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THE POSSIBLE EFFECTS OF BILATERAL AND PLURILATERAL AGREEMENTS ON MULTILATERALISM

Discussion paper presented by Mr. H. Scholz (European Parliament)

Allow me to begin with a few words regarding the context of today's debate. The Bali conference has to cope with a number of questions that are of the utmost importance for all societies, states and economies. Will we succeed in painting the new contours of an international trading system and a global economy that is adapted to the challenges of our times? Will we be able to strengthen the multilateral trading system? Are we able to analyse the impact of the numerous bilateral and plurilateral FTAs and DCFTAs on social and economic relations and the ecosystems? Can we identify where a joint approach is needed to address international and multilateral problems? Do we address the link between trade policy and the post-Millennium Development Goals agenda?

Imagine for a moment that we could freeze time and have a close look at the world trade system at this very moment. We could analyse which goods and services are produced and offered in which state and under what social and environmental conditions they have been produced. And we could see at what price these products can be traded between countries and what role existing tariffs play in defining this price.

It would be like a snapshot of the balance in the current world trading system.

In fact, this is what several academic institutions aim to achieve when they feed in data into computer simulation models for world trade developments. We have learned from climate observations that a global system is something extremely complex. A volcano eruption in one part of the world can have an impact on a harvest on the other side of the planet. Equally, a change in the trade volumes between two countries has an impact on global trade flows. The larger the economies of these two countries would be, the more noticeable the impact.

The Transatlantic Trade and Investment Partnership (TTIP) will obviously have an impact on third countries and global trade.

The European Commission estimates it to be a positive one, as outlined in the "Impact Assessment Report on the future of EU-US trade relations". Although the TTIP will be a preferential agreement, the elimination of non-tariff barriers (NTB) is by definition non-preferential, benefiting everybody. According to the report, an ambitious EU-US free trade agreement is expected to increase gross domestic product (GDP) in third countries by €86 billion. So, apart from the EU and the US which would be themselves the biggest winners of such a trade initiative, numerous regions in the world would also substantially benefit from it, namely Eastern Europe countries and the Association of Southeast Asian nations region.

In the view of many in the European Parliament, bilateral trade agreements, such as the TTIP, if ambitious, could even be a building block for future multilateral initiatives which could potentially be included in post-Bali initiatives.

The IFO Institute in Munich and the Bertelsmann Foundation published a simulation this year on the possible impact of a deep and comprehensive free trade agreement between the USA and the European Union on the income per capita around the world. Their computers project an increase of 13.4 per cent for the US economy and between a 2.6 and 9.7 per cent increase in the different EU Member States. But this increase would come at the detriment of their current major trading partners. Canadians, Australians, Mexicans, and Japanese could expect a decrease in their income per capita between 5.9 and 9.5 per cent. But with the exception of Brazil, Central and South American economies would also lose, as well as most African nations with figures ranging between 2 and 5 per cent. The effect on Southeast Asia was projected to be minor, with a reduction of 0.2 per cent for Indonesia, for instance.

Other major negotiations, like the plurilateral Trans Pacific Partnership or the EU-Japan agreement would also have an impact on the rest of the world. And actually every single one of the more than 400 bilateral agreements existing today has an impact.

Allow me to take a closer look at what these impacts are. The Doha Development Agenda was intended to rebalance the world trading system in favour of developing countries, as Pascal Lamy repeatedly pointed out. Now the preferences established bilaterally reduce the comparative value of the tariffs agreed under the WTO framework. To quote Lamy from a speech he gave in 2007 in Bangalore: "These preferential agreements contradict the non-discrimination principle which is one of the cornerstones of the WTO."

Particularly for developing countries that have not concluded a bilateral agreement with the major purchasing economies, this means that the goal of offering them the opportunity to diversify their trade relations in a multilateral environment slips away. Or if we look at the situation the other way round: by concluding key bilateral trade agreements, the major economies are re-establishing their dominant role in defining the terms of global trade, which was somewhat reduced in the multilateral framework.

Instead of enhancing for instance regional integration in Africa, the result could be that local economies are shaped according to the demand side in Europe, the US and China.

In addition, the cumulative effect of a number of bilateral agreements has not yet been quantified for the agriculture and fisheries sector. For these sectors the agreements tend to include quotas, often relatively high as a result of bargaining in exchange for other sectors such as services or public procurement, where for instance the European Union has

a strong offensive interest in negotiations. But how often can you sell the same fish? What amount do the quotas on meat, fruits or cereals add up to, in comparison to the red lines announced in the WTO framework? Are negotiators always aware of the consequences for food security, for rural and maritime livelihoods or for biological diversity?

These days we come across new terminology like "land grabbing" and "ocean grabbing" and in my view, the absence of a multilateral regulation on these matters leaves a vacuum filled by bilateral mistakes.

I would argue that the failure to achieve agreements on other important issues has stimulated the problematic patchwork situation that is growing while we talk. Let me point out rules of origin as an example. Without a definition in a reference model in the multilateral dimension, we leave this up to bilateral negotiations. As a result, some countries have to cope with one definition in their agreement with one partner, but at the same time with a different definition in one or more other agreements. This is not only difficult to handle for authorities, it is also problematic for cumulation issues and hence for regional integration as well as for the respective countries' opportunities to participate in globalised production chains.

I could extend the list of areas that need multilateral solutions to the question of industrial standards, to taxation, to IPR, and also to pollution and environmental standards and to labour and other social and individual rights. If we are not able to work out solutions multilaterally, meaning in the WTO and in the specialised international institutions, we are strengthening the strong. For ultimately, it is the strongest economic nations and blocs who will form the hub in their network of bilateral agreements with their respective peripheries, and who will be able to establish rules and definitions tailor-made to their own interests.

We have to be aware that the new generation of trade agreements, at least those concluded by the European Union, go far beyond the level of traditional agreements on tariff reduction for goods. These so called Deep and Comprehensive Free Trade Agreements set up rules for all kinds of economic relations, including for instance financial services, public procurement, sanitary standards, IPR and patents, and investment protection. They include sustainability chapters on environmental, human rights and labour issues. They aim to create stability in trade, in particular from the perspective of investors, and thus have an impact on policy making.

Do we want bilateral agreements of the largest economies to do the standard setting, or are we able to develop common approaches here in the multilateral forum? Instances like the spread of the financial crisis, which had its origin in the US subprime credit speculation market, should make everyone understand that today's global economic dynamics oblige us to develop multilateral regulation in a number of fields. We have talked enough, and now we have to deliver.

I referred to the TTIP negotiations between the US and the EU earlier on. The definition of standards is part of these negotiations, as well as common interest papers such as on access to raw materials in third countries. You will not find it difficult to imagine that an agreement among these strong economies on technological standards will provide guidance to producers in other parts of the world as well, to say the least. Those of you who might remember instances of competing technologies we had, such as for video recording or for digital telephony, will understand the effect on competitors and their research investments. We will probably see a streamlining effect and powerful patents.

In my view the definition of standards and values with regard to the regulatory dimension should not be left up to the negotiators of the economically most advanced states and their interests. At a very early stage we have to include the interests of all those economies and countries that would be affected by the newly defined terms of trade and terms of production. Of course this requires an expansion of the respective impact assessments concerning the effects for third countries.

This requires openness, transparency, and striving towards mutual advantages to be a prerequisite to the establishment of binding treaties. This way trade could contribute to the fight against social and environmental dumping, against corruption, against underdevelopment, and against poverty. And in this context it becomes even more urgent to work out international criteria and conditions of the world trading system, and to create the respective necessary mechanisms.

While from my remarks you can guess that I am a strong supporter of the multilateral approach, I still want to make clear that I did not see it as an option to simply prohibit the bilateral or plurilateral negotiations going on. There are no legal instruments for that on the one hand, but more importantly they take place as a reaction to the stagnation of the WTO process on the other hand. Both sides who cause the stalled talks, those who are too reluctant to move and those who demand too much from their partners at this point in time, should urgently reconsider the alternatives.

We need an evolution in our rules based multilateral trading system in order to accommodate the technological progress, the emerging globalised production chains and the resulting environmental and social consequences. We all know that the consumption patterns in the economically most advanced countries are unsustainable for the planet, in particular if the populations of the emerging economies and the centres of the developing world strive for the same. This does not deny the right to housing or mobility, but it emphasises the need for cooperation on sustainable technologies. We know that growth must have an inclusive character. We need to create pro-poor growth in order to avoid the trouble brought upon by exploitative industrialisation processes in previous centuries. The WTO in co-operation with specialised international institutions can play its role in this. In my view it must do so in order to preserve its legitimacy.

In my personal capacity, as this idea is certainly not common position in the European Parliament, I would like to encourage you to discuss my following proposal: one step to bring such a revised set of goals forward would be to agree on the mandatory presence of the WTO secretariat in negotiations on bilateral, plurilateral or regional trade agreements in order to safeguard the consistency of agreements with the WTO system.

Let me furthermore come up with a second proposal, which does have strong backing in the European Parliament, which is to enhance the parliamentary dimension of the WTO in order to induce thought beyond the core trade issues into the talks and in order to transmit more directly people's interests into the institutional framework.