, or last single undertaking, that because of the complexity of issues that governments are dealing with now, because of the near universal membership of the WTO and the range of interests and capacities of the members that a Round of this sort is perhaps not the appropriate way to do trade liberalisation in the future. It seems to me that there is some sense in that perspective. When you view the problems we have had over the last seven years in negotiating this Round it does seem to me that the membership will need to look at

alternate ways to undertake trade liberalisation in the future, whether it is through critical mass agreements, sectoral agreements of the sort that we had in the late 1990s with telecommunications, financial services and information technology, or some other mechanism. I think when this Round has been completed, however it is completed, there will need to be quite a bit of thought given to catch up, frankly, with the broader agenda that policymakers in capitals are addressing and what that means for the institution, catch up with the institution itself in the way it conducts its day-to-day business and the way it manages itself, and probably some reflection on how it next tackles the broad subject of trade liberalisation and what sorts of mechanisms and approaches would be best. Personally, I do feel that these sorts of critical mass sectoral agreements are probably an important part of the future of the Organisation.

Q377 Lord MacLennan of Rogart: That is very, very interesting indeed; very interesting. Do you think it is conceivable that the Organisation could then have a policing role or dispute settlement role in respect of agreements which were not universal agreements?

Ambassador Gosper: I am talking mostly about market access here, and market access commitments. When it comes to rules there will be a function for the dispute settlement body in ensuring adherence to those rules. There are challenges to the dispute settlement system itself, of course. People often refer to the general support for the implementation of dispute settlement findings if, of course, there is not some strong trade liberalising component to the Round. Even more to the point, there is a sense now that after 13 years of operation of the dispute settlement system there are some enhancements, refinements, modifications that we should be considering in the way the system operates. It has operated very well but it is now building what is beginning to be an impressive body of international jurisprudence and has a quite remarkably successful record of findings and implementation. From my experience, I do not think you would find that in any other international area, but all things require

improvement and refinement after a period like that and I think that is one of the challenges we will have to address in the coming years.

Q378 Lord Trimble: I appreciate with the meeting that is coming up in a week or so's time that you do not want to contemplate failure, nonetheless there is not a great deal of optimism in many quarters for a successful conclusion of the current Round. There are a lot of elements in the international climate at the moment, particularly with the present uncertain economic situation, where it does look as if we might be heading back towards protectionism, a retreat from the liberalisation that has characterised the World Trade Organisation. In that eventuality, and I appreciate you are reluctant to comment, is there a future for the WTO in the event of the failure of Doha in the context of the present climate?

Ambassador Gosper: Well, can you imagine a future without the WTO and without a system of rules or process to ensure adherence to the rules? I find that a very troubling prospect myself. There are certainly challenges to the WTO if the Round fails, particularly if the Round were to fail in a way that was - how can I describe this - divisive. That would have its costs, if not to the Organisation at least to the way in which for some period of time members are engaged in the Organisation. The system is there, it has been remarkably successful, whether you look at the dispute settlement system or the fact we are now in our ninth round of trade negotiations over 50 years. It is remarkably enduring and it is because people have self-interest in the maintenance of the Organisation.

Q379 Lord Trimble: There has been a general commitment to trade liberalisation which may not continue to be the case. Some others have put to us what they call the bicycle theory of the institution, that it has to keep going and if it ever stops then the whole thing might fall apart.

Ambassador Gosper: Of course, there has been a continued commitment to liberalisation and liberalisation has continued. Members unilaterally make decisions to liberalise trade every day. What we talk about in these negotiations, and it has been true for successive negotiations, is often capturing what people have done unilaterally, particularly on the part of the major players I should say, and extending it wherever possible, of course. I do not mean to diminish what is achieved over successive Rounds which have often cut tariffs, bound tariffs by a third and a third again and a third again. Logic tells you that has an effect. The Organisation is not the custodian of trade liberalisation; trade liberalisation occurs globally every day. What we talk about in the WTO is capturing that, ensuring that the benefits are extended to all, that it is implemented in a way that is non-discriminatory and, of course, as an adjunct to that a system of rules that ensures in areas like trade remedies that the capacity for people to reverse engines, to move into protectionist mode, is limited in some fashion. You are quite right, having a trade liberalising component to the WTO is important for the political support that the Organisation has, particularly in places like the United States, but not just there. Let us not imagine that if the Doha Round fails trade liberalisation is going backward by any means, which maybe does not answer your question I must admit. I agree with your general proposition that a failure of the Round and the uncertainty it creates over the capacity of the Organisation to produce market access improvements, lower bindings on tariffs, improvements to rules that affect day-to-day trade is a problem. Whether that manifests itself in enhanced protective activity is a different sort of proposition.

Q380 Lord Kerr of Kinlochard: Before asking my question I should declare an interest and warn that I am a director of a Melbourne company called Rio Tinto Limited.

Ambassador Gosper: Congratulations on your price increase!

Q381 Lord Kerr of Kinlochard: Can I take you into the area of what is, in your view, the desirable link, if any, between trade issues and first, social issues, labour standards, migration, social standards, against a background of certainly a more Democratic party-dominated Congress in America, very keen on attaching labour standards and social conditionality to any trade liberalising deal, and second, the Mode 4 negotiation which clearly will be problematic for probably any American administration concerned with homeland security. What is the right relationship between the trade dossier and these dossiers?

Ambassador Gosper: I think the Mode 4 question is a little bit different than the trade and social condition issues because, at least as I understand the Mode 4 question, it is not about the movement of labour per se but the movement of professional or semi-professional people, which is not to disagree with you that it is a politically charged issue in some places, particularly where there are broader immigration debates and concerns about the migration intake, if I can put it that way. It is a difficult question. We had the experience around the 1996 Singapore Ministerial about trade and labour and the push that was then underway to have some explicit discussion of these issues, and we saw that surface again in Seattle through statements that were made by political leaders about these sorts of issues. We saw the reaction that was had from many developing countries which feared that would simply be a guise for protectionist action on the part of domestic constituencies in some economies. That is still very much the perspective of many about this sort of issue, I think. It is difficult. It is hard to escape the broader consequences of globalisation for trade and more particularly for economic policy in our economies, it is a much more complex field now. Whether it is trade and environment or trade and labour, or general regulatory approaches to commerce, these are much more complex issues for the governments now, much more complex also for the WTO which has to deal not just with a narrow set of rules but much broader expectations about those rules and how they relate to the broader community. Where this is going to come into

clearest focus for the Organisation over the coming years will be in the area of trade and environment. Already all of our economies are dealing with a variety of demands for things like labelling products, lifecycle assessment, a whole lot of regulatory changes domestically that derive from community expectations, business practices. How the WTO system deals with that, how members choose to engage in the WTO on such issues, is perhaps the most challenging of the sorts of issues for the Organisation over the coming years. Where that will be probably most sharply in focus is on the question of climate change.

Q382 Lord Kerr of Kinlochard: That is a very diplomatic descriptive answer. You would not want to say in a personal capacity what you think would be the right position for trade negotiators to take on these issues?

Ambassador Gosper: I -

Chairman: Perhaps that's a question we can discuss informally I'd like to move on but I think Lord Moser wanted to come in.

Q383 Lord Moser: Just a quick supplementary on labour markets. It is always assumed in newspaper articles that liberalising trade is good for employment. Asking as a statistician, I wonder whether you find that argument easy to deploy, whether the evidence that comes to you at WTO is fairly uncontroversial, that liberalisation is good news for labour markets.

Ambassador Gosper: It is not a difficult question to answer for an Australian at the moment. We have had more than a decade of strong economic growth. We have high levels of immigration and temporary visa holders. We have low levels of unemployment. It is an extraordinary situation. Of course, it is all built on productivity improvements in the economy, most particularly China and what is happening in China, increasingly in India as well, the giant sucking sound of commodity imports. I began my career 20-odd years ago working in the resources area and I can remember \$40 a ton coal prices. Rio Tinto, which

negotiates for iron ore, in one year had a 97 per cent increase. Our two big resource states, Western Australia and Queensland, have been growing very quickly. Our infrastructure is straining. I am associating what is happening in China with an open global trading environment and to some extent that is true, of course. The access that China has in the US, EU and other places and the strength of its own economy does reflect an open global trading regime and that has immense benefits for Australia. We have firsthand practical insight into all of this. I can remember 15-20 years ago the sort of public debates we had in Australia about foreign investment, for instance. When I think about the sort of debates we used to have about Japan investing in beef feedlots, for instance, it seems like another age. The way in which people have accepted the benefits as well as the costs of globalisation is extraordinary. That might not be true in every place, of course, and I am sure it is not, but for an Australian overall it is a pretty convincing answer to your question.

Q384 Lord Haskins: Following on from that, you could argue, therefore, that Australia, like many other countries, has benefited over the last 60 years in the global case from low food prices, relatively low energy, increasing trade liberalisation, all of those things, and in the last two or three years fundamental questions have been asked on all three points. Food prices have accelerated, energy has gone out to the world, Rio Tinto prices are rising and the global economy is slowing down. I have two questions about that. First of all, if it is a blip what does the WTO do about it? Secondly, if it is a longer term issue, and there are all sorts of tariff obstructions coming in now, export taxes on food and that sort of thing, are we entering a global phase in the global economy which may affect the fundamentals of the WTO?

Ambassador Gosper: There are certainly issues there for governments and policymakers. Slow economic growth globally, hints of increased protectionism, but we have yet to see manifestation of that too much, and, of course, you have got fuel and food price rises. The OECD research on food, if you look at a longer period of time, shows a downward trend in

food prices. There was a significant spike recently, but in the sense as analysed and projected by the OECD it is stabilising, maybe at a somewhat higher level than previously and still on a relatively flat trend. As an agricultural exporter we have been as conscious as anyone of the trend in prices for agricultural products over a period of time. On this issue we have to be careful to understand what the medium and longer term dynamic actually is and what the required policy response is. Certainly if you look at what has happened with food prices recently there is obviously a need for an aid response that the global community has been addressing. The trade response is a little bit more difficult to see. Sometimes I fear that the immediate response to the food price rise is one that is a bit dubious from the trade perspective. Because of the price rises and concerns in local communities people see that they need to increase the productivity of their agricultural sector, to modernise it, enhance it, and sometimes they also seem to suggest that means they need to protect it or increase protection in a different way. There are different answers for different national economies, of course, but I have been quite worried that the immediate response we are seeing on this issue just in the WTO context has been to suggest that we should increase tariffs or raise levels of protection for food, and I am not sure that is the right policy response because generally, if accompanied by the right sort of governance, the right sort of investment, the right sort of technology, a lower trade regime over a course of time is a better way. Certainly for the trading system overall the appropriate response to food shortages, or at least food price rises, is one that increases the openness and flexibility of international markets.

Q385 Lord Haskins: Yes, I can see that. In 30 years' time some people say that Australia will be a net importer of food if climate change takes its course. There is a long way to go but there are huge changes taking place which on the one hand suggest that food should be traded more liberally across the world and, on the other hand, we had a witness this morning saying trade is one aspect of developing countries' economies, the other is in agriculture and whether

those countries can develop their own agricultural systems at the present time without resorting to protectionism. That is the dilemma, I think, that there would be pressures from those countries.

Ambassador Gosper: I think you have neatly encapsulated the dilemma of how people increase their productivity and the strength of their own agricultural sectors but at the same time support an open trading regime for food. We just have to be careful that we do not reach for a short-term solution which is counterproductive either for the country concerned or the trading system overall.

Q386 Lord Haskins: You do not think people are going to take short-term silly decisions?

Ambassador Gosper: That is what I worry about. As for Australia, we might be the smallest continent but we are a continent, so we have a variety of regions and climatic conditions. There are certainly some parts of the country that with global warming might be fundamentally changed with respect to their agricultural capacity.

Q387 Lord Kerr of Kinlochard: Like rice in the Murrumbidgee.

Ambassador Gosper: Yes, and some of the, other irrigated agriculture in some areas of our country. It is a big place, temperate, subtropical, many agricultural sectors spanning across several thousand kilometres, so they will be affected in quite different ways. If you look at the last couple of years it is quite true that in the Murrumbidgee area they have had water shortages but there has been very good water fall in North Queensland, for instance, and the sugar industry is doing very well, and grain after a couple of years is back again. I am not sure that we are going to become a net food importer.

Chairman: You are evidently stunned by the suggestion. Lord Maclennan, you wanted to come in.

Q388 Lord Maclellan of Rogart: Thank you. Ambassador, there has been great apprehension expressed at the United States in particular, and particularly following the Farm Bill, that this would prove to be a spanner in the works at Doha, but, as I understand it, with the rise in food prices which is going on concurrently the prospects of agricultural payouts from subsidies to the American farm community is really quite low. Do you think there is no possibility of getting that message across in the United States and getting them to turn the focus of their criticism away from India particularly, and India to play ball by recognising that they would not have to compete effectively with a subsidised agricultural system which could be described as unfair trade?

Ambassador Gosper: I agree wholeheartedly with your message. We are certainly quite disappointed in the Farm Bill. At a time of high prices like this it would seem an opportune time for much more significant cuts in levels of subsidies and protection generally. We have certainly expressed our disappointment that the US has not taken this opportunity. In fact, we consider the Farm Bill is a step back, and a very unfortunate step back, in what is a necessary process of reform of US agriculture. I think we have made that very clear. It is not the best environment to be negotiating the Round in, of course, with the political signal from the US Congress in doing that. It has to be said that the President has been very clear in seeking to veto the Bill, he does not think that is the right approach for US agriculture and has been very clear that the US is looking for a strong outcome of these negotiations and is prepared to negotiate seriously on levels of agriculture subsidies. We will see where we get to in the next couple of weeks but we are certainly hoping - it is much stronger than hope - and unless there is a good outcome on US domestic support I do not think the Round will go very far.

Q389 Lord Woolmer of Leeds: That brings us very neatly to what I was going to ask you. What would an acceptable deal look like? Put it another way, what are the potential deal breakers?

Ambassador Gosper: For Australia?

Q390 Lord Woolmer of Leeds: No, overall. You are Chair of the General Council, you have an overview, what would be the kind of shape and content, not the absolute detail, that you would regard as an acceptable deal and one could say that has brought this Round in the circumstances to a reasonable conclusion?

Ambassador Gosper: First and foremost, it will have to involve a good agriculture deal and that will have to involve not just the elimination of export subsidies in all their forms but also significant increases in market access, most particularly in the developed country markets, the European Union, Japan and the United States. It will also have to include an appropriate level of contribution from the developing countries, in particular the major emerging developing countries. We are certainly expecting that China, India, Brazil, Korea, Taiwan and others will also make their contribution in the agricultural area. The level of contribution, of course, is proportionate to what is provided by developed countries and will have to take account of the particular flexibilities that developing countries have sought, that in turn takes account of their interests in the livelihood of poor farmers or vulnerable rural communities. That is a level of balance that the membership has yet to find. We know the broad parameters of the balance that is available, the number of particular tariff lines that might have some additional flexibility and the depth of tariff cut that might be employed, but for agriculture that is the sort of broad framework. It is going to involve cuts of around 75 per cent in the current entitlements for domestic support. It will involve cuts of around 75 per cent, maybe not quite that much, for the highest levels of tariff in developed countries and around about two-thirds of that in developing countries. Then in NAMA we are going to have a formula which cuts tariff peaks as much as possible. You are going to have something that produces real market access in the developed countries which generally have tariffs at their applied rates now, so it is going to be a significant improvement in those markets. Where the membership is seeking

balance is in the proportion of contribution of developing countries, in particular the major emerging developing countries of Brazil, China, India and some others. In services, which is not subject to a formula or modality as such but bilateral request offer processes, obviously there will need to be an outcome there that produces significant improvements in Mode 4 and other areas of interest to developing economies, but also in some of the key service sectors, areas like telecommunications, financial services, professional services and so forth. Then we have the rule making area, which will come later in the process, later than the next few weeks or so, where you have the prospect of some improvement to rules that relate to trade members in particular. Members are still seeking to find the right balance between various provisions. Some relate to zeroing public interest tests, sunsets, lesser duty rules, those sorts of things, but there will be some strengthening and improvement of those rules. There is something which for the first time seeks to present an explicit framework for fishery subsidies, which is quite important for the environmental community, in particular the World Wildlife Fund, Greenpeace and Oceana have been working very hard for that, and it is seen as an important outcome. There will be some important outcomes in the area of trade facilitation which deals with customs and border costs and procedures. That is a very unsexy area of the negotiation but a big dollar item for business groups or those who follow these negotiations. It will produce an important reduction in global transaction costs in these sorts of areas. It has been a little bit underneath the radar, but people will want to ensure there is a good outcome in that area. You have got a couple of other areas. On trade and environment I expect there will be some recognition of the important mutual complementarity of environment and trade regimes and some reinforcement of co-operation in that area. Even though they are not formally part of the single undertaking I expect to see some relatively minor improvements to some of the rules that relate to dispute settlement understanding. Then, of course, we have got some more complex issues, complex politically at the moment, that relate to the TRIPS regime, the

intellectual property regime, where we have one mandate to provide a register for wines and spirits which, courtesy of the Uruguay Round, are subject to a high level of protection, and a disputed agenda, disputed among the membership, for some extension of higher levels of intellectual property protection for geographical indications for other goods, so from the EU perspective that reflects concerns such as the Italian interest in Parmigiano-Reggiano and the like, but also an interest on the part of many developing countries for stronger rules on disclosure related to genetic material and patents. Members are still heavily divided on those issues, so it is very difficult to say what outcome will come in that area ultimately. Broadly speaking, it is clear that for the membership a good part of the strength of this Round relies on subsidy reduction for agriculture in the major subsidised developed countries and market access improvement in agriculture, industrial tariffs and services, and in strengthening of rules in areas like trade remedies, trade facilitation, and there are some other areas of product probably less commercial but of overall significance for members.

Q391 Lord Woolmer of Leeds: You have been living with this for a long time, and your predecessors too, and it sounds as if all the issues are well gone over, well understood, but what is it that, despite the understanding, could prevent an agreement? Where is the political will issue presumably? I presume the issues are not at a technical level of understanding what the issues are.

Ambassador Gosper: The immediate issue is whether the major players can find the right balance in these negotiations. The EU, US and some others will need to make major reductions in subsidies, what we call effective cuts. We are talking about much more than was done in the Uruguay Round where ceilings were set which were never, never at risk of ever being approached. We are talking about ceilings now which either cut beyond or very close to actual levels of expenditure. We are talking about the elimination of export subsidies, which was a path that I think the EU was more or less on, but elimination and

consequent changes in export credits, food aid, state trading monopolies. We are talking about improvements in market access. We are not talking about tariff reductions of an average of 36 per cent, we are talking about something much more significant, an average of at least 54 per cent, and with TRQ increases. For the major economies, they argue that they need to see some return, particularly on access to the major developing economies, China, India, Brazil. The exact focus of that interest, of course, will differ from economy to economy. There are other issues which, if not immediately, will certainly play into this negotiation. Rules, of course, even though it has a certain political profile, will have a much bigger political profile later in this negotiation if we get to the next phase. At the moment, as some key members see it we are balancing between subsidy reduction and market access improvement they offer for the market access they see in other markets. That is particularly an American perspective but obviously the EU has that interest as well and we can see that reflected in the current debate they are having on both the agriculture and NAMA texts, and in particular the EU interest in what access it will have for its industrial products in other markets.

Q392 Chairman: Thank you very much, Ambassador. I am conscious we have already kept you ten minutes more than you agreed to be here. It has passed very quickly. Thank you very much indeed for coming, that was extremely useful. May we wish you luck, although it may be a great deal more than luck which is required.

Ambassador Gosper: It certainly is. I appreciate it anyway.

Chairman: Thank you very much.