

MONDAY 23 JUNE 2008

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Present

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

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Witnesses: **Dr Péter Balas**, Deputy Director-General, and **Mr Jean Charles Van Eeckhaute**, Deputy Head of Unit, Policy Coordination, Directorate-General for Trade, European Commission, examined.

**Q107 Chairman:** Good afternoon. We are most grateful to you for seeing us today.

**Dr Balas:** Good afternoon. Let me welcome you to the European Commission. I have to start with an apology on behalf of my Director-General, David O'Sullivan. He said this might happen and he had to leave for Geneva on Doha business this morning. My name is Péter Balas, I am Deputy Director-General, one of his deputies, looking after multilateral trade policies especially but also a number of other aspects. We will try to give you views from DG Trade on the issues that are of interest to you.

**Q108 Chairman:** Thank you very much, Dr Balas. I believe you have seen the sort of questions we want to ask. I am going to start off by asking you what you now think about the prospects for a successful completion of the Doha Round. "Successful" is probably a matter of definition. What do you believe would be the consequences of a failure to produce an agreement? What would happen and where would we be?

**Dr Balas:** This a good place to start because compared to the summary we gave you earlier this year in January about the situation, there have been some important developments that have taken place with respect to the Doha Round. Let me sum up where we are now and what

are the prospects. In the last five or six months since the start of the year good progress has been made especially in the agriculture dossier. As you might be aware, agriculture is traditionally the lynchpin of multilateral negotiations and Doha is no different. As a result of hard work among the participants and, more specifically, among a smaller group of countries which are the most interested, in the last few months we have succeeded in clarifying the outline of a possible agricultural agreement. I would not say we are already there, a number of issues are still open. What would be a deal in each of the three pillars of the agriculture dossier is more or less visible, meaning market access, agricultural subsidisation and export subsidies. These are the three major issues in agriculture. If you listen to the recent views of developing countries who are especially agriculture demandeurs who would like to see an ambitious outcome in agriculture, there is a list of complaints and this is normal, one could say it is part of the game, even tactical, not to be happy until the very last moment of negotiations. In the more restricted meetings which are based on recent revision of the chairman of agriculture's negotiations it is clear where we can go. Very briefly, in summary, cutting agricultural tariffs overall by over half, 54 per cent is the average target reduction. There are differences within this and there will be products which are considered more sensitive and the tariff reduction will be less and compensated by so-called tariff quotas, what you could consider as guaranteed import possibilities in practice. It is also clear what the developed countries could do who are the major subsidisers in cutting agriculture subsidies, domestic subsidies. Here, however, I would note that there is a recent not very welcome development in the form of the Farm Bill that has been recently adopted in the United States which is not a reforming Farm Bill at all and would need major revisions based on the expected Doha outcome. Last, but not least, the details of how export subsidies and all forms of export support could be phased out by the target date of 2013 are clear. The major question mark is now over industrial products market access and services market access.

These are the two aspects, but especially industrial products, that are the present focus of the negotiations. I would say this is still a major question mark over the possibilities and chances of a Doha deal. It is hoped that in the next few days we will get clarity about the chances of having a clearer picture on industrial market access. Negotiations will also continue on services. Based on these outcomes there is a good chance that a ministerial meeting could be called sometime in the middle or second half of July. This would adopt those basic parameters of the Doha Round which would be the basis for the final stage of the negotiations on the basis of which members of the WTO could give their national offers in agriculture, industrial products and services, plus in a number of rule-making areas certain guidelines will be needed. We are not there yet but the chances are better than 50 per cent. It is difficult to put figures on it, but it is certainly much better than it looked at the start of the year to have a successful Round. In July the basic parameters will be decided and that starts the last phase of the negotiations, the detailed national offers, the legal text for the rules which will take a number of months. It is still the hope of the EU that all the details can be elaborated by the end of this year. That means under the Bush Presidency and President Bush, who remains committed to see a successful completion of this Round, could at least sign the deal even if the legal authorisation from the US Congress comes only after the new President and new Congress.

**Q109 Chairman:** Thank you very much. We all feel, and I am sure you must too, that the Doha Round has been going on forever. We wondered if you thought people just think multilateral arrangements are too difficult, or do you see no sign of that?

**Dr Balas:** Multilateral arrangements are certainly difficult, not least due to the fact that the WTO has 152 members now and, as you know, the WTO works on the basis of consensus meaning any single country, a member of the WTO, can block a decision. If one looks at it in the perspective and history of the recent multilateral round, the Uruguay Round, which took

eight years, if we could get over Doha in six years more or less, or something more than six years, that would not be a bad achievement. The number of members of the organisation has substantially increased in-between, major countries like China have joined the WTO, so by definition this is difficult, but there is no question among trade policy experts and economists that, when it comes to trade liberalisation, multilateral liberalisation is by far the optimum.

**Q110 Chairman:** I think I asked you at the beginning what happens if we fail because it is obviously quite delicately balanced and not an easy time. Have you thought as far ahead as what happens if we fail? What are the consequences for the WTO if agreement cannot be concluded sometime this side of Christmas?

**Dr Balas:** Certainly it would have a negative impact looking at the economic content, but especially in the present turmoil in the financial markets. In the current world economy it would be unwelcome news psychologically. It would not help to have much optimism. It would certainly be a major blow for a number of developing countries who rely very much on the expected trade liberalisation in Doha. It would certainly be a setback for the EU's agriculture policies. The EU has undertaken major autonomous liberalisation of the Common Agricultural Policy since 2003 and it was thought and expected that other major subsidisers, starting with the US, should do likewise. This chance would be lost if Doha failed. On the other hand, should it happen, as negative as it is, it also would be an exaggeration if, as some people say, it was said to be the end of the multilateral system and of the WTO. The WTO would continue to function based on the present rules which are less than perfect. There would be one of the important elements of the WTO system, the dispute settlement system, that would continue to function and, I am sorry to say, would probably be used much more than was the case before because countries would be tempted to go for dispute settlement to make up for the loss of what they could not get through negotiation. This would not be a welcome development but it would not mean the demise of the multilateral system as such.

Last, but not least, they would turn in a big way to bilateral regional agreements. They would be sought especially by a number of countries and business where this difficult and complicated multilateral approach cannot deliver. They will go for bilateral liberalisation, for preferential agreements which are certainly sub-optimal compared to multilateral arrangements.

**Q111 Lord Kerr of Kinlochard:** Can I stick with the question you have been pursuing, my Lord Chairman, for a second. I am very struck and encouraged by the statement made to us about progress in the last five or six months, technical progress, eg the defining of the outlines of a deal on agriculture. But at the political level surely it is all going the other way, with the Farm Bill you mentioned, the rhetoric of the election campaign, the likely composition of the next Congress, the rhetoric in Europe, the criticism of the Commission - of you guys - by what looks like an increasing number of Member States at a political level, and the identity of the Presidency from 1 July. It does not look to me like ideal circumstances for a deal in the autumn. Can you add a political dimension to what you said? Am I wrong?

**Dr Balas:** No, I think you are absolutely right. Let me give some analysis. It is quite clear that the US presidential campaign is a major risk factor. It is not easy to conclude an important deal like this in the last stage of the US election campaign. There is an outgoing President who has attached major importance to this and sees it as a legacy issue to have a successful Trade Round behind him. The President certainly has the authority to sign a deal with the knowledge that it would be his successor who would have to ensure its passage through Congress. Even assuming it is a Democrat controlled Congress under a Democrat President it would be a major responsibility for the future US Administration and Congress to scuttle a deal which had already been agreed among 152 members. One cannot say it would not happen but the stakes would be extremely high. I think everybody would think twice, or even three times, before doing that.

**Q112 Lord Kerr of Kinlochard:** If I were a negotiator for some other party in the Geneva negotiations I might reach a different view about that and think that it was quite likely that since fast-track has expired any deal that I signed up to this autumn would become unravelled next year by Congress or by the President and Congress, one way or the other. So I would feel disinclined to make major concessions now because if the deal fell apart because the Americans reneged I would have risked annoying my lobbies back home to no purpose.

**Dr Balas:** That is true, but if a deal is scuttled then whatever concessions are on the table we are back to square one, so nothing is lost for those countries. As I mentioned, it has been known for quite some time, since last year at Congressional approval, that a new TPA would not be available this year. If this is such a blocking issue for those countries who think in the way you describe, they would have tried to stop negotiations some time ago. This is part of the calculation and it is certainly a risk, but if Congress does not give its approval it would be the US that would take the blame for it. It would be the US alone taking the political blame for not approving the deal. One of the interesting things is that while there are quite a number of countries who might have doubts about these negotiations, for better or worse, nobody would like to be seen as being the one who takes the responsibility for killing these negotiations. Everybody is very cautious in that respect and the US is not an exception.

**Q113 Lord Kerr of Kinlochard:** How would you answer my Lord Chairman's question on what happens if there is not a deal?

**Dr Balas:** Well, as I mentioned, there would be a negative impact, both economic and political, for international trade.

**Q114 Lord Kerr of Kinlochard:** Forgive me, I remember you saying that and I understand this argument. These are arguments you use now to encourage people to do a deal. I am

saying supposing a force, nothing to do with the Commission, has ensured that there is no deal, what would the Commission do then?

**Dr Balas:** We would go back and consult Member States. I am sure that the majority of Member States would like to see the Commission turn towards further bilateral deals. Business needs liberalisation and that is why the EU was restrained in going into new preferential agreements. Especially in Asia a string of new agreements was signed and business thinks there is a reason why they are losing opportunities by being discriminated against, if you like, by not having preferential agreements. One of the consequences would be that the majority of Member States would like to see us continuing to do whatever can be done to keep alive the possibility of reviving the Doha Round later but still to go ahead with these preferential agreements.

**Q115 Lord Kerr of Kinlochard:** If there were such agreements how would they affect the use of Trade Defence Instruments which have become a matter of some controversy inside the EU and with those to whose exports to us we apply those instruments? Question one: do you think people in the European Union who are very anxious for anti-dumping measures against Asian countries would be happy to agree to the kind of pretty liberal bilateral agreements that the British Parliament, for example, would like to see? Question two: what is the future of the anti-dumping regime anyway?

**Dr Balas:** With all due respect, I do not see a direct relationship between these two facts. On the one hand, going ahead with bilateral preferential agreements and trade defence measures allow for a finer balancing of economic give and take. In a multilateral strategy it is an overall balance of rights and obligations. In a bilateral context, referring to Korea, with which we have a bilateral agreement, there is product-by-product bargaining, including not just tariffs but non-tariff barriers, and the car sector when it comes to non-tariff barriers is one of the major concerns of the EU producers and a major issue in negotiations. Once we get to an

agreement for industrial products it would mean full liberalisation and Member States would accept it and be ready to live with it. On the other hand, trade defence measures are possible vis-à-vis most favoured nation partners and preferential partners. Certainly there might be increasing pressure to use trade defence measures if it is felt that there is more unfair trading or unfairly exported products coming to the EU market. There are possibilities there with or without the success of the Doha Round.

**Q116 Lord Woolmer of Leeds:** You have touched partly on industrial products there and you have told us that the key areas in agriculture where you can see progress being made. On the NAMA side of things, what are the key things that divide the various parties to the negotiations at the moment?

**Dr Balas:** The single biggest question is in agriculture because, unlike agriculture, NAMA consists of single pillar market access, there are no substitution issues. Certainly the ambition is for market access and what is a comparable level of the liberalisation of markets to liberalisation in agriculture. It is a question of what is a proportional reduction in tariffs against a background which is very different from agriculture. Overall, one could say that apart from a few exceptions agricultural sectors across the world are rather heavily protected both in developed and developing countries. There is a more comparable point of departure than is the case in industrial products. In industrial products, which was the major focus of liberalisation in the history of the GATT, the tariff protection, especially in developed countries, was rather low already. There are certainly some peak tariffs but in developed economies, including the EU and US, the average industrial tariff protection is around four or five per cent. This is an average, there are certainly higher tariffs. In the case of the EU there is one product which has a higher tariff of 24 per cent and all the other tariffs are lower and almost 40 per cent of the EU imports come duty-free, no tariffs. The EU average is four per cent. Turning to developing countries, the industrial protection, especially the contract-based

or bound level of tariffs is several times higher. In countries like Brazil, India, ASEAN countries, the average industrial protection looking at the bound tariffs is 30 per cent or higher against the EU's average of four per cent. On the other hand, the applied tariffs, the actual tariffs which after imports one has to pay at the border, are lower, especially in countries like India where major autonomous liberalisation measures have been undertaken. Other countries, such as Brazil and Argentina, during the Uruguay Round undertook to apply lower tariffs but maintain a high contractual level of tariffs. Under the present negotiations the big question mark is what is the value of cutting the difference between bound and applied tariffs, in our jargon cutting water. Developing countries claim that this should be taken as a full value commitment and not just any other tariff reduction. Our companies say that they are interested in what happens on the ground, i.e. can they see their export opportunities increase or not. They are less interested in the legal niceties of cutting this water. The truth is probably somewhere between the two. On the one hand, consolidation, that is cutting the water between applied and bound tariffs, certainly has a value because it protects exporters against the possibility of developing countries suddenly deciding to raise their tariffs to the contractual level which they could do any time. On the other hand, it is certainly not sellable to Member States and EU industry that what would happen in industrial negotiations would be just consolidation, basically cutting water and consolidating your existing market access. This is the major point of contention, to what extent developing countries should undertake such tariff cuts which would result in giving new export and trade opportunities for their partners.

**Q117 Lord Woolmer of Leeds:** If the European levels are very low, what does Europe have to offer in the negotiations?

**Dr Balas:** To agricultural exporters serious tariff and subsidy cuts and a phasing out of export subsidies.

**Q118 Lord Woolmer of Leeds:** In industry.

*Dr Balas:* It is a single undertaking where one sector can be bargained against others.

**Q119 Lord Woolmer of Leeds:** That leaves services. What are the issues in the services area?

*Dr Balas:* Due to the characteristics of services trade, there is no single figure like tariffs to express the level of protection. These are various government measures. It is much more difficult to establish a benchmark for ambition. What happens is countries, including the EU, would follow two targets. First of all, as in industrial trade, to consolidate already existing market access, which is not bound under the WTO, and in services especially there are a lot of unbound market access possibilities. On top of that, to get some additional opportunities. By definition services negotiations are bilateral, a contract basically between two partners about dealing with specific measures although the outcomes, the results, will be multilateralised at the end of the Round. Overall, the EU would like to see in major sectors of interest for the EU - financial services, telecommunication services, business services - consolidation of existing market access and in selected areas the obstacle removed.

**Q120 Lord Woolmer of Leeds:** Taking agriculture, industry and services, this sounds as if in the Doha Round it is really the other countries who are giving more up and we are offering agriculture but we want industrial concessions and service industry concessions. Is that fair?

*Dr Balas:* If I look at the expected new trade opportunities created by the Round, I think that most new trade will come in agriculture. New trade import opportunities will be more limited in industry and services, but much more consolidation.

**Chairman:** Thank you very much. I would like to go on to agriculture and oil and food products with Lord Maclennan.

**Q121 Lord Maclennan of Rogart:** If I may just latch on to that point that you made. Do you think that what has been agreed so far, or what is looking like being agreed in the agricultural sphere, can be parked as an achievement, an agreement, without balancing action on the other fronts?

**Dr Balas:** No, it is impossible, agricultural Member States will never accept it.

**Q122 Lord Maclennan of Rogart:** So what has been agreed is not good for everyone?

**Dr Balas:** I was speaking about 27 Member States of the EU. There is a very fine balance among various interests and positions. There are agricultural Member States who are not happy to see any liberalisation to start with, market opening or reduction of subsidies, but they could live with it if, on the one hand, the Member States that have a major interest in industry and services could see their own interests being fulfilled. If I think about a country like France, which has a very strong agricultural interest, at the same it also has industrial and services interests. Based on a balanced deal there is a chance to sell an agricultural liberalisation. Just agriculture is not saleable.

**Q123 Lord Maclennan of Rogart:** What has been the impact, if any, so far of the sharp increase in oil prices, commodity prices, upon the negotiations on agriculture, both in respect of developed countries and developing countries?

**Dr Balas:** Historically, this could be a rare occasion for having an ambitious agricultural deal based on the present market conditions. If there was a time when a little subsidisation was needed, this is it. The EU is not giving export subsidies for the overproduction because it is simply not needed. Even if farmers grumble, because they are farmers, and this is their job, they are doing very well, thank you very much. If you look at it objectively the circumstances are really good. However, politics come into it, and I referred to the US Farm Bill where lobbying interests proved to be stronger than the intention of the Administration to have a

similar reform as the EU had under their Common Agricultural Policy. The present Farm Bill, to put it politely, is not a reformist Farm Bill at all, it is basically business as usual, the same type of politics and benefits that was the case during the previous Farm Bill. Another interesting element is that the value of agriculture market opening is somewhat diminished. Those agricultural exporters who look in a short-sighted, short-term manner at their present world farm market say, “We have a problem meeting demand as it is. Some countries like Argentina and others even apply export restrictions and export taxes to stop exports going out too cheaply to depress domestic prices”, so they claim that under the present circumstances they feel even less compelled to give major access to industrial products. This is one possible effect of the food prices, but overall I think responsible governments everywhere should use this opportunity to undertake major reforms and get something in return for it as others who are doing the same and opening up markets across the board.

**Q124 Lord Maclennan of Rogart:** In the case of the poorest developing countries where food shortages may be apprehended following this rise because of the attraction of the export markets, what response would you see from them in this Round?

**Dr Balas:** The first response is that the poorest countries are unfortunately in the worst situation because they are hit in parallel by fuel and food prices with very little to rely on. There are short-term measures which, irrespective of the Doha Round, the EU and other responsible countries could and should do: stepping up Food Aid, helping them to foot the import bills. It is also clear that when it comes to poverty reduction then liberalisation in developing countries’, agricultural sectors, will be as important as liberalisation of developed countries’ agricultural markets. Countries like India, for instance, put their emphasis on what developed countries do and this is an exclusive interest while they maintain defensive positions under the Doha Round when it comes to agriculture. I recently saw some analysis which underpinned the view that while developing countries’ agricultural liberalisation is

very important and it is a basic part of the deal, developing countries should also liberalise in order to deal with poverty reduction. Liberalised agricultural markets give a boost to efficient producers to step up their production and thereby, at least in the medium-term, deal with their supply side shortages of food.

**Q125 Chairman:** Thank you very much, that is very clear. I think you really told us that if through no fault of the EU the Doha Round stalls or fails, probably not until the autumn, that you then see the way forward as bilateral agreements. Is this very much *faute de mieux* or do you think they work quite well?

**Dr Balas:** I think it is *faute de mieux* because there is no question that multilateral liberalisation is the best, but still it is better than having no liberalisation at all. There might also be attempts to have plurilateral agreements among interested companies, but based on the experiences of the previous period I feel that these plurilateral agreements would be mostly among developed countries, or a few advanced developing countries. So far developing countries with large emerging economies have not shown very much interest in going into plurilateral agreements.

**Q126 Chairman:** Your view would apply also to the so-called regional agreements?

**Dr Balas:** When I speak about preferential agreements, these are bilateral or regional preferential agreements, yes.

**Q127 Lord Woolmer of Leeds:** When you talked about the consequences of the breakdown of Doha you said there would be a number of developing countries who would be disappointed because they expect significant benefits. Can you give us examples of the kind of country you have got in mind because the average citizen prefers to understand which countries they are talking about. Who are likely to be concerned if Doha breaks down?

**Dr Balas:** Basically developing countries which are competitive in agriculture or industry, or both, because they would lose out on new export opportunities. It is our impression in the Commission that Brazil would like to see a Round on terms which are acceptable to themselves because they are perhaps the most significant efficient agricultural exporter, so they would lose a lot and they look on a longer term basis than is the case with a country like Argentina which seems to be very focused on what is the situation currently.

**Q128 Lord Woolmer of Leeds:** One witness said to us that countries like Brazil do not think the Doha Round goals are ambitious enough and they would not be too worried if it did not go forward.

**Dr Balas:** I think Brazil thinks the agricultural negotiations are not ambitious enough but the NAMA negotiations are too ambitious for their liking, but that is normal. China, without question, would be the single major beneficiary from a NAMA outcome and yet China seems to be more defensive. They claim that they have huge problems in digesting the effects of their WTO accession and the liberalisation undertaken. Without question, it is true that China's import protection is much lower than is the case with comparable large developing country economies so they feel there is a lack of balance. In our view at least they do not show the kind of ambition which objectively should be there and we do not see that they are putting enough weight behind having a successful Round.

**Q129 Lord Kerr of Kinlochard:** Is that not partly because they do not need anything to change, they are doing extremely well under the present rules of the game, they are a status quo power now?

**Dr Balas:** China has fully bound tariffs unlike other developing countries which means every tariff cut, as is the case for the EU and US, counts and it would be a real cut in their protection. As they have an average industrial tariff level of seven per cent they think these

are exempt from ambitious commitments under the Doha Round and for better or worse they are more defensive because some of their sensitive industries might be affected. To be frank, I do not think that is the case because they seem to be competitive across the board.

**Chairman:** Thank you very much. Dr Balas, I feel we have taken enough of your time. It was very good of you to see us and you have made a lot of things clear that were floating about in our minds. Thank you very much indeed.