

A NEW DIRECTION IN WORLD TRADE:

towards a WTO Round
for development, democracy
and sustainability



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Position paper adopted by the PES Group



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In Qatar next November, two years after the failed efforts in Seattle to launch a new round of multilateral trade negotiations, the world's trading nations will try again, at the fourth Ministerial meeting of the World Trade Organisation.

The PES Group in the European Parliament has taken the opportunity, over the last fifteen months, to consider in detail the lessons to be learned from Seattle - and more broadly from the evolving public debate on the world trade system. Our Working Group on the WTO has led both an internal debate within the Group, and a sustained dialogue with other actors, including representatives of developing countries, trade unions, NGOs and businesses, the European Commission and many others.

Our reflections have focused especially on the themes of the imbalance between rich and poor countries; democracy and transparency; socially and environmentally sustainable development; and the relationship between trade rules and human rights - including both rights at work and those rights, such as the right to education and health care, which must be guaranteed by universal service provision.

Our central conclusion, set out in detail in this paper, concerns the need for a new direction in world trade. The upsurge of public interest and concern, and the new assertiveness of developing countries in the WTO - both dramatised by Seattle - have irreversibly transformed the politics of international trade. The trade specialists' agenda of market-opening has been overtaken by a new "people's agenda", whose chief demands are fairness and democracy in the global trading system.

The PES Group supports the call for a new trade Round, as the best opportunity to reshape the trade system - but a new Round can succeed only if the world leaders who gather in Qatar recognise the need for radical change. There can be no "business as usual".

Beyond the narrow world of trade diplomacy, the next trade Round will be, above all, a defining moment in the debate on globalisation which dominates the politics of this new century. Underlying this debate is the question: will globalisation subordinate all other values to the economic, or can democratic choice prevail in an era of global interdependence, global rules and global institutions?

The deepening interdependence between nations has given a new importance to global rules, and global governance. International treaties and institutions, as they begin to exercise more influence on our lives, must pass the same tests of democracy and fairness which for centuries have been at the centre of national political debate.

To pass those tests will require reform of the WTO, but also a broader strengthening of global governance. These questions go beyond the WTO, but success in Qatar will depend on public confidence that they will be addressed. The PES Group calls therefore for preparations to begin, before November, for a Global Governance Summit, to be held in 2002, to address these issues which underlie much of the public fear and suspicion of globalisation, to which the WTO has fallen victim.

April 2001

THE WORLD TRADE SYSTEM: A NEW DIRECTION

This statement sets out the case for a **new direction** for the world trade system and for a **new round** of world trade talks.

It insists on the benefits of **trade** as a source of prosperity and on the need for international trade **rules** to regulate the conduct of governments and companies.

But it argues that radical changes are needed to ensure a fair deal for the world's poor; to promote sustainable development; to ensure that trade rules do not over-ride national sovereignty on non-trade issues; and to make the world trade system more transparent and accountable. Global markets must be underpinned by global rules and institutions that place human development and the public good above the interests of corporations and national advantage.

Without such changes, the WTO will not win public confidence, and the future of the rules-based international trade system will be increasingly uncertain.

It is therefore highly important for further economic liberalisation to be based on an appropriate regulatory framework, and particularly to anchor internationally recognised social and environmental standards in the trading system.

The PES Group's message - in particular to the European Union's negotiators - is that these are the most urgent issues facing the WTO, and they must have the very highest priority in a new round of WTO negotiations.

WHY TRADE?

The world needs trade for the part it can play - and has played - in creating jobs and prosperity, overcoming scarcity, and promoting a more efficient use of the world's resources. The PES Group firmly believes in the positive forces of trade, which in the past 50 years has been the most dynamic force in the world economy, standing now at 14 times the level it was in 1950.

In large part this growth is a result of the elimination of trade barriers - the World Bank has estimated that the Uruguay Round alone raised world GDP by \$200 billion. However, the growth of trade and world GDP have never been so unequally distributed. The poorest countries' share, particularly in Africa, is in constant decline.

It is clear that trade also carries serious social and environmental risks if it takes place outside a legal framework that gives it the right direction.

Rules must guarantee that legitimate social, cultural and environmental standards all over the world are not treated simply as an obstacle to trade but accorded equal importance, and that the interests of the weakest participants are taken duly into account. Certain trade barriers can make sense as long as they are used for giving local economies the chance to prepare themselves for the world market.

To avoid the temptations of unjustified protectionism, generally agreed and rule-based mechanisms are essential in order to settle trade conflicts peacefully. Global markets need global rules so that trade can take place on a level playing field for all participants. And trade rules them-



selves have to be fair and implemented fairly. Dumping should be condemned and addressed in an appropriate manner as European companies and employees are suffering from the consequences of these practices by some trading partners.

WHY A NEW ROUND?

The issues of fairness, social and environmental sustainability, democracy and the interface between trade and non-trade issues must be tackled and an agreed, rules-based system for settling trade-related disputes further developed. Experience shows that the most effective way of introducing new issues to the world trading regime is through a round of trade negotiations that requires compromises to be made by all sides. A new round is therefore an essential step towards strengthening the WTO's legitimacy; winning public support for further market-opening; and ensuring that the world trade system develops in the interests of all the world's people, and of the planet itself.

Moreover, as one of the world's leading traders, the EU has a vital economic interest in further market access, for example in the services sector.



The following paragraphs set out PES Group priorities on a number of key issues. On each of these, and some¹ others, further details will be placed on the PES Group website. None of the positions set out in this statement represents the Group's final word on the subject. On all issues we continue to listen closely to the wider public debate, and on some the debate continues also within the Group. This statement, and the background papers, will be updated from time to time to take account of these debates.

MAKING TRADE WORK FOR THE POOR

Global economic integration has the potential to create unprecedented global prosperity and understanding, but so far the benefits have been inequitably distributed. There is rising inequality, economic and social exclusion and a widening knowledge gap, which presents one of the greatest challenges of the 21st Century.

The World Bank has now acknowledged² that if poverty is to be reduced, it must be tackled directly - neither trade, nor growth, automatically leads to poverty reduction.

The WTO, like other international organisations, must play its part in reversing the growth in inequality and marginalisation. The next WTO round must adopt the explicit objective of making a significant contribution to the UN's poverty reduction targets. Both **development** and **poverty and inequality reduction** must be better integrated into the WTO treaties.

The current treaties, on which most developing countries had little influence, betray serious inequities, such as the preservation by rich nations of trade barriers in the sectors of greatest interest to many developing countries; anti-dumping, subsidy, intellectual property³ and other rules which favour the interests of the rich world over the poor; vague and unenforceable provisions on "special and differential treatment" designed to favour developing countries, but on which the rich world has largely failed to deliver; and the imposition of an excessive compliance burden on developing countries. The next trade round must put right these injustices.

Perhaps the most important objective for developing countries, however, will be to ensure that the next round opens up the markets of rich countries to goods and services from the developing world. That means that the tariffs faced by developing countries must be low enough to allow them a fair opportunity to compete in developed country markets - particularly for the products that developing countries normally export. Tariff peaks and tariff escalation must be eliminated.

Capacity-building measures, backed by committed resources, are needed to overcome the technological, infrastructural and other structural barriers facing developing countries. Some time-limited special and differential treatment provisions may need to be prolonged to ensure that developing countries have time to equip themselves for integration into the global economy. And greater co-ordination is needed among international organisations, recognising the relationship between trade and other problems such as debt, disease, the arms trade and other obstacles to development.

¹ Other issues covered will include **e-commerce** and **forestry and fisheries**

² World Development Report, 2000

³ The statement's section on **TRIPS** deals with the specific case of intellectual property



The world's **least developed countries** (LDCs) have largely been left behind by globalisation: 20 years ago they had 0.6% of world trade; today only 0.4%.

The PES Group therefore strongly welcomes the European Commission proposal for tariff and quota-free access to the EU market for all LDC products except arms - the **Everything But Arms** (EBA) initiative. It is a long overdue first step in opening markets to poorer countries, which other industrial powers should copy. It will nevertheless be important to ensure that EBA does not call into question the EU's commitments to the ACP nor deprive that latter of outlets vital to their economies.

For the poorest countries, it is also urgent to press ahead with the cancellation of debt. The next round must also ensure that the Cotonou agreement signed by the European Union and the ACP countries is fully respected.

There is strong evidence that international transport costs, inflated by monopolistic structures in the transport sector, are a major obstacle to the integration of developing countries into the global economy. The EU must press for international action to tackle this problem.

Finally, WTO procedures must be reformed (see "Democracy in the WTO" below) to ensure an effective voice for member states with more limited resources.

ENVIRONMENTAL SUSTAINABILITY AND CONSUMER PROTECTION

The prosperity which trade brings can help finance the measures needed to protect the environment, but this link is not automatic. Trade can also lead to environmental degradation, through increased transport, pressures on natural resources, destruction of habitat. Current trade rules permit the maintenance of environmentally damaging subsidies, and have failed to liberalise in some areas where more open trade could have environmental benefits. Uncertainties in the interface between WTO rules and non-trade issues bedevil the development of national and international environmental policy. It is therefore vital that environmental considerations are integrated into WTO rules and procedures. Impact assessments are needed to assess, predict and monitor the relationship between trade and environment. The EU should use such assessments in determining its position in WTO negotiations and press for similar commitments from its trading partners.

The sustainability approach advocated in the preamble to the WTO agreement should be put at the heart of the WTO Treaties.

The term environment should be integrated into the list of exceptions in the GATT 94, GATS and TRIPS as is already the case for the TBT agreement.

Emissions from cross-border transport are a growing contributor to climate change, and long-distance transport imposes a range of other social and environmental costs - air, noise and water pollution; oil spills; accidents; the impact of road, rail, airport and port infrastructure. These are costs imposed on society - their exclusion from the price of international transport constitutes an environmentally damaging distortion of trading patterns, which must be remedied through agreement - preferably at global level and avoiding distortions between modes of transport - on ways of internalising the external costs.



AN AGENDA FOR CHANGE

The relationship between WTO rules and MEA's must be legally clarified with a general tendency towards the recognition and priority of internationally agreed environmental standards on the basis that they are not discriminatory.

The precautionary principle as it is found in the SPS- (sanitary and phyto-sanitary) agreement should be more clearly and less restrictively defined, and extended to all parts of the WTO agreement.

WTO rules must allow the precautionary principle to be invoked, subject to transparent and non-discriminatory procedures, whenever, because of incomplete, inconclusive or uncertain scientific information, there are reasonable grounds for concern at the possible risk of harm to the environment or human, animal or plant health, and must recognise obligations and procedures deriving from other international agreements, such as Multilateral Environmental Agreements. All key stakeholders must have adequate opportunity to submit evidence to disputes procedures involving the precautionary principle.

Uncertainties in the field of process and production methods should be clarified.

The next Round must also address seriously the problems faced by developing countries in complying with environmental measures. These must be tackled through capacity-building measures, where necessary financial support, and increased participation by developing countries in standard-making bodies.

Products from LDCs could be granted a more favourable treatment in order to facilitate LDCs' adaptation to higher environmental and consumer standards. Transition periods for LDCs could be introduced, as was the case for the SPS agreement.

STRENGTHENING GLOBAL GOVERNANCE: TRADE AND NON-TRADE ISSUES

These days, the WTO affects much more than trade, since barriers to trade can include many things which governments do within their own borders, such as subsidies, investment laws or tax regimes. Much public unease over the WTO reflects the fear that its rules allow trade to override other objectives of public policy, undermining non-trade objectives and the democratic process itself. In Europe, policies on - for example - the marketing of GMOs and hormone-fed beef, relations with the ACP group of developing countries and the banning of cosmetics tested on animals, have either been challenged at the WTO, or watered down to avoid such challenge.

Trade disputes like those over bananas or hormones have illustrated that there is at least a need for clarification of the existing rules in the field of consumer and environmental protection, but also for maintaining special treatment in trade with least developed countries (LDCs).

Public opinion, in Europe and elsewhere, reacts strongly against a trade body apparently dictating to governments, especially in smaller and poorer countries, what is or is not acceptable policy-making on the environment, food safety or other areas.

Some critics argue that non-trade issues should be totally divorced from the WTO. But so long as we want internationally agreed rules on **non-tariff barriers to trade** this clear separation is impossible.



Countries have many ways of keeping foreign goods and services out of their markets. Product standards, distribution systems, environmental standards, customs procedures and many other devices can be, and have been, used to cheat on open trade agreements. Abandoning attempts to tackle non-tariff barriers would mean less trade, less investment, less growth.

The PES Group cannot support that solution. The alternative is to accept that the world trade system **must** have rules to guard against abuse of non-tariff measures for protectionist purposes - but that the necessary global rules and institutions must also be created to deal adequately with the interface between trade and non-trade issues. That means we need clearer rules on the relationship between the WTO and other international agreements and organisations. Clarification of the WTO's own rules, so that politically sensitive decisions are no longer made by its Disputes Panels. And a closer integration between the WTO and the other institutions of global governance, so that it has access to independent, competent mechanisms for judging the defensibility of environmental, consumer protection and other policies which may be held to impede trade.

The WTO Round must also address potential conflicts between WTO rules, Multilateral Environmental Agreements (MEAs), ILO (International Labour Organization) standards or development agreements such as the Cotonou agreement.

Although rules are needed for world trade, the world cannot be governed by trade rules alone. The relative status of the rules and regulations should be clarified so that implementation of the commitments undertaken by the Member States on trade is not to the detriment of their other commitments in areas as vital as the environment or social rights.

To entrust to the WTO alone and its system of settling disputes whether or not to take account of the "non-trade" issues in each dispute would be tantamount to giving the WTO a role as World Supreme court whose decisions would be imposed with no possibility of appeal. It does not have that legitimacy.

The main basis for finding a new balance between the multilateral organisations responsible for the various conventions and objectives established by the international community should be coherence.

One possibility might be to provide for means of appeal where there are conflicting rules:

- for example, to the WHO in relation to the application of the precautionary principle,
- to the ILO in relation to respect for fundamental social rules,
- to a future World Environment Organisation, as proposed by certain States, in relation to respect for multilateral environmental agreements.

DEMOCRACY IN THE WTO

The next world trade round must strengthen WTO democracy in two respects.

First, improvements are needed in internal democracy. All WTO member countries must have the same access to information and the same opportunities to participate in negotiations. That means, for example, that internal procedures need to be more inclusive and more transparent to members as a whole. Resources must be made available to strengthen the capacity particularly of small-



ler and poorer countries to intervene effectively, both in negotiations and in disputes proceedings.

Second, the WTO must be more open to public and parliamentary scrutiny and comment.

The PES Group continues to support the objective of setting-up a WTO parliamentary assembly which would have an advisory role on the strategic options for international trade. This assembly would be an effective forum for taking on board the opinions of regional and local elective institutions, trade unions and NGOs, both from the South and the North.

But for many countries, it is even more important to strengthen parliamentary and public accountability at national and local level. To achieve this, the next WTO round must ensure further steps towards external transparency at the WTO, through wider and earlier derestriction of documents (including documents relating to disputes procedures), closer dialogue with civil society, and use of the internet and webcasting to improve access to both documents and meetings. We plead also for an opening of Disputes Panel and Appellate Body procedures to external, non-trade expertise, including that of civil society.

There must also be resources for capacity-building to help national parliaments in poorer countries strengthen their scrutiny of the WTO.

The PES Group welcomes the EU's role in pressing for greater internal and external democracy in the WTO, but regrets that EU credibility on this issue is undermined by the lack of transparency and accountability in its own trade policy-making procedures, particularly following the changes incorporated in the recent Treaty of Nice. Democracy must begin at home, and the PES Group will press for changes in the future treaty which must be adopted by 2004 to make EU trade policy-making more open and accountable.

AGRICULTURE

Since the Marrakech agreement on agriculture in 1994, European public opinion has become more and more concerned by a series of issues such as food safety and quality, environment, animal welfare and rural employment and population, particularly in remote and less favoured regions.

It will become more and more difficult for the EU to meet popular expectations with regard to high standards while maintaining agricultural competitiveness, if these questions are not adequately handled in the next WTO round.

The over-riding objective of negotiations on agricultural trade must be to establish rules which are not only fair and market-oriented, but consistent with sustainability, environmental protection, biodiversity, food security, poverty alleviation, rural development, food safety and quality and animal welfare. The opening of markets must be allied to the right of WTO members to follow agricultural policies adapted to their own needs and circumstances.

Despite the WTO objective of reducing agricultural subsidies, some of our trade partners have allowed an increase in subsidies, often causing trade distortions and aggravating the instability of world markets. Monetary and market stability are essential to the prosperity of world trade and will also permit support for developing countries whose particular situation must be given



consideration throughout the WTO negotiations.

EU enlargement is a process of global significance and must be taken into account in the WTO negotiations. Moreover, the fact that bilateral trade agreements between the Union and third countries can only be reached following the conclusion of WTO negotiations does not mean that European agriculture must make new concessions.

The Luxembourg Summit in December 1997 underlined that multifunctional agriculture is widely recognised as the model most able to respond to the expectations and concerns of Europe's citizens, consumers, farmers and cooperatives. The Berlin European Council confirmed this in its decisions on the Agenda 2000 reform of the CAP. The Luxembourg Declaration on the European agricultural model and the Berlin decisions on Agenda 2000 constitute the framework for the future of European agriculture. This is the essential point of reference for the WTO negotiations.

It is also essential to ensure the protection of geographical indications for some agricultural products in the context of the TRIPS agreement.

The basis of the agricultural negotiations will be Article 20 of the Marrakech Agreement, which lays down that a certain number of non-trade concerns, and experience to date, must be taken into consideration.

The agriculture negotiations must address the following priorities:

1. The principle of a comprehensive approach with regard to other negotiating issues and, within the agriculture sector, between the trade and non-trade aspects.
2. The multifunctionality of agriculture must be guaranteed in the context of priorities set by society. This requires:
 - guaranteeing a reliable and stable supply of healthy and high-quality foodstuffs; developing an export policy which allows farmers and the agri-food sector to be competitive on world markets;
 - contributing to economic viability and employment in rural areas and to the preservation and enhancement of the environment;
 - reinforcing economic and social cohesion between agriculture and the rest of society and within the agricultural sector, while recognising the interests of consumers.
3. A radical reduction, by all rich countries, in barriers to agricultural exports from poor countries, reflecting their varying levels of development. This should include lower tariffs, expanded tariff rate quotas and progressive elimination of tariff peaks and tariff escalation - and should be compatible with the evolution of the European agricultural model which the Union seeks to promote. Temporary protective measures for developing countries must be permitted, to allow them to ensure food security.
4. Taking account of the specific situation, characteristics and needs of each sector of agriculture, by allowing for the possibility of differentiated treatment.
5. Reinforcing the mechanisms which allow greater global market stability (monetary fluctuations, stabilisation of markets and internal prices, safeguard clause).



AN AGENDA FOR CHANGE

6. Maintenance of the Blue Box and reinforcement of the Green Box (subject to points 7 and 8 below).
7. The peace clause (Article 13 of the GATT Agreement) must be extended beyond 2003, but the Union should indicate its intention now of gradually transferring aid from the Blue Box to the Green Box and of converting the Blue Box into a cyclical device provided that rules may be negotiated which fully safeguard our non-trade objectives and those of the developing countries.
8. Reduction of export subsidies and all forms of export assistance worldwide, leading to their elimination by all countries in parallel, while preserving provisions for food aid where justified.
9. Achieving a balance between trade and non-trade considerations, taking account of the positive contribution of farmers to the environment, to rural development and to the maintenance of the countryside and scenery (public goods).
10. Ensuring that developing countries benefit fully from the expansion of world trade. The introduction of new special and differential treatment for developing countries must ensure their endogenous and sustainable development and reduce their dependence on food imports.

THE TRIPS (TRADE RELATED INTELLECTUAL PROPERTY) AGREEMENT

The central mission of the WTO is to promote international competition. The TRIPS agreement alone is designed to protect monopoly: in order to ensure incentives for research, creativity and innovation, TRIPS gives the owners of intellectual property a period of monopoly over its exploitation.

Noting the doubts expressed by many economists, as well as by developing countries, as to whether TRIPS should be part of the WTO system, the PES Group believes that, particularly in the area of patent protection, the TRIPS agreement is flawed in two respects which could make it a barrier to the economic development of poorer countries, damaging to human health and welfare, and a threat to biodiversity.

First, while patent protection is an important incentive for research and development, the TRIPS agreement, in laying down a minimum 20-year period of global patent protection, shifts the balance too far in favour of the owners of intellectual property - overwhelmingly multinational corporations from the richer countries - whereas there is public interest in the widest and fastest possible dissemination of knowledge.

There is little evidence that lack of patent protection in less developed markets would significantly affect levels of research and development in the industrialised world. It has, however, become harder for developing countries to acquire and adapt the latest technology as international patent law has become more restrictive. And in an increasingly knowledge-based global economy, the tightening of the rich North's grip on intellectual property will widen the technological divide and create a new obstacle to development.



The damaging consequences of flaws in the TRIPS agreement can be seen most shockingly in the case of access to medicines, where the efforts of developing countries - notably South Africa and Brazil - to make life-saving drugs widely and cheaply available are being challenged by multinational companies in South Africa and the US government has complained to the WTO about Brazil, exploiting ambiguities and uncertainties in the TRIPS agreement.

Second, the TRIPS agreement follows the model of US patent law - which in the last twenty years or so has broadened the scope of patentability by blurring the distinction between discovery - traditionally non-patentable - and invention. This has opened the way to the patenting of living organisms and raised alarming issues in relation to biodiversity, environmental protection and the distribution of wealth and economic power between North and South.

The PES Group therefore, while rejecting calls for the suspension of the agreement, does insist on the need for a broad review of TRIPS, with the objectives of:

- Removing obstacles to the transfer of knowledge to developing countries;
- Re-enforcing, and removing all ambiguity from, the agreement's provisions for safeguarding public health - in particular, by strengthening the provisions on compulsory licensing and parallel imports of medicines, and limiting the scope for legal challenges by patent holders - in order to ensure that life-saving drugs such as those for AIDS are made available either through import or own production, free or at affordable prices, in developing countries;
- Forbidding the patenting of living organisms;
- Bringing WTO rules into conformity with the international Convention on Biodiversity;
- Recognising and safeguarding the traditional knowledge, innovations, practices and technologies of indigenous people and small farmers in developing countries..

SERVICES

The further dismantling of barriers to trade in services could generate a major increase in trade and investment. Negotiations in this sector should aim for steadily higher levels of market access, while respecting the objectives of national policies and recognising the differing levels of development of WTO members.

The industrialised world has failed to deliver on the commitment in the existing GATS (General Agreement on Trade in Services) agreement to achieve greater developing country participation in the trade in services. Agreement must therefore be reached in the next WTO round on detailed and binding commitments, including both capacity-building measures and a reinforcement of special and differential treatment for developing countries, according to their level of development, and respecting their national policy objectives.

The PES Group re-iterates the right of each state to regulate and intervene in public services and, more broadly, services of general interest, in order to achieve legitimate, non-protectio-



of care in health services, which may or may not be in public ownership). Clarification is needed of those provisions of the current agreement which may cast doubt on that right.

The PES Group notes that the ambiguity of some provisions of the GATS agreement has caused concern over their potential to constrain the regulation of public services. We call on the European Commission to consult trade unions and civil society on the scope for clarification and to report to the European Parliament on those consultations, so that the EU's position on these points in the WTO negotiations on services can be developed on a transparent and accountable basis.

CULTURAL INDUSTRIES

GATS rules impinging upon cultural services, in particular in the audio-visual sector, must respect the cultural diversity and autonomy of WTO member states. These are non-trade public policy objectives which must not be over-ridden by trade rules. The US proposal to promote the concept of virtual goods, thereby excluding audio-visual programmes delivered by internet, among other things, from existing GATS safeguards, must be rejected.

Current GATS rules exempt cultural services from rules on national treatment and access to markets, benefiting from five exceptions to the MFN clause. This preserves the necessary freedom at EU and Member State level to define policies such as the 'television without frontiers' directive, which will be reformulated in 2002, and the implementation of the recently agreed third MEDIA programme.

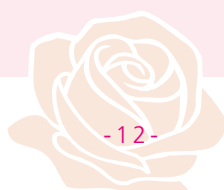
However, no provision has been made for this 'status quo' to be maintained in WTO negotiations, and new challenges are likely to appear in relation to e-commerce, information and entertainment services and on-line commerce, which will therefore require updating of the relevant GATS provisions to take account, in particular, of the convergence of digital services.

In the WTO negotiations on GATS, the EU's freedom to take charge of and regulate the new services - notably through the internet - may be challenged, in view of the vast economic potential which Europe represents for such services. The EU must clarify what GATS provisions are needed in order to maintain its margin of manoeuvre to preserve autonomy and diversity in this sector. Equally, however, as a major content producer, the EU must oppose unnecessary obstacles to trade in the new opportunities thrown up by the audiovisual industry.

TRADE, LABOUR RIGHTS AND SOCIAL DEVELOPMENT

All WTO members made a commitment at the first WTO Ministerial Conference, in Singapore in December 1996, to respect the internationally recognised core labour standards of the ILO (International Labour Organisation). Since this time, however, it has proved impossible to reach agreement within the WTO on action to follow up that commitment. Many developed countries see respect for core labour rights as essential to ensure that trade liberalisation does not lead to a "race to the bottom" as trading nations are forced to cut costs and lower standards in order to remain competitive.

Most developing countries, however, see moves to deal with labour rights at the WTO as Northern protectionism, designed to undermine the one competitive advantage that developing countries enjoy against the economic power of the rich nations.



It must therefore be clearly emphasised that the developing countries are primarily in competition with each other. General observance of core labour standards would prevent the most extreme forms of breakneck competition and the associated exploitation. Observance of the standards enables workers the world over to assert their rights via their trade unions. This is a condition of their obtaining a fair share of the fruits of their labour.

In the face of opposition from developing countries, the European Commission has recently hinted at dropping labour issues from its proposals for the agenda of the next WTO round, and pursuing them separately through collaboration between the WTO, ILO and other agencies.

The PES Group insists that the issue must stay on the agenda of the next trade round, and the search intensified for a way forward acceptable to both North and South. The informal negotiations between developed and developing countries on labour rights, it should be remembered, were one of the successes of Seattle. Most participants, from North and South, showed a willingness to negotiate on constructive moderate proposals close to those tabled by the EU delegation.

Penalties could be applied to multinationals which have their headquarters in OECD countries and which infringe ILO international conventions.

Respect for core labour rights is especially an issue for developing countries, in some of which the most dramatic abuses of labour rights are found; and where the growing pressure of international competition has led to continuing erosion of workers' rights - for instance through the proliferation of "export processing zones" - where most domestic legislation on labour rights, health and safety etc. is suspended.

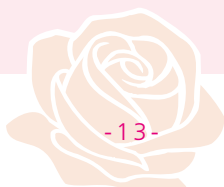
Labour rights form part of a wider social development agenda which the next round must address, to tackle gender inequality and social and economic exclusion and ensure a fairer distribution of the benefits of trade both between and within countries.

These are the grounds on which the EU must insist in keeping labour rights on the agenda - not as a form of trade protectionism, nor even to defend labour rights in the EU itself. Our major competitors are other rich countries, and - excluding China - all but 1,5% of developed countries' trade is with other developed countries.

To those who argue that this issue has no place in the WTO, the answer is that it is as clearly trade-related as any issue that the WTO deals with, since abuse of labour rights is used in some countries as a source of competitive advantage, while many others are afraid of raising labour standards for fear of the pressures of international trade competition.

Many developing countries now see labour rights as a negotiating chip. They are open to negotiations in return for real progress on other aspects of their trade agenda. The EU must show that it is prepared to push hard on both sets of issues.

Plurilateral agreements and closer cooperation with the ILO could be a first approach. An incentive-based system should encourage especially LDCs to guarantee at least internationally agreed minimum standards. This could be negotiated separately from the WTO round, in a different forum, and lead in the first instance to a **plurilateral agreement** (i.e. an agreement to be signed only by those WTO members who so wished).



LAUNCHING THE ROUND: PRIORITIES, POLITICS AND STRATEGY

The European Union has been the leading advocate of a broad agenda for the next trade round, tackling not only market access issues, but also investment and competition policy, public procurement, environment, health, animal welfare, labour standards and a range of other issues.

Many other WTO members, including the USA and most developing countries, have expressed a variety of reservations about this comprehensive agenda, and the European Commission is currently considering a 'reformulation' of its proposals, designed above all to win wider developing country support for a new multilateral trade round.

The PES Group strongly supports the Commission's strategy of reaching out to developing countries. We believe that an alliance between the European Union and developing countries is the key to a progressive trade round. LDCs especially need to be integrated better into the world trade system. It is mainly due to the fact that the poorest have had the least advantage of previous trade rounds and have even seen their share of world trade decline that they are reluctant to participate in a new Round.

We would argue, however, that the EU should be looking for a more ambitious North-South settlement than the one currently envisaged by the Commission.

The EU should not be lowering its sights in respect of **environment and consumer safety, trade and social development** and **WTO reform**. This statement has argued that these issues are crucial to the future direction and legitimacy of the world trade system. We cannot accept that the environmental agenda of the next trade round should be limited in advance to **clarification** rather than possible **changes** in WTO rules; or that social issues and WTO reform should be excluded. We acknowledge however that to win support, especially from least developed countries, it will be necessary to show flexibility and to provide adequate transition periods and capacity-building in delicate fields such as the environment and consumer protection.

The PES Group believes that it is sensible and realistic to work towards a plurilateral agreement on investment policy and that a multilateral agreement on transparency in government procurement is feasible and in the interests of all WTO members. The PES Group insists on the potential benefits of an international competition system with a binding framework of rules, while recognising the major political and administrative challenges involved. We urge the EU and its WTO partners to explore the multilateral and plurilateral options available, taking account of the needs of both industrialised and less developed countries.

The PES Group wants to see a more ambitious reformist agenda, which could be summarised as: **ask more, give more**. We recognise the hesitations of many developing countries towards the EU's agenda on environment, health, consumer protection, animal welfare and social issues. But developing countries also have important objectives of their own, on market access, TRIPS, anti-dumping etc. The Commission has already nudged closer to developing countries on such issues, and should go further. Moderate developing countries such as South Africa have clearly signalled that the EU has not done enough to address their priorities concerning the agenda of the next Round, and that without a more radical commitment to a fairer trade system, there will be no new Round. Mutual support, in favour of a development-friendly, environment-friendly, worker-friendly trade Round could lay the foundations for a new and more progressive world trade system.

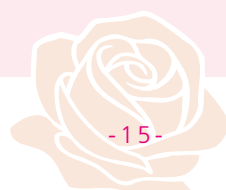


NEXT STEPS

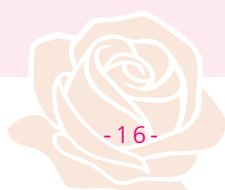
The PES Group invites comments on this policy paper, which will be updated as necessary, and will form the basis of our efforts in coming months to push for a new direction in the WTO, in the interests of development, democracy, social justice and sustainability.

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NOTES



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