



Saving the WTO

Washington, DC, United States, 13 November 2018

EU Trade Commissioner Cecilia Malmström

German Marshall Fund

Ladies and gentlemen,

Thank you for having me. It is a timely moment for us to have this conversation. Just a couple of days ago there were celebrations across Europe. Every 11th of November we commemorate Armistice Day – the day that World War One ended in Europe.

It is not so much about celebration, but about honouring all those millions who died and suffered during this terrible war. And this year was the 100th anniversary. It is a special time to reflect on how far we have come since then.

Woodrow Wilson gave a famous speech just a few months after the war ended. It was called the Fourteen Points. It was a statement of the principles that should be followed in peace negotiations. These principles aimed to create a lasting peace in Europe.

Unfortunately, Wilson himself became ill at the beginning of the Paris Peace Conference. So egos and national pride advanced demands different from these points. They sowed the seeds that would lead Europeans back to another bloody conflict.

However, these noble principles can still serve as inspiration for us today, and as Commissioner for Trade, it is his third principle that interests me most. It says, “The removal, so far as possible, of all economic barriers, and the establishment of an equality of trade conditions among all the nations consenting to the peace, and associating themselves for its maintenance.” Because, indeed, trade has always been about more than economics – it is also about peace between people, countries, global order and relationships.

Changing Global Environment

Wilson and his colleagues faced a great challenge. They aimed to create peace in Europe. These days we face different challenges. The war is no longer imminent, but the issues are no less complex.

The problems we face these days are often to do with uncertainty. We see disruptive technologies changing the labour market, large-scale challenges like migration and climate change, and questions raised by emerging markets – in particular China.

And that’s what I would like to talk to you about today. Specifically, its implications for the world order built by the US and their allies in Europe over decades. The body that has underpinned global trade for decades, and overseen a historic opening of markets and integration of economies – the World Trade Organisation.

Created as part of a vision. A vision of a global architecture to uphold the liberal world order – standing against anarchy and authoritarianism. NATO stood against the threat of Russia in the East.

The United Nations aimed to foster cooperation on a grander scale. The International Monetary Fund created financial and monetary stability. And we had the WTO, at that time the GATT – created to make stability for open trade: a fundamental economic freedom.

And America, as in Wilson's time, was the driving force behind this idea. And it worked. The world did not fall to Communism. Peace was achieved in Europe. After the fall of the Berlin wall and the collapse of the Soviet Union, Europe promoted democracy as the natural choice for countries who were behind the Iron Curtain.

Now this order is being challenged. On the one hand, by market distortions and unfair practices by non-market economies, such as China. But on the other hand, by the very country that sought to build this system – the United States – who threaten to destroy the order they had created rather than to reform it.

The United States are longstanding and important allies of ours – and we agree on many things. We agree that the system is not perfect. We agree on many of the challenges it faces, like unfair state subsidies. But we do not always agree on the solutions.

The EU has a new plan to invigorate and revive the WTO. And we want to work with the US to do that with us.

Organisation In Crisis

Because the system is falling apart – it's easy to see why. The WTO was created from the GATT in 1995. At the time, there were 16 million users of the Internet – today there are 4.2 billion. At that time countries like China, Russia, Saudi Arabia or Vietnam were not even Members of the WTO.

Indeed, some current members of the EU were not Members. Today, we have nearly universal membership, with 164 members and 23 observer governments. In 1995, the economic models of its Members were all the same. Today the membership is much more diverse. This has brought growth and dynamism, but it has introduced a new kind of complexity too. The system needs an update.

First, we need to save the Appellate Body – the dispute mechanism of the WTO. Without proper enforcement of the common rules, they don't mean anything.

Second, we need to update the rulebook. In 2018 we are still using the rules of 1995. Little has been updated, little has changed – indeed, some rules are the same as they were in 1947.

Third, we need to strengthen the processes of the WTO itself. Improving transparency, and we need to establish the process to resolve trade tensions at an early stage.

So this is what we need to do when it comes to updating the WTO – if we want it to survive the century, and become a modern, relevant organisation.

Saving Appellate Body

So starting with the Appellate Body. As you know, the dispute settlement system is supposed to enforce the rules that have been set up together. It is sometimes called the crown jewel of the WTO, and it's a system that served us well.

The European Union, the US, and a handful of other countries who are the most frequent clients of the Appellate Body system have been well served by it. But now the United States have made the appointment of arbitrators dependent on changing the system. And soon we will not have enough staff to operate. Within a year we will run out of arbitrators, then the system will collapse – and the rules cannot be enforced, so they will have no meaning.

We do understand the US's frustration, but we need to see appointments of Appellate Body Members start again. Because changing a system like that takes time. We have listened to

some of the concerns about the way the Appellate Body functions, and together with other countries we are working to address them. We want to address the issues while safeguarding the essential principles of the binding nature of the decisions, the independence of the Appellate Body and the two-stage structure. This will keep the WTO effective.

Updating The Rulebook

In parallel to saving this system, we need to update the rulebook. For example, we need to address the challenges posed by China's state-led economy. This leads to massive industrial subsidies and forced technology transfer. There is no point in enforcing rules that are not fit for the purpose.

As I said, we wrote the current rulebook decades ago. It was appropriate at that time, but the world has changed. So the new rules need to reflect the economic realities. That we need to do. We also need to create a new ecosystem, a balance that will allow the whole system to function.

For instance, we can let Members move forward on certain topics at different speeds. This will stop narrow interests blocking the process of going forward, and will keep the WTO relevant.

Systems Of WTO

Finally, we need to update the systems of the WTO itself. We need to improve transparency. We need to establish processes to resolve trade tensions at an early stage. We can do this by improving Members' notification of trade measures.

Of course, today that is not fully functional. There should be real rewards for following the rules – but there should also be penalties for breaking them. This will make the WTO efficient.

So things are moving, many countries are now engaging in the reform process. This is a positive development. We hope that we will bring this to the G20 in Buenos Aires in a couple of weeks and carry it further. This is, of course, only the starting point of a very long process.

And in this process the US is a key partner. We are working with the US and Japan to update the rulebook. We are trying to write some of the new rules together, around unfair practices by China. We hope that through productive engagement and working together, the US will see the benefits of the system that they built themselves.

Committed Global Traders

The European Union are committed open traders. We believe in open, rule-based trade. Without the WTO, there are no rules. International trade without the WTO would be anarchic. Countries would be bullied, companies would fall victim to unfair practices – there would be no reliability, no stability. So we need to repair and stand up for the system.

Over the past while in Europe we have been working – building a circle of friends who agree with us. Countries that believe that open global trade is a good thing. That trade agreements can be win-win, if they are fully anchored in the multilateral system. And these connections we are building with these countries are made through trade deals, but of course they create much deeper links as well.

We recently finalised negotiations with Japan. When fully implemented it will account for one quarter of the world's GDP. We have a political agreement with Mexico, and an agreement with Canada that entered into force a year ago, boosting investment and trade.

We have struck agreements with Singapore and Vietnam, hoping they will enter into force next year.

South Korea is in force for a few years. We have opened negotiations with Australia and New Zealand this summer, and we are negotiating with Chile, Indonesia, Tunisia and the four countries of Mercosur.

These agreements are not only about goods. They are modern agreements – fit for the 21st century. Japan opens up its service market to EU firms. Companies will be able to bid for more public contracts – in particular, in railway contracts.

Our agreement with Canada allows professional qualifications to be recognised on both sides. And in our agreement with Mexico is our first ever to have a chapter on anti-corruption. Because corruption is not only bad for democracy and social fabric of society – it is also very bad for business.

So, we walk the talk – we have updated old agreements, we are doing new ones, and we want to update the WTO as well. There is a lot to be gained from bilateral agreements, but much more to be lost from a failure of the multilateral system.

US Relationship

So a final few words on our relationship more broadly with the US. As you recall, earlier this summer President Trump met with the President of the European Commission, Jean Claude Juncker. They met here in Washington, and they decided that they were both committed to try to find a positive trade negotiating agenda. They created an Executive Working Group to try to find common ground.

We are identifying possible outcomes and making progress – like in liquified natural gas and regulatory cooperation in some areas. I am seeing Ambassador Lighthizer tomorrow to take stock of where we are, and see how we can go forward. We are also talking about WTO reform – like the working group with Japan. We hope that we can talk this further.

Conclusion

Because we do live in an increasingly turbulent, multipolar world. Geopolitical shifts, threats and harsh rhetoric. Emerging powers and environmental disasters. Unpredictability and instability. And in the coming years 90% of global growth will happen outside the West.

We need to be out there.

We need to engage.

And in the face of this, partners, friends, old allies such as Europe and the US should stand together.

Like in the past, we should work together to institutionalise order in the world. And update those institutions. So that we can secure global trade – and indeed, our own place – for decades to come.

Thank you.