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**Future Challenges for the Multilateral Trading System**

**Phil Goff**, Minister of Trade, New Zealand

The growth in membership of the *WTO* to 150 nations suggests that overwhelmingly countries today acknowledge the advantages of trade liberalisation - and multilateralism as the best way of achieving that.

The World Bank estimates that if all tariffs and subsidies were removed there would be net welfare benefits to the world economy of \$290 billion a year.

Multilateralism is potentially the most effective way of removing trade-distorting subsidies and tariff and other barriers to trade.

It is also the fairest way - providing a rules-based trading system backed by dispute settlement, which protects smaller, weaker and more vulnerable countries.

We have been negotiating the Doha Round for six years. And have set and . missed numerous deadlines to conclude it. We are now once again on the cusp of either succeeding - or failing - to move the Round forward.

Much will depend on the outcome of G-4 deliberations and the response to the "Challenges" paper put out recently by Agriculture Negotiating Chair Crawford Falconer.

A successful outcome to the Round will be one which creates meaningful new trade flows - in other words, a result at a higher rather than lower level of ambition.

The nature of the reform we are looking at from Doha is incremental rather than radical. Even on the basis of the more ambitious proposals, considerable levels of support and protection will remain.

Special and differential treatment means that developing countries will receive extra time and flexibility to adapt to new requirements. Countries will be able to adjust reasonably gradually to the changes in structure, which need to occur.

Almost everyone can see a path forward to Pascal Lamy's "landing zone", but naturally it requires compromise and flexibility on all sides.

Most particularly, it requires leadership, starting with the G-4, and a readiness to accept that to get net benefits some things have to be given in exchange.

The problem is a political one. The gains of liberalisation - large as they are in total - tend to be diffuse, while the costs are more specific and are resisted fiercely by the interest groups affected.

In the case of my own country, New Zealand, we made the changes rapidly because we did not have the economic luxury of not doing so.

We now have, according to the OECD index, the lowest level of producer subsidies in the developed world, and amongst the lowest levels of tariff protection.

Despite the pain of adjustment, we have benefited from these changes and today enjoy one of the lowest levels of unemployment in the world.

Under the more gradual changes proposed in current WTO negotiations other countries can go part-way down the same path with arguably less severe structural adjustments.

Most countries, including the EU and US, know that removal of subsidies will most benefit their own economies in the medium term.

In a perverse way, however, negotiating with others to reduce the subsidies on the basis of a quid pro quo may have slowed that process, rather than accelerating it.

Are there alternative options to the multilateral path?

Some say the process of consensus over 150 countries renders multilateralism impossible. The Atlantic Council report, for example, recently advocated a plurilateral model.

However, I doubt that that would make it easier to get agreement.

The reality today is that the multilateral process, in the first instance, is being negotiated within a small group - the G-4. It is not the larger group of smaller and developing countries that is blocking progress right now.

And plurilateral MFN deals won't work if they exclude major developing economies - that is if you have big "free-riders".

Bilateral free trade agreements are seen by others as a more practical path to trade liberalisation, and as being more readily achievable.

The proliferation of FTAs, which liberalise trade on a preferential rather than an MFN basis, risks undercutting the goal of providing traders from every country with transparent and predictable conditions of access.

The problem is compounded by the hodgepodge of rules we are seeing under new FTAs.

Bilateral FTAs will also tend to disadvantage those countries that are not part of them. They will invariably lead to trade diversion. They do not have a lot to offer the weakest and most vulnerable developing countries. Their problem is more one of capacity than market access. They also suffer from trade distorting subsidies - the removal of which is not part of the bilateral deals.

Bilateral FTAs do still have their place, and can act as a spur to wider liberalisation. The Korea-US FTA, for example, will send a powerful signal that even agricultural sectors as heavily protected as Korea's will in future have to adjust to real competition.

But bilateral FTAs are not a substitute for the wider reforms that a successful multilateral outcome can produce.

I would like to leave you with two final thoughts.

Special and differential treatment for developing countries is a given. However, S&D provisions need to be consistent with the wider goal of freeing up trade. If we do not succeed in creating new trade flows - into the big emerging economies as well as those of the OECD - the developed world will not be able to sell the deal to its key constituencies.

At the same time, there is a legitimate claim that Brussels, and Ottawa, and Tokyo and Washington are all too often demanding special and differential treatment for their own farmers.

There is an obvious problem in asking countries like India to open up their markets to imported products that can compete unfairly as a result of billions of dollars in trade distorting support.

Lastly, behind the border trade constraints will become increasingly important for future WTO Rounds to address.

And it is likely that these constraints will continue to take new forms.

The current "food miles" campaign, calling for restrictions on food imports that are transported over large distances is one example.

The apparent cause is noble - sustainability and the desire to limit carbon emissions. The argument, however, is flawed - goods transported over long distances often have a much lower carbon footprint when the energy costs of production are added to the equation.

And the real motives by some proponents clearly have much more to do with straight protectionism.

Thank you for the opportunity to provide this perspective.