

FRIDAY 11 JULY 2008

Present

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

Witness: **Ambassador Crawford Falconer**, Permanent Representative of New Zealand and Chair of the WTO Agriculture Negotiations, examined.

Q501 Chairman: Ambassador, may I formally welcome you and say it is very kind of you to come. I know you have got a few other things to do today and, indeed, possibly overnight. We are grateful that you are here. We would particularly like to start by asking the key question: how are you getting on? Does the agriculture text that you published last night meet your expectations? What are the next steps?

Ambassador Falconer: I thought you were going to ask me how are you getting out, which is much more on my mind at the moment I can assure you!

Q502 Chairman: We can ask that later perhaps.

Ambassador Falconer: I suppose in certain ways it is the same question. I think for better or worse it will be resolved at the end of July. You can always have what I would consider to be the most horrifying scenario, which is that you stagger on, come back after the summer and keep staggering on day after day all the way through to the end of the year, but I do not think so. I think by having this event at the end of July you take a clean-cut decision, hopefully a positive one, and if you do not then nobody will ever say that it has failed formally. The press will declare it dead but if that event happens the press have already declared it dead. My

mother back in New Zealand keeps saying to me, “Why haven’t you come back, I read that the Round is over?” I think one way or the other it will be over and done with to all practical intents and purposes for quite some time in July. We are in less than ideal shape for dealing with that, but just about in enough shape to deal with it. In theory, ministers should be here round about the 21st. They could, in three or four days, do everything that needs to be done. I must say they probably will have every right to be a bit irritated with their officials for leaving them with so much to be done, but it is just about manageable. It is at the margins of manageability, in my view. I reckon you could probably end up with 15 issues on agriculture for ministers to resolve, which in itself is not difficult because some of them are pretty straight “yes/no” decisions; others run the risk of being a little bit more complicated. With these two texts out you could have some chance within the next week of fine-tuning them, I do not think anything dramatic can be done, and then ministers will have a go at it for a week and we will see what happens. I think it could go either way, frankly, but we will see.

Q503 Chairman: It has been suggested to us throughout that the key question is whether the Americans feel able to make significant concessions. Do you see it that way or are there lots of other people who will have to move as well?

Ambassador Falconer: There are others as well. I am only really supposedly looking after agriculture, but my sense is that the US has some heavy lifting to do on agriculture, it has to be prepared to make commitments - in the jargon - on domestic support, subsidies on agriculture, to a point that makes the deal worthwhile in particular to developing country members. Where is that point? There is a range in my document. If it is within that range and people accept that is the range, which at the moment some of them do not, somewhere there I think you could get a deal, but they would have to be able to move to that particular point. On the other hand, in agriculture you need to have an outcome for what I call flexibilities for developing country members on the market access side that the US and others

can live with, but the US in particular for whom politically they have to have some kind of outcome that they can point to. Again, that is a pretty marginal call because, in my view, there is not a wide range of choice now in the document as to how far that can go. There has to be, if you like, something that the US can swallow that is not excessive for them, but there has to be something on the part of developing country members that accepts the range of flexibilities is manageable for people who want to get access to markets. That is within agriculture. Essentially the key issues within agriculture are: will the US move on domestic support that makes the deal worthwhile to everybody else; will developing countries and US and some other developed country exports be able to reach a compromise on how many flexibilities there should be for developing country members on market access. Then, outside of agriculture, whether there is enough market access on industrial tariffs and enough comfort level on services for developing country members and the richer countries to do a deal. They are the main elements. There are other things as well which are highly obscure, things like the relationship on the Convention on Biodiversity and what goes on in the WTO where developing country members have quite a lot of interest and I think that has been a bit underrated. Things like that will also need to be fixed. I do think it is down to those major political points and the question is whether people really want to make that deal or not. You may say, "Surely you should know by now" and that is why I say it could go either way. When you have any big negotiation, if you are close to it you either have the smell there is a deal there or you do not. I do not have the unambiguous signs of a deal. I can see it could happen and three months ago I did not even feel that. I feel it could happen, but you do not have that sense of inevitably that you would like to have going into an event like this.

Q504 Lord Woolmer of Leeds: Breaking down the macro view there, what are the products on the American side that, in effect, they will move on? From the point of view of the countries which hope to benefit from this, what are the agricultural markets that really matter

to them, and which are the countries? I am seeking to put it in a way that the layman, the non-professional person, could understand, just to make it a reality.

Ambassador Falconer: From the US point of view, they pay subsidies to their farmers and pay them in a way in which they benefit particular crops. We are largely talking grains, corn, cotton, soybeans, things like that. They legislate how much those subsidies can be. In fact, those subsidies can go very high because they vary depending on what the international price is. When the international price is low the subsidies go up; when the international price is high, by and large the subsidies go down. At the moment, paradoxically, international prices are sky high, so US subsidy expenditure is very low. The problem is that the world changes seasonally, especially in agriculture, and even though that is the case this year and certain people make products which are pretty stable and it is going to stay that way, there is always the uncertainty and it may not be like that in three or five years' time when the prices might be very low, in which case the subsidies would go sky high. The US negotiating position is, "We are going to put a limit on those". In the negotiation they would be saying, "Okay, the maximum amount of subsidy you could spend on cotton, corn, soybeans, is the following" and if you are another competing country out there you want that limit because it means you have got to compete with less subsidy. The US probably could be relaxed about that this year but it is going to enter into a deal where it is going to put a limit on which will not affect it this year because prices are high but has the political anxiety it might affect them in three or five years' time. They have to sell to their constituencies a limit which they consider is realistic in the circumstances and everybody else who is in the negotiation wants to make sure that limit is as low as possible, but they want to make sure the limit is as high as possible because, naturally, their constituents would rather have the cheques if they possibly could, thank you very much. We are haggling, in effect, over what those limits will be.

Q505 Lord Woolmer of Leeds: Which are the countries pressing most strongly?

Ambassador Falconer: There is a groundswell in a lot of the developing world that would really like those subsidies right down, either because it affects their domestic agriculture or because they compete on world markets and they lose market share. It is not just the US, do not get me wrong, it is also the EU, which is the other big spender, but the EU already has a plan for what it is going to do to reduce the subsidies over the future and so is in a good negotiating position and the US does not. It is more of an issue with the US. Plus, on some key crops, their programmes are a bit more distorting for some of those countries. Commercially, it is very important for a country like Brazil because they compete in some of these crop areas with the US pretty directly, and Argentina, on corn, soybeans, et cetera. They are actually competing with US subsidies, so they have a very strong commercial interest in it. You have those kinds of countries which have a more commercial orientation, and the Australians are in the same category, but then you have countries which on the import side, and even on a small scale, are quite conscious that the way in which those subsidies operate is they depress prices internationally when they apply, so they lower the prices to their producers who are already poor. The most significant example of that is a country like Benin in west Africa, and a number of west African countries, which produces cotton. In the past, US subsidies to cotton have depressed the prices of their poor farmers enormously, which is why cotton is a very specific part of the negotiations. Politically, the US faces the dilemma on cotton, which is a very powerful political lobby on cotton, very powerful political pressure internationally to lower their subsidies on cotton, and they have got to sell their deal because it has got to be sold to the US Congress. In one sense it is notionally easier to do that now because, in actual fact, even cotton prices are going up. They were pretty slow to go up compared with some commodities. There is perhaps a window now where the US could say, “Look, we can make commitments on this stuff which look quite dramatic, but they are not going to affect the dollar in the pocket of the farmer one bit, so what’s your problem?” The

answer is people want that insurance policy for the future, so they will have to negotiate that politically, domestically, and find something which is acceptable to the rest of the world, who will say, "What you are proposing still isn't enough". I assume the US will come to the meeting and have some proposal and people will say either, "That's enough" or "It isn't enough for us". Some people will play it tactically. They may have a direct interest in that subsidy question but because they do not want to open their market to industrial products, say, they will find it convenient to say, "It's not because I don't want to open my market to industrial products, it's because it's not a fair deal because these guys are using taxpayers' money to steal markets in agriculture and it's not a fair deal for me to do this". So you will have both elements in the negotiation.

Q506 Lord Trimble: Our locus in this matter is that we are part of the House of Lords European Union Committee, so technically our examination is on European Trade Policy and we are absolutely fascinated by all the ins and outs of the Doha negotiation and trade policy generally. Because our technical position is looking at the European Trade Policy, I would appreciate your comments on the European Trade Policy.

Ambassador Falconer: That is a big canvas and I probably do not have much of a mandate for that. I will try and constrain myself to what strays into my path. Since the McSharry reforms European agriculture has been on a reform path and personally I doubt very much that will change. The world is an unpredictable place but probably, at least after 2013, there will be further reform in Europe. I know it is politically very sensitive at the moment and those decisions have not been taken, but the direction is pretty reasonably clear. It would take a major political convulsion for that to change. It is not certain, but to an observer like me that looks to be something that will continue. That means over time the process of moving from the kinds of subsidies which really distort international markets to subsidies which are paid to farmers, not because they produce but because they are farming, will presumably

continue and that will improve the international market, not at a pace or an extent that others that have to compete on the international market will be happy with but it is at least going to go in the right direction presumably. If we have a successful outcome in this negotiation, that will have a little bit of additional pressure, not a great deal, I have to say, on the internal market because there will be a bit more competition from imports. Again, not a vast amount, to be honest, because what is realistically going to happen out of this negotiation is not going to turn the world upside down but it will be a bit more external pressure that will maintain the sense of direction that for its own reasons Europe by and large wants to go in with its agricultural policy.

Q507 Lord Trimble: So you do not see as a result of the current Round any significant opening up of the European agricultural market to non-European imports?

Ambassador Falconer: I think there will be some. My assessment of that is that it would be a moderate opening. In actual fact, I would say a moderate additional opening. For instance, if you look at the projections in areas like beef for consumption inside the EU it is quite obvious if the production trends that are there continue and the consumption trends continue there is going to be a gap that needs to be filled in any case and imports will move in to do that whether or not you have a negotiated outcome. One of the beauties of a negotiation is that you can do what you know what you are going to do anyway and get paid for it, it is smart negotiation, and I think the Commission negotiators, like others, are smart enough to know in certain areas Europe is going to be able to open up in any case and they will be able to sell that as a concession at this table and get some payment for it as well. It is not entirely cynical because at the margins there will be things that will happen that would not otherwise happen if we do this deal. It may not sound huge, but things are connected in a way that are not obvious to the eye. There is a way in which at the political level there are connections which are not logically there. It is politically connected that when you are doing your internal

reform and you have an ongoing multilateral process of negotiations that have credibility time after time you cannot completely separate them. McSharry did not make his reforms in a vacuum, it was projecting Europe as part of the world, and part of that world was, “We have to negotiate with our trading partners. We have to find ways to accommodate their interests and live with them as well as our own”. If you lose that, and you run the risk of losing it if you have a failed Round, then you lose quite an important part of the context. I do not doubt that internal reform would continue even if you did not have a successful Round, but you increase the chances of that going forward to more optimal outcomes if you have a successful and credible Round. It is not just because politically internally to Europe the argument has been made, as indeed it has, that we have to do certain things partly because we are going to have to deal with the multilateral negotiation, it is because there is indeed that sense that you are part of a generalised process. If that fails, you just take a little bit of the credibility away from those who are seeking a bit more reform.

Q508 Chairman: I am going to ask Lord Haskins to ask his question. I should warn you that he is a farmer!

Ambassador Falconer: Shall I leave now!

Q509 Lord Haskins: Coming back to the issue of food prices, quite clearly in the short-term we have seen a very rapid movement from the priority moving from support for farmers to protection for consumers with all of these export taxes that are taking place at the moment. That may help the American Government to agree a farm deal because the American public may be much more interested in jobs lost in Detroit than in the farmers’ position, the farmers are doing okay. It is certainly a new element since we started the Doha negotiations five years ago. If it is a long-term factor, and I am not saying the prices are going to stay at this level but they probably will not go back to the level before, will any of the settlement that we

have now stand up under those new pressures? In other words, is there going to be an issue there? Are other issues which are looming in importance, like the development of GM, going to become a WTO issue, or is it going to be left for everybody to continue to scrap about this issue as they are at the moment?

Ambassador Falconer: On the first one, I am guessing, probably like all others at the moment, if we get an outcome now, and when I say an “outcome”, in the jargon this is modalities, it is not the final deal - the final deal does not actually happen until you sign and seal it, which presumably is not for several months - it is quite conceivable as far as the domestic subsidy commitments are concerned that they will be pitched at a level, and I am guessing what that level would be but I have a rough idea in my mind about what I think will happen, and it is perfectly conceivable if we arrive at those commitments at those levels that sometime over the next five-plus years those levels will be under threat. In other words, there will be occasions when members will have to live up to something that prices would lead them to want to breach. I think it would be worthwhile to do the deal we are going to do now because at some point in the future it will be a very important insurance policy for smaller players. I would not be sitting here as a bureaucrat if I really had confidence in my own judgments, I would have made my fortune on the Chicago Commodities Exchange, so I do not know really what is going to happen. I have a suspicion that there will be occasions when prices will drop and they will drop to levels that are conceivably below what we ultimately negotiate, which means you will want to put in place dispute settlement to stop people doing that. Indeed, for the governments concerned it is a good idea because I do not think any of them particularly want to overspend taxpayers’ money on these things but they have a political balance to strike. On the second question, part of the reason for wanting to do this now and get it off the agenda is precisely in order to get onto what I would consider to be a more real world agenda. It is not that I am demeaning what we are doing at the moment, it is

just that it has taken so damn long to do it that you get a bit frustrated with it and it is crowding out the capacity of the Organisation, and internationally member governments, to focus on far more timely questions. We have got to get rid of this so that we have some chance of credibly dealing with an emerging agenda. On the GMO question specifically, it is hard to tell except that dispute settlement within the WTO is dealing with it. They deliver up judgments on this. Personally, and this is only a personal view, I am very sceptical about the capacity of seemingly adjudicated decisions on these matters being able to resolve intensively political questions, but it is fair enough that they provide another element in the mix. I do not think with really contentious issues that the WTO dispute settlement system is sufficiently robust and entrenched at the national level within the member governments that it is capable of profoundly changing politically highly sensitive issues, which is a long-winded way of saying I think you have to negotiate those things, I do not think you can litigate them. You can at the margins, and there are some things which you have to, and they may provide leverage, but at the end of the day you still have to negotiate them. Is the WTO likely to negotiate on GMOs? I am very doubtful about that one in particular, but there is a whole range of other things which are agriculturally related where even if the Organisation does not negotiate on them it could certainly go a long way to doing other things which are what I would call more best practice peer review type exercises, which is not a pure negotiating function, more the soft law rather than the hard law area, which the Organisation has not done. It has always been knock 'em out, drag 'em out negotiations and "Give me a rule and off with his head". That has pretty much been the mentality and that is fine, that has a role, but there is something which is short of pure negotiations where you have contractually binding commitments where there is a policy vacuum at the international level. You have national levels to deal with it, you have an international organisation which does contractual type deals between governments, but there is nothing in the trade field that we use in the

middle internationally and I think there is a role for that in the future. That is probably where the kinds of issues you are talking about are more likely to get an airing.

Q510 Lord Haskins: Just pursuing the GMO issue, let us say the WTO comes out and finds in favour of the Americans, that there is a restriction on trade, you are saying for political reasons Europe might say, “That’s all very fine but we’re ignoring it”?

Ambassador Falconer: That is quite possible, yes. It would not be the first time in a dispute settlement that these things have happened. Even in areas that are less politically controversial, while the strike rate of adoption, ie changing your behaviour to conform with outcomes of dispute settlement, is pretty good there are still cases where it has not happened and does not happen, and does not happen quickly. At the moment on the saga of the cotton case, which has been going on for a very long time, we have got an opportunity now to close a negotiation on cotton as well. My suspicion is that if you do the cotton as part of this negotiation, that will be the way in which this issue is resolved. I do not want to give an incentive to people not to live up to decisions of an organisation like the WTO when it gives a decision, but I think you will find it will be a lot harder to get implementation if you just rely on people abiding by these decisions. There are quite a few others that are sitting out there that still have not been actioned. You can delay this whole process for years by appealing against an original decision, just not implementing it and then undergoing a further review to see whether you have implemented it. You always claim you have implemented it and delay even longer. You can spin it out for five or six years before you actually implement. When it is something that is really deeply politically controversial and sensitive it is a bit unrealistic to imagine that people are going to say, “Ah, the WTO has decided against us. Okay, we will do that then”.

Q511 Lord Haskins: Even though lots of European governments would want the WTO to do that.

Ambassador Falconer: It depends on the issue. One person's sensitivity is another person's boredom. It might seem very sensitive to one Member State but for the rest it is a plus or otherwise. There are some things on which political constituencies are pretty uniform in their views. I believe a lot in trade, and believe very strongly in it, but I think it is a mistake to think that trade is the be all and end all, there are other things that are just as important, or more important, and they can genuinely conflict and you have to arbitrate conflicting objectives. Trade does not exist in a vacuum and there has to be a certain degree of realism about that.

Q512 Lord MacLennan of Rogart: I am sorry to persist a little on the issue of what might unlock the thing shortly. We heard from a fellow negotiator that progress on the NAMA front has been quite good, but everybody else we have been talking to has indicated that the key is agriculture. If the Americans, and perhaps Europe, are going to be forthcoming on that, do they have to know what the NAMA deal might be first? It is a sort of mechanistic question, I suppose. The second subordinate question is, on your side are the members negotiating about global figures or are they negotiating about individual products? We heard outside this room some speculation about distorting domestic support being brought down from \$16 billion in the States to 13 or 14 and that becoming negotiable. I do not know whether that was the sort of thing you were talking about when you talked about having an idea of a level at which domestic subsidy might be pitched. I would be very interested to hear more about how it is done.

Ambassador Falconer: On the nature of the bargaining, which is the first half of your question, you are dealing with people who are negotiating and that is one of the paradoxes of this. The whole notion of this is still essentially a mercantilist notion of how you deal with

trade, which was liberalisation is a concession and painful when, in fact, economically you all know it is the other way round, but that is the way we do it for better or worse. When you have that mindset the attitude is, “Politically the other guy has got to move and not me”, pretty straight forward. If you have agricultural objectives, which is you want liberalisation, you want the other guys to stop spending so much subsidy money, you say, “Well, that was pretty pathetic, wasn’t it, it’s not a lot of use to me. Do you think I am going to pay you for that? Sorry, all I’m getting is a container load of rice into your market, but if you think I’m going to have your Mercedes-Benz driving down my avenidas you must be dreaming”. That is essentially what they are doing at the moment. That is a bit of a caricature, but it is not too big a one. To be honest, there are certain political realities which, whether people concede them officially or not, are real, which is at the end of the day developed country members will have to do more than developing country members, and there is jargon for that. They have to, it is just a question of status and capacity to deliver. Politically you can take the view that whatever is done on agriculture, particularly on subsidy reductions, is going to be, I will use the language of contractualising, making a solemn commitment to your trading partners to live within certain limits, but doing so on levels that you are not spending right now. On the subsidy side, that is what is going to happen. As it happens, expenditure is really low right now. That gives a view from the other side, which is, “All you’re going to do is promise me not to do what you are already not doing, and you want me to pay for that?” They say, “Okay, I’ll pay for that, I promise not to do what I am not doing as well”. A lot of developing country members are politically taking that stance right now. Not all of them, there are variations within that, but that is basically it. In reality, as far as industrials are concerned, what it comes down to for most developing countries is to say, “We’ll do a little bit to open up our industrial markets, not a lot, because you are not entitled, rich countries, to get a big piece of our market for your industrial products because what you are going to do on

agriculture, while it's not too bad, isn't that dramatic anyway, so don't think I'm going to do much in return". My feeling is if we get a deal in July the reality is that will be the basis of the deal, the only question is how much is that not very much going to be. I would never talk it down. You are not going to see a dramatic opening of markets in developing country members for industrial products, just as you are not going to see a dramatic opening of markets for agriculture in developed country markets either, you will get what I call marginal change which keeps things going in the right direction which on balance is better than not having it and which politically is terribly important for stabilising a multilateral system, all of which are plus reasons. It is true, it is pretty hard to get CEOs of business firms excited about that so that they go knocking on the door saying, "We've got to have it". I think that is pretty much the kind of political decision making that will be required. It may well be that if you are a developing country member you say, "Okay, if that's all you're offering, I'm not offering any more and I will stand back and say 'you rich guys didn't step up to the plate, you didn't take your responsibilities, you should have done a lot more because you are rich and can afford to do it and it may be a political decision taken to say that's the way we'll play this'. Nobody is going to pillory us for not opening up our industrial markets but they will, for sure, find it a lot better to make this negotiation fail over agriculture than over industrial products." On the other side you see people in the developed world preparing to take the other side and say, "What this negotiation is about is richer developing country markets not being prepared to take their responsibilities to put a deal through". You have got the manoeuvring on either side for an escape ridden blame-game. I hope that does not happen but I read the political signals and I can see people manoeuvring to have that option just in case. I think it would be most unfortunate but I could see it happening. On the more technical side of the questions you asked, it is a combination of both. There are generalised reductions, but, as with everything that is generalised, in an organisation with as many members as we have

there are exceptions and add-ons. By and large for subsidies we will have sort of general reductions for those but you will have a very specific reduction for cotton because it has been given a priority for targeting. Within the general reductions there have to be what they call product-specific commitments as well. The big number that gets the political attention is what they call overall trade distorting domestic support, which is a combination number from its component parts. That is a nice simple number, that is the one you mentioned with the range between US\$13.5 billion and 16 billion for the US. It is a nice convenient number. Inside it you have got categories: most trade distorting, somewhat less trade distorting and non-trade distorting. For anybody who is commercially interested in the deal, those numbers are perhaps as significant or more significant than the overall number, but politically the overall number gets the attention. What you will probably read in the media over the negotiations as far as the US is concerned is does the US go to the top, ie make a very low commitment, or does it go to the bottom of the range in my paper or, indeed, as some argue, under that range. Ditto for the EU, but for the EU its room for manoeuvre is much greater because it has already made the reforms and it can live with probably just about any overall number that we negotiate.

Chairman: Thank you very much. I can see it is going to be a very busy July. I would now like to turn to the moment past the end of July, I guess, and ask Lord Moser to ask his question.

Q513 Lord Moser: You spoke a few moments ago in answering Lord Haskins about some of the other things that the WTO might do in the future. Obviously in our meetings here we have focused on the current Round to understand the chances of a breakthrough, et cetera, but much of it has obviously focused on the WTO. Taking a longer view of the organisation and perhaps leaving the Doha Round on one side, how do you see the future of the WTO? Do you

see it substantially changed in its structure, in its decision making operations, a sort of world role really?

Ambassador Falconer: It is hard for me to envisage it being substantially changed in the next five years or so, but it can certainly be marginally changed. In some ways it is easy to pontificate. It will enlarge, it will get bigger, it will get more members, there is no question about that, that is happening almost week-by-week. Eventually we will run out of them, and we are getting close to that, but we will certainly end up with more members in the Organisation. It is a weird Organisation. Unlike the UN, there is no formalisation of the groups. You do not have a Western Europe and the G77, all of which, whatever you make of the UN, are reasonably established ways in which you broker a very large organisation to take decisions because you effectively delegate decision making to within the groupings. The WTO has never had that. Indeed, it has unanimity as its practice, it is not the way in which it is written. The practice is that you have to have unanimity of decision making, which is extraordinary. Can you imagine a parliament operating on unanimity? It is extraordinary for an international organisation to work that way and, thus far, it has just kind of worked. It is pretty much at the limit on the unanimity issue right now. It has got beyond the past practice, it is de facto involving groupings. You have a grouping like the G20, which consists of developing countries which has emerged, you have a grouping called the G33, which is poorer developing countries. They have not hardened into coalitions because they are shifting and people belong to different ones for different issues because in trade you have varying interests. You might be agriculturally protectionist and you can be liberal on services, it might be you do not really care very much on industrials. It is very difficult to see how you could evolve in the direction of a UN system exactly. I think the Organisation will probably become closer to a UN-type organisation than it has been even in the past in order to be managed to some extent. I guess it is hard to imagine that it would not continue with a

negotiating function. What gets ministers' juices running is a damn good negotiation and the longer the better. It will always have a negotiating function, that has been its *raison d'être*. My own gut feeling is that you will have a more explicit acknowledgement of what I think is already the reality, that the negotiations paint grey on grey, they do not actually change things much. In other words, you do not initiate new change from a multilateral negotiation any more, scarcely at all. The exception is agriculture because agriculture is still so relatively protected, and even there it is pretty moderate. As I have been describing, even in agriculture what you are talking about is contractually undertaking to your trading partners not to do what you would otherwise have unilaterally decided not to do. So as a sovereign state you are basically making a promise and saying, "I will make a promise to my fellow states in the international community not to do certain things". It is a politically different thing from just taking a decision not to do them, but that is more the essence of what the WTO will be, I think, which is a body for consolidating national decisions rather than something that changes the way people do things.

Q514 Lord Moser: The problem is that trade relates to everything, so in our discussions we keep on hearing about climate change and energy policy, of course. One is conscious all the time of financial issues, therefore the World Bank, IMF. Where does it place itself? Maybe we should not spend time on this, but where does it place itself in this international network?

Ambassador Falconer: People should be turning their minds to that now. The Organisation is peculiar in one sense. It is far more inter-related formally in terms of sovereign state to sovereign state behaviour than just about anything else. In actual fact, the commitments that are being made in this area are far more pervasive and stable and accepted, if you like, than in just about any other area of multilateral decision making, and I would argue a lot more democratically arrived at because they are arrived at by unanimity. The usual arm twisting goes on, but at least at the end of the day you can veto it if you choose. Good luck to you if

you try, but you can. It is not even as undemocratic as the Security Council, which is quite extraordinary, but it has to interact with these other policy domains. In a certain sense they are not so contractualised as the traders either. Working out how you have what I would call a sort of contractualised set of relationships between states in the trade area and a non-contractualised set of relationships in other areas, and marrying the two together should be one of the big challenges for the Organisation in the next ten years, especially as I do not believe it has a real vocation to fundamentally drive economic change in the trade area because that is done unilaterally. India and China do that because they have decided to do it and not because the WTO forced them to. Because they decided to do it they are able to accommodate the WTO and, in China's case, join it because it is now something they can live with. I do not think that vocation is there any more but the vocation of how you get along with the other policy areas is there and goes to the question there are other things you could be doing as an international community with a trade perspective than just simply bargaining all the time. You could actually be talking about how you manage your relationships in an agreed or mutually supportive way without saying, "I'll pay for this and you'll pay for that". The "I'll pay for this and you'll pay for that" guarantees that it takes you five or ten years and you become non-adaptive. If you have something which evolves out of a, "What can we agree to do to help each other and work in a way that is more mutually consistent?", you can be far more flexible and do those things more quickly. Do not get me wrong, that happens to be a particular personal view and the chances of that happening in a very significant way and very quickly are quite slight unless people with real political responsibility sat down and said, "Well, actually there are some more things we can do". There are some elements that people are willing to do that. Ironically, a failed negotiation will probably bring people to that point faster than a successful one. I am not arguing for a failed one but I just think it is a reality of life. If this fails I think people will say, scratching their heads, "Hang on a minute, somebody

else must have done something wrong”. That will be the first reaction and then they will say, “Maybe we can try and fix something here”. If we have a success I think people will say, “Wonderful, fantastic, let’s just carry on doing what we have been doing”. That is not bad but eventually you will have to rethink it and it will take a lot longer.

Q515 Chairman: That is an extremely interesting answer. Can I just have a little pick at it because it seems to me that the implication of what you are saying is that there is only just enough juice, just enough to go for in what people have not already done in trade terms to get through one more Round.

Ambassador Falconer: I think that is about right. It will not be something I have to worry about because, given the pace of these things, I will be long gone, in my dotage. There is more that will need to be done on agriculture at some point, for sure, but, again, it will be driven by national decision making, not by the negotiating environment. Yes, it is true, agriculture still has a way to go. On industrial tariffs, let us assume a successful Round, you can already argue it is pretty well non-existent but after a Round they will all be non-existent, there is hardly anything there on industrial tariffs for developed countries. There is for developing countries but they are getting rid of them anyway. It is the same issue there and that is why this Round is such a paradox. They are going at it driven by their finance ministries reducing their tariffs everywhere they possibly can. Come here and they will not make a commitment on it because it is politicised, it is a mercantilist mentality. I do not see there is a big deal in the future which trades industrial tariffs for agriculture. The truth is, and some of my colleagues will kill me for saying this, but that is all right, I am a dead man already, on services the WTO has never done anything. It has contractualised what people have already done, but it has never fundamentally changed the way anybody has run their services economy. Indeed, I would argue it is pretty damn hard to imagine how it could because at least in your services sector you have to drive that by your national regulatory

framework, and your own macro-economic policy settings. You are not going to say, “I am going to liberalise my financial services sector” or “I am only going to liberalise my telecommunications sector because that is what the WTO says I have got to do”, of course not, you say, “These things matter to my economy, I drive them myself”. I do not see any of those giving you a liberalisation driven Round in the future in the same way as happened in the past. You could argue the weird thing is that this far after 1947 we are still operating on a 1947 agenda, industrial tariffs, agriculture, and services are just sneaking around the edges. I think the reality will change that eventually next time around.

Chairman: That is extremely interesting. There is time for one question, if any colleague wishes to come in.

Q516 Lord Haskins: Can I follow on services. Is not part of the problem with services that you are into issues about national regulation, which is a *de rigueur* word at any rate because whenever you talk about national regulations that is bad enough, but international regulations is impossible, and getting regulatory changes into services is going to be terribly difficult?

Ambassador Falconer: It is very difficult. To be fair, there is a process in place that tries to manage that and, indeed, creating the whole services framework in the WTO required an enormous effort in order to get regulators to think outside their regulatory domains about how they would relate to the trading partners and how it fits the architecture of state-to-state commitments. There was a huge effort on their part and it was a positive thing that happened. For any minister who has to negotiate on this, they have to negotiate with their finance ministry, their health ministry, their telecommunications minister. It is a much more complicated thing to have to broker as a politician than just dealing with tariffs or even just with agriculture. As I say, it is relatively straightforward to contractualise what you have done and say, “Okay, I will make commitments on accounting or on financial services or on my investment regime as it relates to such and such a sector”. You can do that if you have

already done it and you are making a political decision to commit to it. Everything is difficult politically, but to drive reform in a sector by the demands of an international negotiation I think is particularly difficult to foresee in services for all those regulatory reasons. It is true, there are ways in which you do not get too intrusive on the regulatory side by the way in which the WTO is set up, but even allowing for that it is very difficult to see it as a driver. I am not against it at all, it is perfectly fine to contractualise it after the event, but you have to be realistic that is what you are doing by and large. If that is understood then I think you are going to have a far more realistic way in which you do your negotiations than up to now.

Q517 Chairman: Terrific. Thank you very much, Ambassador, that is most illuminating.

Ambassador Falconer: It is a pleasure. It is nice to talk about something other than agriculture for a change!

Chairman: I do not know whether to wish you safe home to New Zealand at the earliest possible opportunity or not! In all events, thank you very much for coming and good luck for the next two or three weeks.