

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: **Mr Pascal Lamy**, Director-General, World Trade Organisation, examined.

Q411 Chairman: Mr Lamy, good afternoon. Unless you would like to start by making a statement, I believe you have had our questions and we could just start with those.

Mr Lamy: The only thing I would suggest we do to begin with is to give you these two bits of paper just to introduce the discussion so that the overall framework within which we are working is clear. These two bits of paper are very simple. One is the list of the 20 topics which were put into the bag of the negotiation when the Round started. The other paper is a simple map of the constituency system we are operating within the WTO.

Q412 Chairman: This is fantastic, thank you.

Mr Lamy: There are 20 topics, this constellation of various groups. The whole point of this Round is mixing these two elements together, shaking it for seven years and hoping that an outcome will stem from this process. Any statistician would tell you ---

Q413 Chairman: We have any statistician with us, yes.

Mr Lamy: I know you have a very qualified statistician who will tell you that the odds of getting anywhere by proceeding in this way, which is the way we proceed, is nil, which is

why we need a bit of politics, a bit of a miracle, a bit of pressure and a bit of media in order to get there. That is to give you a very simple description of what we are trying to do.

Q414 Chairman: Thank you so much. That leads me right into my first question, which is how confident are you feeling about a breakthrough in the Ministerial on the 21st? Who or what do you think are going to be the major obstacles to getting agreement? I was wondering if you would be prepared to say a word about the German attitude within the EU.

Mr Lamy: How confident am I? Enough. When I called the ministers for the week of the 21st in Geneva I was confident enough that the odds of getting there would be over 50 per cent. Had I thought that was not the case I would not have done that. I did this a fortnight ago. Let us say at the time, to be prudent, it was 55 per cent and it is probably 65 per cent today. In other words, the work that has been done from the moment this was announced to the compromise text on agriculture and industrial tariffs, which we will release this afternoon, is moving in the right direction. That does not take us to 100 per cent, not even to 90 per cent, but it is moving in the right direction. What we are trying to do this time is address five or six of the issues you have on your list, which is not the whole Round but a set of issues we need to stabilise before we move to the final phase of the conclusion of the Round, which everybody still has in mind should be before the end of this year. The issues we have to stabilise in order to get there are agriculture subsidies, agricultural tariffs, industrial tariffs and to some extent services, although the services negotiations operate with a different technology from the three previous ones. So it is agriculture subsidies, agricultural tariffs, industrial tariffs and some progress on the services negotiation which we are trying to achieve during the week of 21 July. What are the main issues? It boils down to a balance, which is a new balance, between developed countries - US, EU, Japan, Australia, Canada, New Zealand, Switzerland, Norway and a few others - and emerging countries. Not that poorer than emerging countries do not have a big stake in this negotiation, but my sense is the benefits

and the small contribution which developing other than emerging countries will have to make is already on the table. The balance between these three issues and basically the US, EU, Japan, China, India, Brazil and a few others, is where it has to be found. It is a technical balance. How much does the US finally reduce its trade distorting domestic subsidies? How much does the EU cut its agricultural tariffs? How much does China cut its agricultural and industrial tariffs, how much does Brazil and so on? It is a fairly technical issue but behind this there is a political issue which stems from the origins of the Round where developing countries decided that this Round would be about rebalancing in their favour rules of the game which we inherited from the previous 60 years of trade negotiations. Developing which developing countries as a whole see this as a legacy which needs to be amended because their analysis of the rules of the game is that they have been drafted and agreed by previous masters of this planet, but the landscape is changing and they want their own say. That was the view of the whole of the developing countries' camp. Of course, poorer developing countries know that they have less clout than China, India, Brazil or Indonesia, which is why at the moment of truth my answer to your question is that is where the big deal has to take place. As far as the EU is concerned, on agriculture the EU has a price to pay in this negotiation but this has been dealt with already within the European Union as successive reforms of the Common Agricultural Policy were decided in 1992, 1999 and 2003 and implemented. In many ways the Europeans are selling on the WTO market a quantity which they have already paid for among themselves. Of course, they lock into the WTO disciplines what they have agreed between themselves, so it gives a certain value because all the other partners of the European Union know that the EU is a big oil tanker that does not change very often. That is different from the US which has cycles in its farming support legislation which are every five or six years and have been a bit up and down. In many ways, assuming the EU does not do much more, and that is a question of debate between experts, than lock into the

WTO what they have done among themselves, it is not a huge issue. Of course, there is still a debate whether reducing the tariff on poultry matches the difference between the reduction in production and the evolution in consumption, and depending on the euro/dollar exchange rate you can have lots of discussion on this, but overall this is the picture. The Americans are negotiating commitments which would and will, if there is a deal, oblige them to change their farming policy. In a way they are in a more difficult political position than the EU in that field. On industrial market access you mentioned Germany, and I am not surprised by this. In this sort of negotiation Germany has always been very crucial. For whatever reason they believe that their main stake is on industrial products' market opening even if they have their own agricultural issues with Bavaria and the former Eastern Germany. Just look at the German economy, at the volume they export and where they export these volumes to: emerging countries. For the last five or ten years emerging countries have been sucking in German exports on things like machinery, machine tools, cars, the high value-added segment of cars, so they have a specific focus on industrial products and precisely on the markets of those emerging countries I mentioned. This is why they have taken a lead in this within the EU trade policy and the EU negotiations which are led by the Commission and the Commissioner. They have a specific sensitivity both sector-wise and market-wise which explains why they take this specific stance. For many, many years now the Germans have been the sort of anchor of EU trade policy. Their mix is there and, as the anchor, where they finally land on a compromise is extremely important. Everybody knows the Germans have a longstanding preference for open trade and have this free-of-charge model in mind that has been there for years and years, and of course they are preserving their interest, but everybody believes Germany is on the right side and at the end of the day the EC is on the right side. If Germany drifts on to the wrong side then there is a big problem with the European Union.

Chairman: Thank you very much, Mr Lamy. I was going to ask you about where the fallback position lay, but I think this is the wrong moment, so I will ask Lord Woolmer to ask the next question.

Q415 Lord Woolmer of Leeds: That was extremely interesting and I am sure we will come back to it. Turning to the developing countries, some of the witnesses we have talked with have said that countries like China, India and even Brazil have not enough to get out of the Doha Round now to really engage them. Is that the case? If it is not the case, what is in it for them?

Mr Lamy: In this Organisation the witnesses for Members are the Members themselves. They negotiate, they talk to each other, they talk to me and I talk to them. These countries have been the main promoters of the new agenda which I was sketching. Who has made sure that agriculture is number one in the negotiations? Not the EU, not the US, not Korea, not Japan, not Switzerland, not Norway. They have made sure that agriculture is number one because this is where they have short-term, medium-term or long-term - short-term with Brazil, medium-term with China and long-term with India - important comparative advantages which they want to exploit. What is happening with the food price crisis does not go in a different direction. These countries want (a) more market access in agriculture, (b) fairer discipline because they remain poor countries and basically say they cannot fight with the EU budget or the Japanese budget or the US budget, they can fight with the farmers but they cannot fight with the budget, and (c) industrial market access. Although agriculture has taken a lot of prominence, notably because they wanted it this way, the main benefits of the Round will be in industrial products and for them, notably in the US market which on average is not really protected, three or four per cent, five or six per cent, like the EU. The average is the wrong concept if you talk about tariffs. I can have zero on plenty of my tariff lines where I do not have much trade and 30 or 40 on a few tariff lines where I want to protect my

domestic producers. For instance, in the US market on textiles, clothing, footwear, trucks, ceramics, to take a few examples, there are high tariffs and if they go down the way they will if a deal is there, that is a huge plus for countries like China and India in textiles and clothing and countries like Brazil, Argentina or even South Africa on agriculture. I have not given public numbers at this stage because I want to focus on the success of the negotiation. If you make a rough calculation in terms of duties foregone, which is very rough because it implies a sort of zero-sum game, which is a minimum quantification of the benefits of the Round, if you take tariff reductions in industrial tariffs, in agriculture, if you convert in tariff reduction terms what disciplines on subsidy would procure, and there is a simple way to do this, and on the basis of trade flows today projected without any increase in, let us say, five, six or ten years from now, what is on the table in terms of purely duties foregone is in the order of magnitude of \$80 billion a year, two-thirds of which is paid by developed countries, one-third of which is paid by emerging countries. Within this emerging countries' camp roughly half of that is paid by China, not that China has high tariffs, it has much lower tariffs because of its recent accession, but because their bound tariff, which is the maximum tariff, negotiated at WTO is very similar to their applied tariff. Because they joined recently, Members of the WTO made sure they would bind where they have applied tariffs, which is not the case in other developing countries, and second, because of trade flows. Duties foregone is a multiplication of a tariff, a quantum of these trade flows. They will be big beneficiaries short-term. If you factor in the increase of trade flows with these countries five or ten years from now, the savings for developed countries' exports are absolutely huge because they will apply to amounts of trade which are much higher. If I took the table today and asked them, "Are you okay with the balance of what is on the table?" they would all say, "No. I pay a lot and don't get much". They would all say that, which mathematically is totally impossible even with a zero-sum game. That is the difference between negotiators spinning their positions. The

reality is that potentially on the table there is a huge package, they will all benefit from, they just need to do the few remaining miles to get there. Emerging countries will amply benefit from this deal.

Q416 Lord Kerr of Kinlochard: You are the master, Mr Lamy, of the big package. I think, for example, of “Reussit L’Acte Unique”. You are also well-known to be an optimist, and you are absolutely right to be optimistic. I can quite see why you called this session. But I am a gloomy Calvinist, a Scotsman, and it seems to me, although you are doing the right thing, your 65 per cent chance of success does surprise me. In terms of the political cycle it is quite difficult to see the Americans making much of a move, and presumably no move on agriculture from the Americans means no deal. In terms of the economic cycle the threat of recession creates a stronger threat of protectionism and maybe the American political cycle is relevant here too. Maybe the deal got too big, maybe there is too much in, and yet we see people trying to throw extra issues in: environment, labour, whatever. Maybe the deal has got too small, because bits of it have been taken out in advance, at Singapore or Hong Kong. Maybe it has been overtaken by the development of bilateral deals and autonomous reforms. Look at the Indian tariffs, as you say the Chinese tariffs on accession, or look at the CAP, which is a very different CAP from the CAP of 15 years ago. I am sure it is right to try to bring this big package to a crunch now, but personally I think it will be a superhuman feat if you bring it off. Can you comment on the political timing, the economic cycle timing, whether the deal has got too big, or whether the deal has got too small?

Mr Lamy: I recognise Lord Kerr has an analytical capacity. First, the WTO has no master but its Members; it is a Member-driven organisation. You spent a lot of time in Brussels with machinery which is a Member driving organisation and here it is a Member-driven organisation. Believe me, having been in both universes, there is a big difference. You are right that the political cycles, the economic cycles and the WTO cycles never match. Why is

that the case? It is because our cycle is 15 years. From the moment the concept of a Round is elaborated to the moment the results of the Round are implemented, it is 15 years. The Uruguay Round started in 1986 and the implementation period ended 16 years later. This Round started in 2001, maybe we will conclude it in 2008, which is seven years of negotiation, and the implementation period for developed countries which will probably start in 2010 will be five years and for developing countries ten years. That is our cycle. It is inevitable because we are in a mass which is the international system. When I was in the French Government the time cycle I had in mind was next week; when I was in Brussels it was next month; here it is the next decade. Inevitably, because of the spaces of regulation within which we operate, there is a big difference. It does not fit with electoral cycles or economic cycles. The US elections, yes, it is an important Member of the World Trade Organisation, although Indian elections may be just as important today. There are elections in the US, but for the Round this works in a good direction because this administration has made a determination that they want to clinch a deal. There has been enough venting of other views during the electoral campaign up until now and many of the players believe it is better to clinch a deal with somebody you know rather than go into the open. That does not solve the question of whether Congress will ratify an agreement or not, but there is no answer to this question before you have an agreement. The economic cycle is also important, you are right, it is looking bad, lots of dark clouds on the horizon which might lead to protectionist surges. Governments know that, but they know they have an insurance policy in the WTO against protectionist surges. Re-investing in this insurance policy today has a huge value for many of them. They will not say that publicly, but when Heads of State and Government come to me they privately tell me sometimes, "I know it is difficult to agree to new disciplines or reductions in tariffs but if I lock this into the WTO I am safe because at home I say we are all abiding to a set of rules and if we start rocking the boat others will do it". There is this

element that also plays. On things like food prices it is obvious that reducing trade distorting subsidies or export subsidies by developed countries which have damaged the production capacity of the developing countries becomes crucial. It is true, environment and labour are not there, true in Cancun the notion that disciplines on investment have been dropped and, true, energy questions, investment questions may be in the air, but we have to finish this Round first. Everybody knows there is no way that new issues can be introduced with this principle of the single undertaking. The Round finishes when on each of the 20 topics that I have given you there is an agreement. There are square brackets on some topics, things like geographical indication extension or the convention on biodiversity, where whether or not a negotiation is formally mandated is disputed. My main answer to your question is we have inevitable differences in cycles. Bilateral deals are there. Yes, we have more bilateral deals than we used to have, but the basic reason for that is because countries who had no clue or no interest at all, or with whom others had no interest at all to enter into bilateral deals, have developed such as they are now in the range of possible candidates. If you look at the potential market for bilateral deals this market has increased, which is why the number of bilateral deals has increased. I do not regard it as a sort of fashion, these bilateral deals have many regional and political motivations. They leave us with two problems. Are the rules of the World Trade Organisation that discipline these bilateral agreements clear enough? No. We have rules, but they are not clear enough. Second, their multiplication leaves us with a problem of erosion of preferences because if I enter into a bilateral deal with you this will give you a preference as compared to my MFN WTO status. If in a negotiation I reduce my MFN tariff you have a problem, and the other way around. The big political problem of Free Trade Agreements is they create a sort of anti-MFN vested interest which then weighs on the negotiations. It is something that I think we can cope with. All in all we have reached a state of technical maturation and political determination, including with the US electoral cycle, that

makes it a propitious moment. I know that selling trade opening is more difficult than it used to be and liberalisation creates resentment more than it did five or ten years ago. Let us not saddle trade opening with that. The reasons why the losers of liberalisation are more vocal than they used to be is basically because systems of solidarity which existed before have either been removed or changed in a way that does not provide the same level of security, but that is not because of trade.

Chairman: I think we are now going to ask you to think the unthinkable. I am going to ask Lord Moser to ask his question.

Q417 Lord Moser: I am afraid this is another pessimistic question. I am not a pessimist or an optimist, I am just a statistician. All the papers in commenting on your decision to call this Ministerial Meeting have said you are taking a big risk. Just as a supposition that the Round may fail - it is not what I hope, but just on that supposition - what do you see as the risks for the WTO if that should happen?

Mr Lamy: First, taking a decision in an unknown environment is always taking a risk. What you have to consider is the risk of not taking the decision. Because of this political cycle issue in the US my sense is if we do not clinch these “modalities”, if we do not cross this bridge now that will lead us to being able to conclude at the end of this year, then the Round will be postponed for quite a long time. If we have nothing on the table a US administration will want to review this carefully and pick and choose, and we know that a new US administration only comes into the real year after six or eight months, which means sometime by the end of next year. The risk is if we do not get modalities, the agreement we need on the three topics plus the bit of services I mentioned, the rest of the Round will freeze for two or three years which would inevitably be interpreted as a failure. It is not taking a risk if the other option is failure, it is taking a risk between the fact that if we do not do anything failure is more than 50 per cent and if I try I have more than a 50 per cent chance of getting there.

What if the Round were to fail? There would be a big geopolitical problem. The huge investment which developing countries and emerging countries have made in the WTO is not by coincidence because they care only about trade, they made it in the WTO because this is the place where our decision making and governance system is the most flexible to their interests. We do not have a security council, veto rights which have been inherited from 60 years ago, quotas, voting rights, we do not have to spend five years to transfer 1.5 per cent of voting rights from Belgium to Brazil. We are in a system where we work with consensus. It is a big problem because getting people to agree takes a longer time but it reflects the reality of the force of this world more immediately. They would be very disappointed, very frustrated, and a failure, whatever the rational reason would be, would be that developed countries have not done what they should do to rebalance the world economy. I am not saying that is the right explanation, but that would be the mantra. Think about the chances of getting somewhere on an issue like climate change if you do not succeed in getting anywhere with the Round. A Round is ten times simpler than getting China or India to agree to the sorts of decisions which they would have to agree to if they wanted to limit their emissions per head 20 years from now. That is the big picture. That would be bad news for the world economy at a time when it probably needs more good news than bad news so it can entertain a negative cycle. We know where we are and I do not think I need to comment on that. As far as the Organisation is concerned, of course it would be bad news. We would still be administering the rules of world trade as they have resulted from eight previous Rounds. We have a stock of rules. We would still have a dispute settlement machinery that is fairly sophisticated and reasonably well-recognised and legitimised. We would still be training developing countries to understand what negotiating and implementing trade agreements means. But we would have less clout on an issue like Aid for Trade, for instance, which I have been trying to push since I have been here to complement the fact that we provide

developing countries with more market access possibility, but it only remains a possibility and does not translate into reality if they do not increase their capacity to use these trade positions, and there would be a sort of depression, whereas for the moment the two things are reasonably well synergised. It would not bring the WTO down. We have accumulated rules, procedures and know-how over 60 years and you do not drop this overnight, but for sure it would be seen as an incapacity of one of the organisations which has been managing the multilateralisation of the world economy for a few decades and it would be interpreted as where is global governance today if organisations like the WTO cannot do their mission. It would not bring this Organisation down, but it is like not making an investment.

Q418 Lord Kerr of Kinlochard: Would it affect the credibility of your extremely impressive dispute settlement procedure?

Mr Lamy: I do not think it would affect the credibility short-term but it would create a situation where the balance between the legislator and the judiciary would race to be treated on the side of the judiciary. As in any governance system, we have to have a very careful balance. We have a big legislative, a tiny executive and a big judiciary. If rules are not adjusted to the world today this would go to dispute settlement and then the panel and the appellate body would have to interpret all such rules, some of them from 1948, into today's reality. It is better to adjust the rules - you are legislators, you know that - rather than asking the judge to do it, especially if the judge is operating far away from normal legitimisation processes. For the moment it is okay, but I have heard sometimes, "Why should we abide by the rulings of seven gnomes in Geneva? Who are these people to tell us what is good and bad to put on our plate?" There is a danger if you do that. This danger, which is inherent in any system, especially because we have an extremely specific judiciary in many ways, is of being unbalanced and if it is unbalanced then it is the whole legitimacy of the system that is affected.

Q419 Lord Maclennan of Rogart: Mr Lamy, you said, and I listened very carefully, that you work with the consensus which reflects the realities of the world we live in more immediately, but that might almost appear to be an impossible scenario with your own description of the cyclical decision making. Is it not possible that international trade agreements are taking too long to actually impact, that is universalist multilateral agreements are taking too long to impact beneficially upon the international community? Whatever the outcome of this Round, whether favourable or unfavourable, from your vantage point and the others you have occupied before, is it not arguable that there are less universalist approaches that might deliver more variable geometry, two speeds, a sectorally more limited approach, or do we have to continue to live with this long cyclical, even circular process of change and just accept that is it? This is not to say that there are not other possible beneficial roles for WTO to play, perhaps in respect of other trade negotiations, recognition of implementation of desirable changes that may not have been so multilaterally conceived. Your experience post-Doha would be interesting in this context.

Mr Lamy: If we get to the end of this Round your question will be on the table five months before we get there. I remember the end of the Uruguay Round in 1994 and I was already connected to these issues in the position I was in and the mantra after the Marrakech Conference that formally closed the Round was, “Never again. This single undertaking is terrible. Consensus is too heavy. Never again”. We operate under three constraints, not just two but three constraints, and Lord Kerr will understand immediately: consensus, a heavy way of taking decisions but in international organisations rather widespread; the single undertaking, which is mixing these 20 topics which is terribly complex; third, not to be forgotten, bottom-up. The initiative proposals in this system are with the Members, so if I have an idea I will have to have this idea cleared by my capital, which will make it totally self-serving, and I will table this to other Members and say, “I’ve got a great idea, that’s what

you should do now”, and immediately the 152 other Members would say, “No. I know you, so let’s start with three years during which we are going to wash all these self-serving elements from your proposal before it becomes capable of being discussed”. That is three years. There are other systems in governments where the legislator of the government can table an initiative. It is no coincidence, because the thing was devised by people who knew the international system pretty well, that in the European system the Commission has the monopoly of the initiative because they know it needs somebody above the domestic national interest to table something which *a priori* can serve as the basis. This debate will come and we will have the various options you have just mentioned, instead of doing 20 topics together, could we not go topic-by-topic and have a negotiation on geographical indications or on fishery subsidies or regional trade agreements. This is what happened after the Uruguay Round, there were a few sectoral negotiations, telecommunications, financial services, between 1994 and 1996. The sectoral way is one potential way. Then there is another way which is, “Can’t we get rid of this consensus and go to variable geometry?” We tested this and it happened after the Uruguay Round with the ITA on technology. We had this with the Government Procurement Agreement, which is a plurilateral agreement, not a multilateral agreement. These ideas are there and they may be useful for a next stage. The world has changed since 1994. When there was disagreement, for instance, that basic investment rules should be negotiated at Cancun, the Europeans tried at the time to have this as a plurilateral agreement and this was refused because in order to have a plurilateral agreement you basically need the non-participants to this agreement to agree that you can enter into this. Whether India is ready to be a non-participant in an investment negotiation is unclear because there is a cost to do that, especially in matters of this kind. These avenues remain open, they will be considered and debated, plus, of course, the bilateral or even unilateral way of opening trade, which is what happens every day. If you look at the bound tariff of India on industrials,

it is somewhere around 40 or 50 per cent, and if you look at the applied tariff of India on industrials it is probably an order of magnitude of ten, but in WTO we negotiate bound rates. The one thing which you cannot do sectorally, bilaterally, with variable geometry or unilaterally is horizontal disciplines. Take agricultural subsidies, you cannot do that bilaterally, you cannot do that by variable geometry. Take anti-dumping, disciplines on anti-dumping, bilateral, no, plurilateral, people will want everybody to be in the disciplines. Take fishery subsidies, we also have ways to factor in variable geometry although we do not call it this, it is Special and Differential Treatment for developing countries. In many ways our tariff agreements or tariff structures are not homogeneous. If we are negotiating a totally new, starting from scratch, agreement on discipline in fishery subsidies, will the Irish or European fishery subsidies be treated the same way as Indian fishery subsidies? No, there will be an element of Special and Differential Treatment. Our system is not one-size-fits-all as it sometimes appears and there are avenues to approximate this and I am convinced that this will be the case. Where I do not think we will change is on consensus, not least because finding another system is so terribly difficult. When you look at all the literature and academic proposals that have been made in the international system, the only rational way of getting there, which is a sort of double majority of populations and states, took the European Union 60 years and you are not even there because the Treaty is not ratified. It took 50 years to get to a system where the political determination to create integration was incomparably stronger than in any other non-national system. That is the clever way of addressing it 50 years from now maybe.

Q420 Lord MacLennan of Rogart: If a trade agreement which is not universal is not harmful, surely it might be possible at least, if not easier, to have consensus that it could be, as it were, validated and overseen by the World Trade Organisation?

Mr Lamy: Provided it is MFN. Provided you give the benefit of what you do not only to those who have participated in the negotiations but to everybody. This is what happens in services. In services, within the framework of the WTO GATS system, we will have an agreement, “I am asking you to open your telecoms, okay, you are asking me to open my dredging. Fine, we’ll make a deal because I’m interested in your telecoms and you’re interested in my dredging but what you give me in your telecoms you will also give to the others, and what I give you in dredging I will also give to the others”. Within our system there is a big pillar which is non-discrimination. One can imagine systems with a critical mass. That is what we do, including in the Doha Round, in sectorals, for instance. If you take jewellery or sports equipment, around the table there may be a number of people whose combined weight in jewellery or sports equipment is 80 per cent of world trade and they may deem it of value to do this and give it free to the other 20 per cent of the world. This happens. The ITA, the technology agreement, works this way. China benefited from the ITA although it is not a part of that. It is doable. Again, that is easier for market access than it is for rules. If you take agricultural subsidies, if I enter into an agreement with you and we both discipline our agricultural subsidies but my neighbour does not do it, my competitive position will be harmed, and I will not do that.

Q421 Lord Haskins: Mr Lamy, I agree with you that it is probably more likely we will get a favourable outcome sooner rather than later. I am slightly confused and worried that you have an agreement with the Americans which has to be renegotiated with Congress and how we get round that. Assuming we do not get where we want to be this year, there is always next year. In a situation in America where McCain is President and there is a strong Democratic Congress, that would be quite difficult because you would need to get hold of the next President and privately get him into a room to agree that he needs you as much as you need him. That may be an educational process and may take a bit to get. That all assumes

that you do not believe the world economy is going through more than another of the cyclical blips that have gone before, but are there fundamental issues here in energy and food which may change all the rules of the game?

Mr Lamy: I think the economic situation we are entering into is more than a cyclical blip. Energy prices is a very complex issue and part of the solution is on the supply side, part on the demand side. In food prices it is not a question of the demand side. As in energy, you cannot say, “Maybe we can consume less food” when the vast majority of people on this planet who consume food are poor and hungry. The answer is clearly on the supply side. On the US situation, let us assume that we clinch a deal, it has to go to Congress as, by the way, it has to go to Parliaments in most of our systems, Congress is no different, there are procedural issues in the EU/US constitutions which gauge the responsibilities of Treaties of Commerce with foreigners and Indians, say, in Article 1 of the US Constitution to Congress, but let us leave these technicalities aside. What is for sure is that the deal on the table will not be renegotiated. If the 153 Members of the Organisation at that time clinch a deal there is no way people will accept that one of the Members picks and chooses. It happened already in the Tokyo Round and has never happened since. If we get there and the administration takes this deal to Congress, which implies a decision on the administration, there is a deal. The new US administration could take the decision not to take it to Congress, to leave it there, and that would mean refusing the deal with the geopolitical consequences that would have. I do not think a Republican President would do that. Personally, I do not think a Democrat would do that with a multilateral Trade Round which is a Development Round. As you know, the debate on the side of US politics has very much been focused on bilateral rather than multilateral deals, and if you are including Obama’s announcements of today that is not the flavour he gives. Then you have got the problem of Congress, and Congress will be in the same situation, they will have to say “yes” or “no” to a deal. Saying “no” to a deal is a huge

geopolitical determination at the start of an administration. That is not the most plausible. I am not sure it will work well but the odds are on the right side. By the way, this is what has happened many times in the past. New administrations have had to take deals to Congress which had been agreed by the previous administration, starting with the Uruguay Round. If you look at China PNTR, which was what Congress had to do to waive formal legislation for limited trade with China when China joined the World Trade Organisation, that was exactly the way it happened. The experience in US trade legislation has always been bipartisan. I know of no trade legislation in the last 50 years in the US that has been passed either by Democrats or Republicans, it is always a mix. The mix can change depending on the circumstances and where members of the Senate or the House come from. Of course, no Democrat or Republican from Michigan would vote in favour of reusing tyres on cars and no Democrat or Republican from Georgia would vote in favour of reducing subsidies on cotton. That is a well-known feature of US politics, but overall it has to be a bipartisan system. At the end of the day if we do clinch an ambitious development-oriented deal where the US have their benefits, and in industry they will have many benefits, in agriculture market opening they will have many benefits and in services market opening they will have many benefits, not to talk about fishery subsidies, we are not there yet but there is a huge constituency in US civil society pushing this and if it is a package it has a reasonable chance to go through.

Q422 Lord Kerr of Kinlochard: I have been trying to think of differences from towards the end of the Uruguay Round and now. It seems to me there are two. There is one similarity, which is the brilliant cabaret between President Sarkozy and Commissioner Mandelson, which reminds me very closely of the cabaret between Alain Juppé and Leon Brittan last time round. The only mistake that has been made, it seems to me, is Peter Mandelson saying he is being “undermined”, which must be the reverse of the truth, his position must be greatly strengthened here by this demonstration that it is difficult for him to

contemplate a further concession. One of the two big differences, it seems to me, is last time round the multinationals were not silent. Last time round the *Wall Street Journal*, the *FT*, the voice of corporate America, was quite keen on a Uruguay Round deal. I do not know where the voice of corporate America is now, because I have not heard it. That is why I say maybe Singapore was a mistake. If the investment dossier was still on the table - and I do not think the investment dossier is just in the interests of the G20, it is very much in the interests of the developing countries, too - it would give the north, as it were, a second demand in the negotiation and, therefore, it might be louder. The other thing that is different is, for some reason which I do not understand, the lobbies in the north, in the G20, for development, have turned against us all. They criticise the EU, they criticise what is on offer here. I wonder whether that is partly because of Hong Kong. Hong Kong did not satisfy the appetite, and it now leads people to say, "And what more are you going to do for the developing countries? This is a Development Round after all, where is the development in what is on the table?" These seem to me in public relations terms to be two great difficulties, and that you face that your predecessor did not face at the end of the Uruguay Round.

Mr Lamy: That is a valid point. It is not for me to comment on the intra-EU debate. You are right, multinationals are less vocal than they were at the end of the Uruguay Round, although if you take solid organisations like the National Manufacturers' Associations, the International Chamber of Commerce, BusinessEurope, they are pushing very hard. These organisations mobilise their troops, their money and their lobbying capacity when there is something on the table. They are not in this business of 15 years, they are in the business of "They will do it, and I know they will do it when we need this to be done for ratification". The other reason why international business is pushing less is the technology has changed. If I have a problem with accessing this market or producing in that market I shift, I jump over things, I go elsewhere. There is much more mobility and production shifting, which is the

horizontal distribution of labour internationally, which has changed things fundamentally. I appeal to those among you who are statisticians and economists, that what has changed to the point where the way we compute trade flows today does not really make sense, in my view. Comparing trade flows to GNP numbers to measure the degree of opening of an economy is very strange. The right thing to do is try and compute trade flows to understand where the added value is created. That is how trade statistics should be done in the future. If you take the trade deficit between the US and China, a lot of that is just because production which was happening elsewhere than in China is now happening in China and is re-exported to the US. You have to look at how the trade balance between China and its Asian neighbours has changed to understand that. They have a deficit with them. This is something I will leave aside because it is something we need to think of in the future. Civil society is still criticising the WTO, the Round, there is not enough for developing countries, but in many ways that is a change from where we were five or ten years ago when the problem was to kill the WTO, to get rid of the WTO, to sink the WTO. Having a debate on whether the rules of world trade are enough or not for development is one thing, but at least you understand and accept that you need rules and the WTO is not just a club of hungry multinationals plotting in some sort of black Geneva room. There is a debate about this. We have offered to civil society in many ways a platform in naming this Round a Development Round. They are entitled to say there is not enough for developing countries, apart from the fact that developing countries speak for developing countries. The numbers I gave you some time ago in terms of duties foregone were two-thirds of the deal paid for by developed countries, one-third by emerging countries, basically zero paid by poor countries. That is a reasonably fair Development Round if you try to assess it. I am not saying we are there, but overall it looks reasonably like the right way of sharing the bill. Again, remember the bill which will have to be shared for climate change and think if we cannot share the bill this way on trade how are we going to do it on climate

change, on a much larger bill which will have even more profound consequences on what our children and grandchildren will do. I think it is worth trying.

Chairman: Thank you very much, Mr Lamy. You have been very generous and given us more time than you probably have. Thank you.