A brave new world – International Regulatory Co-operation

Introduction by Rolf Alter at the occasion of the first joint meeting of the OECD Committees of Trade and Regulatory Policy, Paris, 5 November 2015

I am very happy to welcome you to this joint meeting of the RPC and TC. The OECD has worked on international regulatory cooperation for many years. Yet, today is the first time that the regulatory policy community and the trade policy community meet to discuss the various challenges related to international regulatory cooperation. I am looking forward to an interesting and productive exchange of thoughts and experiences among trade and regulatory policy-makers. Hopefully, this opportunity will help us to better understand the real impacts of regulatory divergences and the benefits and costs of various approaches to international regulatory cooperation. This meeting aims to identify issues in need of further work so that, ultimately, our joint efforts can help improve policy to raise the quality of life of citizens.

As director of the OECD’s directorate for governance and territorial development, I would like to raise awareness on a couple of points, which I believe need special attention when discussing about international regulatory cooperation.

First, we have to bear in mind that so far regulation is designed to address domestic public policy considerations. Regulation is not a trade barrier per se. Regulation is an important tool of democracies to advance public policy, to improve the lives of citizens, to protect their health and physical integrity and our environment when markets fail to deliver the expected welfare. The domestic focus of regulators is necessary and good. Countries have different public policy objectives and therefore adopt different regulations. Regulatory difference across our countries is to a large extent a manifestation of democracy and sovereignty.

Yet, this inward orientation of regulation may create unnecessary hurdles for international trade and investment. Regulatory divergence may unnecessarily hinder trade in goods and services, limit investment flows, fragment global value chains and reduce economic growth. If we took a closer look, I am certain that we would find that our societies share many public policy objectives and that our different regulatory pathways are more the reflection of history and entrenched regulatory cultures than critical differences in values. In this context, international regulatory cooperation is an absolute necessity not only to limit the costs of regulatory divergences, but also to learn how other regulators are addressing similar challenges, to ensure that we do not work at cross-purposes and to reap much needed efficiency gains in our public sector.

Unfortunately, our understanding of the concrete incidence of regulatory divergences remains limited. And as we do not know how to measure the costs of regulatory divergence, we cannot know about the benefits of international regulatory cooperation. Hence, we tend to ignore these issues or proceed on the basis of guesswork and speculation. The challenges related to regulatory divergence and cooperation are, however, too important for such an approach. A failure to develop an informed, evidence-based approach to international regulatory cooperation will hit us one day and cause severe political and economic problems -
critically, it risks further undermining trust in our institutions. As globalisation advances, businesses and citizens increasingly incur the costs of regulatory divergence or plain regulatory failure. At some point, businesses and citizens will step up pressure and ask policy makers and regulators to deal with regulatory divergence and co-operation in a serious manner. It is therefore about time that governments and regulators start thinking about how to assess the costs of regulatory divergence and how to best engage in international regulatory cooperation to strike an appropriate balance between various public interest objectives, including trade-related economic gains.

Having said that, **I want to emphasise that ensuring that IRC works in the public interest should be a shared responsibility of policy makers and not just of regulators.** For years we have called on regulators to assess the costs and benefits of their regulation and to enact the regulatory options, which promise the highest net benefits and lowest costs for society, the state, citizens, the economy and the environment. This net-benefit approach to regulation is an important achievement of the regulatory policy reform agenda of the last decades. Yet, **successful international regulatory cooperation may require going beyond.** The domestically most cost-effective regulatory option may not be the best option when taking into account the global regulatory environment. As the paper on the assessment of trade impacts as part of regulatory impact assessment suggests, trade-aware regulation requires regulators to have an extra pair of glasses on and understand many direct and indirect effects of regulations within national economies and beyond national borders on global value chains. National regulatory policies are often substantively and methodologically underequipped to deal with the international context. We need to find ways to assess and to understand better the transnational impacts of regulation.

I would like to stress that our discussions should not only focus on the **effect of the flow of new regulation on trade in goods and services but also encompass the combined impacts of the full regulatory stock.** From the Regulatory Policy Outlook 2015 that we launched at the Public Governance Ministerial meeting in Helsinki last week and in Berlin two days ago, we know that the stock of existing regulation is what matters to businesses and citizens. If efforts to promote international regulatory co-operation are limited to new regulations and fall short of addressing the stock, the risk is that the political capital spent to achieving co-operation will not be rewarded with actual and palatable progress on the grounds. Focusing on RIA alone will not provide the solution. We will have to work together and develop an integrated approach to forward planning, regulatory impact assessments, stakeholder consultations and ex post evaluation are crucial to deal with the impacts of regulatory flows and stocks on trade and international economic integration.

Finally, there are examples of co-operation of regulators and trade people in OECD capitals as well as at the multilateral level at the WTO. What have been the experiences with these endeavours that could inform future institutional set-ups for an IRC agenda? Let us work towards a truly joint effort to address this challenge of better managing the interlinkages of our economies.