

THE COALITION OF SERVICE INDUSTRIES HOSTS PASCAL LAMY  
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TAXELL: Dear ministers and excellencies, dear colleagues, ladies and gentleman, good morning all and everyone. We are honored to have with us as our keynote speaker this morning Pascal Lamy, the director general of the World Trade Organization. Pascal Lamy has brought an enormous dedication and deep professional expertise to his role as director general. His mastery of his brief and his detailed knowledge of the complex issues that lie at the heart of the Doha Round negotiations are second to none.

Europe -- we have for many years been aware of Pascal Lamy's considerable qualities. As if the (inaudible) name (inaudible) Pascal played a key role in saving the European internal markets, including the liberalization of services from which non-European industry also continues to benefit. As European trade commissioner, he made a strong conceptual contribution to the mandate for the WTO Doha Round, including the services direct (ph) of the negotiations.

As the head of WTO, Pascal Lamy has tirelessly worked towards the conclusion of the DDA pushing for balances out that would benefit all the members. It is a tribute to his contributions that the WTO members decided to reappoint him to a second four-year term.

A (inaudible) the Doha Round is not possible without services. Services create new jobs and act as a source of growth. This is evidenced by many countries where services sectors have been large contributors to economic performance and development. We at the European Services Forum have supported this summit from the very beginning, and we are happy that we are here. It is an opportunity to illustrate and highlight the importance of services in all our economies and globally, and to urge our governments to grasp the enormous economic benefits that can flow from a broad liberalization

of services trade.

The following session with the services and development there are numerous examples demonstrating the positive effect from the opening of services markets to foreign investment and exports has on development. The benefits are most immediately obvious in services that create key infrastructure, such as transport, telecommunications and finance that enable other functions of society and economy. Indeed, all services activities contribute greatly to economic activity, and this is greatly multiplied when services are traded internationally.

At the Doha negotiating table on services, development and gains are an offer for all countries, regardless of economic status. Growth and development require not only binding or existing practice, but also deeper reforms and the further opening of markets and we should not wait for the economic crisis to pass. We need to act now to allow growth and development to flourish.

With level playing fields and non-discrimination, we allow companies to evolve and provide buyers more choice and the most competitive state of the art services available. With open markets and enabling business environments, we promote the transfer of know-how and the management expertise. With reforms that bring legal security, we encourage foreign investors and infrastructure services to participate in a sustainable development of other countries.

These are convincing reasons to engage urgently in the final steps towards a conclusion of the DDA that will include a sound result on services liberalization. In this context, I am honored to introduce to you Pascal Lamy.

Mr. Lamy, the floor is yours.

LAMY: Well, thanks, Christoffer, for this introduction. Let me start by saying how happy I am to be back into the services family. Lots of well-known faces. Maybe you will wish faces be renewed from time to time, for instance because negotiations will close and then we will go to another stage. That's not yet the case, so we still have to remain with the same well-known services family for some time.

You all gathering here in Washington could not have come at a more opportune moment. We're just a year past this catastrophic collapse of Lehman Brothers, and since then, as you know, we faced the deepest and most global economic crisis since the 1930s. The effects have been devastating and no economy on this planet has been spared.

But, thankfully, through the concerted action of governments and international organizations, the worst has been averted. But there certainly is no room for complacency. While fresh buds of recovery are appearing here and there, the situation, in my view, is still fragile. World economy growth has slowed abruptly in 2008 and in the first part of this year. The contraction in demand led to a slowdown in production, and as a consequence of that, in international trade, which the transmission bed between demand and supply.

World merchandise trade is projected to fall by a full 10 percent this year, the worst result since the end of the Second World War. Foreign direct investment, which sometimes in the other side of the coin, will fall by more than 15 percent this year, which is already the number we had last year.

The World Trade Organization has responded, I believe reasonably quickly, by cautioning against isolationist policies, and one with my first initiative. After the beginning of the crisis was to establish WTO monitoring mechanism, a type of WTO radar screen, to help members fight against inevitable domestic protectionist pressures by insuring transparency in the measures taken in response to the crisis.

So far, in large measures to the WTO system of disciplines and rules, we have not seen a tsunami of protectionism. But all is not well with the global economy. Our monitoring reports show that trade restrictive measures are currently outpacing trade facilitating measures by a ratio of 2:1 since last year despite well known G-20 pledges to refrain from such actions.

Unemployment remains high and the WTO (ph) tells us that it will continue to rise. So the worst of the crisis may be behind us, but a sudden chill wind of protectionism can still freeze the buds of recovery. And this is why we must remain vigilant to ensure that the international trading system remains open.

The best way to achieve this objective is no secret. In order to keep trade open, keep opening trade and recommit to the multilateral trading system. Many economy commentators have described and analyzed the factors involved in the financial crisis, and if you allow me as a former banker, which is services industry, let me venture into a few thoughts. First, on the crisis, I think the verdict is now clear, sort of the left side of the bench there was nothing right and on the right side there was nothing left. Thankfully...

(LAUGHTER)

... thankfully, that's not the case with the trading system.

More seriously, it does seem to me that rather than any economic analyst, it was perhaps Charles Dickens who best captured the prevailing situation when he once said, and I quote, "It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity."

While Dickens probably did not have the global economy in mind, I think his words are particularly fitting. So, if I take some liberties with him and continue with a tale of a crisis and a casualty, in this tale the villains of the crisis are macroeconomic imbalances, lax supervision and regulatory failures. You all know the story well. What started as a financial crisis fueled by insufficient regulation, or insufficiently well-implemented regulation, turned swiftly into the worst economic crisis.

Trade, or more specifically, financial services prioritization (ph) was neither a villain nor a cause of this crisis, but a casualty. As you all know, and I think it's important to make this point again and again, especially given what happened in the financial sector, in the world of gaps, liberalization is about opening specified sectors to foreign competition on a non-discriminatory basis.

Services liberalization in WTO terms does not mean deregulation. It has long been recognized that opening up certain services, such as financial or telecom services, may require a regulatory framework in order to protect consumer interest and to ensure competitive markets. So let me repeat it: Opening a services market is one thing -- you can open it more or less. Regulating it is another thing. You can regulate it more or less. You can open and regulate, close and deregulate, open and irregulate (sic), or close and regulate.

At this moment of this, sort of, service negotiation I think it's very important that this point is clearly and well understood. If you open your market, the commitment you take is that you will regulate your domestic operators and the foreign operators on your market the same way. You know, taking the commitment you will deregulate, you are taking the commitment -- you will implement the regulation the same way for these two categories of actors.

And it is no coincidence getting a bit more into the detail that the GATS and Exim Financial Services preserve the right of members to take measures for prudential reasons even if they do not conform to its obligations under the agreement.

Now indeed the unsung hero in the economic recession has been the services sector. While goods trade has limited, services trade has been comparatively quite resilient and re-energizing of the services sector will be key to stimulating economic recovery. Services are, after all, vital for leveraging production, distribution, consumption, in the world economy.

And during the crisis, we know that the liquidity crunch badly affected the availability of trade finance. This part of the financial system that poisoned (ph) international trade, and it was particularly that without the continual flow with this vital service, trading growth would have been even more hampered.

Now the benefiting factor of services goes, of course, much further than trade finance. And I don't need to convince you that services underpin virtually every economic activity needed in the design, in the production, in the distribution of other groups and services, and it's not surprising that since, let's say the '80s, world services trade had actually been growing more rapidly than global production of the merchandising trade. Today, more than half of annual world EDI flows are accounted by services.

So they may no longer be the new kid on the trade block, but services trade still has some way to go to reaching its full potential. Even taking into account the real size of services trade may be underestimated since international statistics do not cover all trading services as defined by the GATS. There remains a tremendous scope for growth.

Recent research by the Gold (ph) Economic Group at the Chans Pou (ph) in Paris showed that even if there are no government services, the cost of trading services internationally are at least twice as high as for goods. One may quibble over the figures, as trading services is subject to a wide range of regulatory measures that are not always easily quantifiable, but even a rough estimate suggests that the removal of these costs will have a very significant global impact.

And indeed, one consistent message from a broad range of economic studies, is that the gains from further opening of trading services far exceed those for opening trade in goods.

Now in the aftermath of this financial crisis we are experiencing a worrying erosion of a global economic confidence and one symptom of

this erosion has been hesitation of governments in going forward with multilateral trade commitment in the area of services at all. Commitments under the GATS which were mainly taking some 15 years ago no longer reflect market realities in most cases.

Markets, governments have moved militarily (ph) but most of these market opening is not "bound" as we say in our jargon in the WTO. And some recent policy responses on the economy crisis have shown the importance of a WTO commitment to preventing backslide, what we call in our jargon of the water which is the difference between your applied policy and your bound policy is in the services area -- large -- also exists in the tariff area and the value of this, quote, unquote, "water" is certainly one of the rare asset values that has a grown up with the crisis.

Our members who last year or two years ago were sort of discounting the value of that in the system are now much more aware that given that this marginal maneuver has been used -- unfortunately upwards in some cases during the crisis -- it has a value which it did not have before.

Now to speed up global economic recovery, we need to show our people's face in an open international trading system. We will need to demonstrate that continued policy and regulatory reform in favor of services trade is vital to supporting economic recovery.

And this may be clear to all of you attending this conference. But you are the converted. The challenge is to take this message beyond these walls. Sectors such as transport and telecoms, finance, distribution are, after all the real backbone of our international trading system. And other sectors such as energy or environment, they hold a huge potential in particular in the fight against climate change.

Now, you coming from the private sector have a key role to play. As the engines of growth and jobs, your active support and engagement is needed to restore global economic confidence. And one of the very obvious steps that can be taken in this direction, is the timely conclusion of the Doha (inaudible) Round. After all, you, as the private sector, will be the main beneficiaries of the new global trade deal. So we, the WTO, need you to get involved in these negotiations and to work even more closely with your governments, with your colleagues in other countries on the specifics so that to drive the round towards completion.

As you know, world leaders have set 2010 as the date for the

conclusion of the round. Now, it's time to walk this talk. As you also know, the Hong Kong Ministerial Declaration contains a world map for the completion of the service negotiation. It also provides a clear set of objectives across all modes of supply and if we look back at this July ministerial, just over a year ago, many would view it as a high water point in the services negotiation.

This signaling conference gave important indications of possible commitments that surpass the most observers' expectations at the time. Now these signals need to be elaborated upon and translated into concrete initiatives. Now, it remains true, however, that the failure to achieve a final breakthrough on agriculture and manufacture has slowed the pace of progress across the board. Not as many headlines may have been devoted to services as compared to agriculture and goods, and some commentators have even gone as far as to argue that services were sort of being left behind.

But make no mistake, services are a vital market package (ph) of this round. There will be no Doha Round without a substantial services package, even more so now that many emerging companies with the difference of previous rounds of negotiation in the GATT, many emerging countries are now on the offensive on services. So a development round is also in today's plan. A round where developing emerging countries have offensive interest.

Looking ahead, the next logical step in the market access component of the service negotiation is the submission of final offers and draft final schedules by those WTO members who participate in the services negotiation, we know that it's very smaller number than the membership at large.

A decision on timing for submitting such offers will be extremely helpful in re-energizing the negotiations, however it is understood that such timing cannot be determined in isolation from the rest of the items and in particular agriculture and manufacturers and this question of the articulation of what we call "modalities" in agriculture and manufacturers.

Scheduling in agriculture and manufactures, which we are preparing a technical level and the final offers in services, is still something that needs to be worked out and we will be working on that very precise point next week in Geneva, which is the week of the month where we have senior officials following the Pittsburgh Summit, we now have each month, for one week, at senior officials in Geneva in order to try and move the train forward.

Now, we will also need to progress on the rules-making areas, whether on the domestic regulations or on the GATT rules, including emergency signal measures, subsidies, government procurement, we will very soon need to look closely at what can practically be achieved in this round on these areas.

Another area or priority implementation of modalities for the special treatment of the world's poorest economies, so-called ADC waiver, the progress achieved in this area, in my view now, can be expedited in order to establish a mechanism in aiding members to grant special priority to services of export from these poorest countries.

Now, my prognosis on the next steps which applies to services as well as to other areas of the round has not changed. The task that we face is a difficult but far from impossible one. I understand, and that many of you would be frustrated by the low-base of the Doha Round and by the fact that the fate of the service negotiation is linked to the other areas of the negotiation.

But, to be very frank, I think it would be disingenuous to believe that service negotiations would be easier outside the Doha Round. Any agreements on services outside the Doha Round would be any event need to embrace the major services trader at which today are many emerging countries to be worthwhile.

Would it be easier to convince China or Brazil to further appoint its financial an environment services sector outside the Doha Round? Would it be easier to convince E.U. or U.S. to further appoint its temporary entry for professional services providers outside the Doha Round? I doubt it. Which is why I believe that it's worth throwing your weight behind the Doha deal -- a big part of which is already on the table.

I understand your desire to see an ambitious package emerge, and I cannot but support that stance. This is what makes eminent economic sense today, and since this is what was mandated in 2001. But if you share this objective, your voice needs to be heard in the corridors of the WTO, in your various parliaments and congresses, and in the discussions with your negotiators.

We have in my view the tools and the means to complete the round in 2010. What we need now is the leadership to close this deal. I began with Dickens, so let me finish with Moliere, who once said, "It's not only for what we do that we are held responsible, but also for what we do not do."

Thank you for your attention.

So, I understand we now have a bit of time for questions, concerns. I presume that there are microphones around. OK so I have...

(CROSSTALK)

QUESTION: Richard O'Toole (ph) of the Bureau of (inaudible) Services Forum. I cued (ph) director general for your presentation on the state of the Doha Round. We are -- we have very much followed a lot of your logic. But we have -- we're puzzled on one point, and that is the visibility of what is really on offer on services.

Because while it's true that we have welcomed the signaling conference as giving a good indication and we've listened very closely to the negotiators when they tell us what they have heard from their bilateral discussions with their counterparts, we still lack huge visibility on what's offered.

And what we hear does not create an impression that the level of ambition on the services side has yet reached a level that business would consider necessary to welcome the result in the round. And it seems -- you talked about the frustration of business -- it seems to us that the process of waiting for modalities and agriculture and goods to get more visibility on the offers that are on the table is part of this stasis that doesn't seem to be able to move it forward.

How can we -- is there a way we can move beyond the sequencing issue to get more visibility on the offers and so there could be a more of a clear vision of what the true commercial benefits of the services offers of that can be?

LAMY: OK, I have one -- and the last road (ph) under, you wanted to ask a question? Please go on, we'll take three or four so that I can adjust the level of supply to the level of demand.

(LAUGHTER)

Which is what trade is about as you all know. Yes? Do you need a microphone? Could you provide a microphone to this lady please?

QUESTION: Good morning, Mr. Director General. Your message was clear that the timing of the...

(CROSSTALK)

LAMY: Sorry, can you, so that everybody knows your name?

QUESTION: OK, I'm Jutta Henig from Inside U.S. Trade. I'm wondering, your message was clear in terms of the timing of the final offers still being open, but what do you see could happen by the time of modalities for NAMA and agriculture in services? A paper perhaps elaborating the commitment of the signaling conference? Or when, or what could we expect at that time that would give some clarity of where services is heading?

LAMY: Yes.

QUESTION: Sir, my name is Shank (ph) Desay (ph), I represent (inaudible) I.T. Industry Association called Associo. I have a question that you made very clear remarks on many issues, thanks for that. But on the hue off, you gave an example. You said that movement of people, for example you said, has to be sorted out.

Is it possible to do it across countries bilaterally? You said you had some doubts whether it could be done, and you thought that, you know, it is only WTO would be able to sort it out in a better way. I just wanted to understand nuances and details and what are your thoughts behind this particular observation? Why do you think it will be difficult to do it outside WTO and what is it that WTO is make it happen faster, better. I just want to understand details beyond the talk, thanks.

LAMY: OK, yes, one more and then we'll take one more and I'll go (inaudible).

QUESTION: Good morning I'm Shirley-Ann George with the Canadian Chamber of Commerce and the Canadian Services Coalition. We have a new deadline, 2010. And you, like us, have suffered from deadlines that have come and gone. And when we're asked a question why is this deadline real? Why do we think that we'll actually see something in 2010? Do you have any new information or new assurances that this deadline will actually be the one that we can record in history?

LAMY: OK. Question by Richard O'Toole. I understand this frustration by you in that what's on the table at this stage of the services negotiation which as we know works by request an offer is not yet that clear.

So that your own capacity to assess the value -- how much of the

existing water is locked in, how much more than that do people expect?  
I understand this.

Now, it stems from two sources, in my view, one of which we cannot help, which is that service negotiations still are based on request, offers, sector mode.

So it is inevitably a very complex matrix. I am all in favor, and I am pushing for, something which in the future would be a better representation of how much an economy is open in terms of services and you know we're working with OECD on this in a sort of economic research way, but it will take time. So for the moment we have this medieval technology which was the way Paris was negotiated in the 1950s and which still remains on services. And again this is inevitable but understanding a matrix with, you know, lines and columns inevitably is complex now.

Second source where things can improve is tactics. One of the reasons why your negotiators at large are not very clear about exactly what's on the table, is that they want to keep their cards as close as possible to their chest. In a sort of basic rule being that once you show a card it's pocketed and you're not that sure that your partner is going to do the same thing simultaneously which is by the way why the final round of request and offers has so much importance.

So, the real practical question is: Can these be relaxed? Can they be confident enough between themselves that there's going to be no cheat? And this is a question of ambiance, and it relates to the question of the link with agriculture and industrial modalities.

In many ways, scheduling in agriculture, scheduling in industrial tariffs, scheduling in services, is very much the same thing. And we all know that at the end of the day the legal commitments have nothing to do with modalities. What we, at the end of the day legally binding is the schedules. So the real question is: What is the link, what's the sequence between scheduling agriculture, tariffs or subsidies, scheduling industrial tariffs, and scheduling services commitment? That's the real question.

Now, for the moment you have two positions on the table. One camp that says Hong Kong decided on a sequence, which is that you only start your final schedules and services after modalities have been adopted -- that is, once you started scheduling agriculture and industry.

Now then there's another camp, that says OK, but you know, given

that for instance some WTO members have insisted that before we go to the final scheduling on industry for instance, we would like to have a clearer understanding of exactly what's going to be scheduled; sort of how flexibilities, whether it's plus or minus formula in industrial tariffs, how does this work exactly? Why not do the same in services? Which is a sort of pre-scheduling testing where the beef is? So that there's no surprise at the moment when there is scheduling.

I am describing these two positions because that is what I have to do mutually as WTO D.G. Now, is there some sort of possible compromise that would offer you in the services area, the sort of same sort of confidence of what's going to be there so that scheduling is no surprise?

I personally believe it makes sense. But this will need a bit of discussion and convergence between these two camps and next week maybe one occasion of trying to address this issue.

So I think I have also answered the question by Inside U.S. Trade on this.

On mode four, why do I believe that mode four has a nicer bed in multilateral than in bilateral? Simply, because it happens that trade negotiations still have a rather strong mercantilist flavor.

Now we may like this, or not, I discern as you do to tons of extremely competent economists who tell you and me that market opening is something that is so good for your economy that you should do it by yourself unilaterally, including mode four. The simple political reality is that it doesn't work this way.

And I would be surprised if, in the case of E.U. or in the case of U.S. which are the two examples I have taken -- going to Congress or going to European Parliament and saying, "Look, guys" -- especially here, where as you know, that part of the service negotiations has to do with the judiciary and not with the trade people on the Hill -- a good economist is going to explain to you that opening the U.S. to mode four is great for the U.S. and please do it. Won't work that way. Won't work that way.

You need a trade off. Now, what then will India, to take this example, exchange against an improvement of mode four access into the U.S.? Agriculture? Industrial tariffs? Not much in that, that would on its turn easily go through a bilateral trade-off with the U.S. through the Indian parliament.

And that's the basic explanation why, for the moment -- for the

moment, and I'm not saying that's the right thing to do for the future, but for the moment -- punching twenty topics in a single undertaking which is terribly cumbersome, has remained a political necessity. And again, I'm not saying that we should do that in the future, but for the present, that's what we have to do with the round.

Final question, on the G-20: Why did the G-20, sort of, elaborate this 2010 deadline? My own sense for attending these summits is that it didn't come so much from the, sort of, trade side, it came from the macroeconomic management side.

It came from the fact that you have much more developing countries around the table of the G-20 than you had, by definition, around the table of the G-8. I attended many, many G-7, G-8 summits. I attended the G-20 summits. The big difference is that trade has become an issue in itself because you have around the table Brazil, Indonesia, China, India, Argentina and a few others.

And these are -- around the G-20 table, these are the leaders that push the trade. So they don't push for, you know, a coefficient plus or minus here and there in the Swiss formula for reusing industrial tariffs. What they know is that in this crisis, keeping trade open is a major importance for them and that locking in the round on the basis of what's on the table, which is what they want -- not for me to say again whether they are right or wrong -- but this is what they want.

And this is how this two-attended (ph) line came out of the G-20. It came out sort of the existence of the G-20, not so much because there was a very long and ancient background of familiarity with WTO negotiations. So it is crisis related and let's say, geopolitics related.

OK, we'll end this first part of the morning, thank you a lot for your attention.

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