

Andrew Mitchell WTO speech – December 2005

Introduction

2005 was a year of such hope and promise for the developing world.

We were going to Make Poverty History.

The public gave politicians a mandate for change.

Britain had a unique opportunity to make trade work for the world's poorest.

A British Presidency of the G8.

A British Presidency of the European Union.

And one of Tony Blair's closest friends, Peter Mandelson, as the European trade commissioner.

But in the final month of 2005, as the year draws to a close, hopes of helping the poorest of the world to trade their way out of poverty are foundering on the rocks of mercantilist sentiment and short-sighted European protectionism.

We have failed to make a real contribution towards freer and fairer global trade.

The Prime Minister has failed to lead the EU towards bold and meaningful reform of the Common Agricultural Policy.

This failure means that the EU is in large part to blame for the log-jam at world trade talks.

As every day goes by, the EU sounds more and more like the puppet of French farmers.

The roadblock to reform

The European Union is truly the road block to reform

Thanks in part to a lack of leadership from Britain, Commissioner Mandelson has come to Hong Kong with an offer on subsidies and tariffs that can only be described as derisory.

Instead of being a force for progress, working with America's offer to cut trade barriers, the British government and its friends have allowed Europe to be the roadblock to reform.

Europe's offer fails to deliver the access to European markets that the poorest nations so need.

And it fails to meet the long-term needs of the European economies.

At the root of the problem is the EU's unwillingness to radically update and reform the Common Agricultural Policy, the elaborate system which 'protects' European consumers from the terrible threat of cheap food imports.

The system is pernicious, complex and truly bizarre.

It is failing European taxpayers, consumers and farmers.

Most importantly it is hurting some of the world's poorest people.

Western tariffs and farm subsidies reduce developing countries' export earnings by billions of pounds every year.

Barriers to free trade in agriculture cost the average family in Britain over £800 per year.

And 80% of agricultural subsidies go to the richest 20% of farmers in Britain.

Poor countries understandably want and desperately need reform of this antiquated system.

The EU attempt to cover the inadequacy of their position by spinning that they have offered dramatic cuts of 70 percent on trade distorting farm subsidies and have offered to cut the average agricultural tariff in half.

But in reality this offer is phoney - all smoke and mirrors.

The amount spent on farm subsidies by the EU will not, in fact, be cut.

The claim of a "70 percent reduction" merely refers to the fact that such subsidies will now fall under a different heading in the negotiations, and not benefit poor countries to the extent implied by the headline figure.

And when the EU Trade Commissioner talks about cutting agriculture tariffs "in half", he doesn't mention that he is talking about the maximum applicable rates – not the rate that actually applies to imports.

In addition, the EU is now demanding that 170 of its most important products be classified as "sensitive" - making them exempt from major tariff cuts.

In real terms, the EU is proposing a pathetic 1% cut in applied tariffs. It is no surprise that this offer has infuriated the rest of the world.

Indian trade minister Kamal Nath said: "I welcome Peter Mandelson's proposal to say he will reduce by so much but then he says 'I want my pound of flesh'... it is a question of giving an inch and asking for a mile, not just asking for a foot but a mile."

Brazil's WTO ambassador, Clodoaldo Huguene, has said that the EU is offering "no real cuts and no real reform".

Alfredo Chiaradia, Argentinean Deputy Trade Minister, complained that: “They made sure that we couldn’t progress. The EU proposal was crafted... to ensure that the round stops in its tracks.”

The EU must stop paying lip service to the WTO and world trade reform.

For these talks to be a success, we must see progress in five key areas.

We need to see dramatic real-terms cuts in agricultural subsidies and tariffs, duty-free access to Western markets for goods from poor countries, and rapid action on the US’s pernicious cotton subsidies. Developing countries should get support to bolster their negotiating capacity at world trade talks.

And within Europe the British Government should provide leadership for the new blocking minority in the Council of Ministers to prevent the EU from retreating into protectionism.

We should recognise the vital importance of the WTO as an important force for growth and prosperity around the world.

Winning the debate on free trade

The failure of Mandelson in Brussels and Blair in London to craft a trade policy that helps developing countries and benefits consumers at home is compounded by a growing belief in protectionism – both at home and abroad.

This is why our new Conservative party leader, David Cameron MP, is right to call for a concerted fight for free trade.

We need to put the case that when Europe offers to adopt free trade, this is not a “sacrifice” but a benefit to all.

After all, the countries which have opened to globalisation are the ones enjoying higher living standards, longer life expectancies, better working conditions, and better recognition of human rights.

They enjoy better, cleaner environments – in part because they can afford to pay for them,

They are less likely to go to war.

After all, countries that are getting rich together have less incentive to wage war against each other.

Indeed, the current “Doha development round” was launched in the shadow of the September 11 attacks.

The war on terror was supposed to have a second prong: an attempt to cut terror off at the roots by tackling poverty.

And, very importantly, free trade delivers economic growth. By encouraging specialisation, welcoming new ideas and encouraging efficiency, free trade reduces costs and raises living standards.

Protectionism does not aid development. Developing countries with open economies are catching up with rich ones; those with closed economies are falling further behind.

The Chinese government has been engaging in the largest liberalisation the world has ever seen.

That policy has delivered nearly double-digit economic growth – five times Britain’s growth – and lifted 200 million Chinese out of poverty.

India’s failed experiment with protection in the thirty years after independence gave way to liberalisation more recently, and with it high levels of growth.

Making globalisation work for all

Some say Africa needs to pursue “targeted protectionism”.

There is, in certain very specific circumstances, a case for limited, transparent and temporary support to infant industries.

But we should be sceptical, and recognise that in practice, governments have a dismal record at picking winners.

Typically, they favour powerful lobbies, not the dynamic upstarts that become world-beaters.

Pledges to keep support temporary do not typically prove to be credible – the ‘infants’ never grow up, and remain dependent on taxpayer subsidies.

Such an approach, even in theory, requires highly skilled, objective government planning.

For countries with poor governance, it is unlikely to be a sensible strategy.

What you get in practice is crony capitalism at its worst.

Those with the best connections, or those who shout the loudest, win ‘protection’ at the expense of the consumer, which hits the poorest hardest.

Moreover, Professor Tony Venables, the Chief Economist of DFID, has pointed out that imports are the flipside of exports.

If you try and protect yourself from imports, your exchange rate will rise and you will find exports difficult.

Furthermore, as the *Economist* last week pointed out, developing countries themselves stand to gain from opening up to the global economy.

This is for two reasons. Firstly, much of the trade they take part in is with other developing nations.

During the 1990s, trade between developing countries grew at twice the speed of world trade as a whole.

Secondly, developing countries themselves stand to gain from opening up to the global economy simply because the poorest countries average over three times the tariff levels of rich countries.

The result is that African exporters can face higher tariff barriers selling to their neighbours than selling to the developed world.

That is good for no one.

And some of these tariffs are on things like bednets and medicines – killer tariffs.

In some cases anti-HIV/AIDS medicines are priced beyond the reach of the poor by mendacious government tariffs and taxes.

As Oxfam has said: “Increasing trade and investment between developing countries by reducing trade barriers could bring real benefits in terms of employment and incomes.”

Poor countries should be allowed to make the most of the areas in which they have the biggest comparative advantage – in many cases, relatively low-cost labour.

Our approach at the WTO

The clock is ticking on the Doha round. This is a race against time.

We have to act before President Bush’s negotiating mandate runs out in mid-2007.

President Bush has thrown down the gauntlet with his commitments on reducing global tariffs. But Europe has stuck its head in the sand.

If Europe does not do more, the noble aim to ‘make poverty history’ in 2005 will have been sold down the river.

As every schoolchild knows, if you haven’t done your homework, you aren’t going to get a good mark in the class test.

And the failure of Europe to do its homework before Hong Kong means that real success here is unlikely to be forthcoming.

The EU's intransigence has placed the credibility of the WTO in mortal peril.

Should the Doha Round fail, countries will be left to make preferential agreements.

Unlike multilateral WTO agreements, such agreements discriminate against those not party to them. They would most likely exclude Africa – the countries we want to help the most.

So if we want the best trading system possible for the world's poorest, then we need to do more to make the Doha Development Round a success.

As part of this, we must win the battle of ideas on trade.

Conservatives believe that free trade *is* fair trade.

We believe that poor people, not their politicians, should be free to choose where they buy their goods and services.

If they want to buy cheaper goods from abroad, and spend the money they save on food or medicines, they should be free to do so.

Free trade facilitates voluntary co-operation between people all over the world.

It is blind to race, creed or religion.

It trade increases the range of goods available to people.

It allows countries to specialise in what they produce most efficiently, thus leading to greater wealth creation.

But it looks like much of this potential wealth creation will be stifled by the failure to reach agreement in Hong Kong.

The Ministerial meeting this month was supposed to tear down the immoral and pernicious barriers that separate people in poor countries from the markets of the rich.

It looks like this won't happen.

The Government has let down all the people who campaigned to make poverty history with its lacklustre efforts to secure free and fair trade for all.

Yet again, the Government has ramped up expectations but failed to deliver.