



INTERNATIONAL TRADE: DOES EUROPE PROTECT?

**CONTRASTING VIEWS
OF PASCAL LAMY AND MOGENS PETER CARL**

■ **INTERVIEW CARRIED OUT BY ELVIRE FABRY**

MARCH 2018

**EUROPE, A VALUES-
BASED POWER**

#TRADE

#GLOBALISATION

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SENIOR RESEARCH FELLOW AT THE JACQUES DELORS INSTITUTE**

PASCAL LAMY



Pascal Lamy holds an MBA from HEC, and also studied at Sciences Po, and ENA. He began his career as a civil servant in the French Inspection générale des finances and in the Treasury. He subsequently became an advisor to the Finance Minister Jacques Delors, and then to Prime Minister Pierre Mauroy. In Brussels from 1984 to 1994, he was Head of Cabinet to the President of the European Commission, Jacques Delors, including the role of G7 Sherpa.

In November 1994, he joined the team responsible for the rescue of Credit Lyonnais, and later became CEO of the bank, led at the time by Jean Peyrelevade. From 1999 to 2004 Pascal Lamy was EU Trade Commissioner in under Commission President Romano Prodi. Between 2005 and 2013 he has been Director General of the WTO. He is President emeritus of the Jacques Delors Institute.

MOGENS PETER CARL



Mogens Peter Carl left Denmark at a young age to pursue an international career. After Sevenoaks School, he earned a M.A. at Cambridge University, followed by an MBA at INSEAD. A senior official at the OECD and Senior Economist at the World Bank, most of his career has been spent at the European Commission, where he climbs the ranks to become Director-General for Trade. He was then Director-General for the Environment, focusing on the fight against

climate change and the creation of the European Emissions Trading System (ETS). He left the Commission in 2008 to join J-L Borloo, then Minister of State for Energy and the Environment, as his representative for Europe. In 2009, he left his official positions and pursued various consulting assignments in the fields of international trade and the environment. He is a Senior Advisor to GIDE and President of the Association «IP Europe», which promotes investment in European industry R&D.

ELVIRE FABRY



Elvire Fabry¹ is senior research fellow for trade policy and Brexit, at the Jacques Delors Institute. She is the author of : “Transition: The Hitchhiker’s guide to the Brexit galaxy” (with Marco de Toffol, February 2018, Jacques Delors Institute), “Protecting without protectionism?” (11 July 2017, JDI), “Trump trade: more bark than bite?” (21 April 2017, JDI), “Fear of TTIP, globalisation, or a middle class downgrade?” (3 May 2016, JDI), “The reality of precaution: US-EU comparative analysis” (with Giorgio Garbasso, July 2014, JDI).

1. Elvire Fabry thanks Marco de Toffol, research assistant at the Jacques Delors Institute, for his contribution on this interview.

INTRODUCTION

The conduct of European trade policy, long seen as the responsibility of technocrats and experts, has become an issue of public debate that rallies civil society and arouses strong emotions. Both its purpose and its effectiveness are disputed, and with those the legitimacy of how this policy is devised, negotiated and ratified. Both Pascal Lamy and Mogens Peter Carl have several decades of experience in conducting trade policy at both the EU and multilateral level. They even worked together when the former was EU Trade Commissioner (2000-2004) and the latter was Director-General of the Commission's Directorate General for Trade (2000-2005). They compare and often contrast their analyses, opinions and convictions during this interview carried out in light of what has happened since.

1 ■ THE DISPUTE OVER GLOBALISATION

How would you assess the redistributive impact of international trade on employment, which is at the heart of this debate?

Pascal Lamy : Globalisation, according to David Ricardo and Joseph Schumpeter is a process of intensified trade based on the exploitation of comparative advantage and the dispersion of the production processes of goods and services, is an efficient and painful process: "it works because it hurts" and "it hurts because it works". The problem, which is concealed by the dispute about globalisation, I believe, is a dispute about capitalism, and is of a social rather than a trade nature.

The opening up of trade, in the traditional sense, meaning the reduction of barriers designed to protect producers (customs duties, subsidies, regulations of service contracts, of procurement contracts, etc.), generates both fear and pain. According to the ability of the social systems of the countries concerned to buffer these shocks, by dealing with the issues of mobility, flexibility and retraining, and by creating social security and unemployment safety nets, among others, can either go well or not at all.



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Let's take the example of the end of quotas on textile imports, which now dates back to 2005. This took place after a 10-year transition period, which helped to avoid a sudden shock. Europe is a textbook case as it was the very same trade policy that led to the disappearance of Multi Fibre Arrangement and to the opening of textile and clothing markets for Europe, whereas the industrial and social policies remained national.

Some countries quickly stopped making shirts and started making technical fabrics for tyres or airport tarmac. Others continued making shirts and socks and their business plummeted. This was not due to EU trade policy but rather to the reaction of economic actors. Obviously, when it was necessary to stop making shirts and start making technical fabrics for tyres, people had to be trained as these professions are different: they set to it and they succeeded. Those who had been making low quality shirts were decimated by Chinese competition and ended up unemployed. This is an important point that explains a lot of elements in the past and some of the anti-globalisation reactions.

Criticism of the negative effects of globalisation has nevertheless intensified these past few years.

Lamy: On the one hand, globalisation has intensified; on the other, the buffers that existed have weakened. Today, globalisation is more brutal because it is more efficient, but the crisis of our EU social systems, even though they remain incomparably superior to what you can find elsewhere in the world, did not buffer the shock because the number of workers who lost their jobs due to globalisation, without having access to a retraining and without being able to find work, was too high. The fiscal austerity that accompanied the 2008 crisis also eroded part of our social security systems, which explains the increase in what we call populism. If Donald Trump was elected in the United States and not in Europe, and if Brexit took place in the United Kingdom and not on the European continent, it is because the US and the UK are characterised by quite a substantial difference in their systems to reduce social insecurity. Europeans spend 45% of GDP in redistribution, whereas Americans spend just 35%.

While trade opening is often painful, is it always effective?

Mogens Peter Carl: I wonder about its effectiveness, but also about its purpose and its fairness. The theories propounded by the economists cited by Pascal are based on unrealistic hypotheses. They are founded on the assumption of the existence of efficient markets, whose interaction leads to a rational distribution of resources, Adam Smith's famous 'invisible hand'. This poses two problems. Firstly, it is wrong, markets are more often than not anything but 'perfect'. Secondly, this completely neglects the human, ethical and social aspect. The spirit of the time, which prevails in most chanceries, is a perverted version of the utilitarianism that advocated the happiness of the greatest number, in complete disregard of those left behind.

In terms of efficiency, let's take the age-old question of the exchange rate. For the past fifteen years, between the euro and the dollar, the range has been between 0.95 and 1.47, representing a variation of around 50% which has absolutely nothing to do with trade flows or the real economy. It is due to the differences in interest rates, risk perception, etc. The problem is that, during this period, once again with no link to the real economy and our trade with the US or even with other countries using the dollar as the exchange currency, the relative competitiveness of our European businesses has been affected, at certain times, by the equivalent of a customs duty of 50%, and at others by a 50% subsidy. Now, the impact on the real economy is obvious and destroys any notion of truly rational distribution of global production, between us and the countries using the dollar either directly or indirectly.

During this period, if we dared touch a customs duty by slightly reducing it by 2% or 3%, this led to cries of alarm everywhere. So, what can be done when one is confronted with this equivalent of a customs duty or a 50% subsidy, when those in charge of trade policy have absolutely no control over the exchange rate? Both this and China's entrance for me invalidate the argument according to which the 'free market' leads to the proper distribution of resources among countries. How can we trust such distorted markets?

The only framework in which this exchange rate volatility does not exist is the euro zone, but it must be reformed so that its members do not carry out de facto devaluation at the expense of others. It is within a Monetary Union that the removal of trade barriers, in conjunction with a series of other measures (concerning competition, the removal of technical barriers, social protection, taxation, etc.) that indeed this can be effective and fair, as one may hope has been the case in Europe since 1958.

Lamy: Concerning the exchange rate, I do not agree for several reasons. I had the opportunity to closely examine these issues when I was Director-General of the WTO, which has an excellent economic study department working on this issue. The Brazilian Finance Minister at the time, Guido Mantega, invented the notion of a currency war by considering that as the Brazilian currency had strongly increased in value, this had to be compensated by increases in customs duties, without which the Brazilian industry would have suffered. We examined this very closely at the time and the calculations confirmed what we have always known: in the medium-long term, exchange rates have no impact on the relative competitive position of countries. In the short term it can have an impact, although there is an entire system of market mechanisms, of hedging, or an adjustment of the margins. This confirmed what I was saying, not when I was Commissioner, but afterwards: the relationship between an economy and its currency is like when you take your dog for a walk. You always leave together and you always come back together. During the walk, the dog is sometimes a little behind or a little in front, but that's the way it is.

The second reason for which this exchange rate issue is not that important is due to the minor importance of competitiveness/price as the economy becomes more dematerialised and as consumption becomes symbolic: there are ever more elements of competitiveness that are not included in the price. Therefore, exchange rate variations need to be put into perspective.

The third reason is that, let's suppose that Peter Carl was right in the past, in a world where the import content of exports increased by 20-30% in relation to the past, the impact of an exchange rate variation is greater in both directions. If you gain competitiveness because your currency depreciates, you also lose competitiveness because the price of your imports increases. A good example is that of Japan, which began increasing the flexibility of its exchange rate but did not obtain the desired macroeconomic results, because Japan imports a lot of what it exports.

Do you remain confident about the benefits of international trade?

Carl: Recently in Jackson Hole (United States), before the world's central bankers, Mario Draghi cited a Hungarian economist, Karl Polanyi, and I am tempted to adapt this citation to our discussion. For Polanyi, free trade is to the economy what a hammer is to a repairman: very useful to hammer in a nail and potentially destructive if you try to repair a window. I am much

less confident than you about the virtues of free trade. This does not mean that we should turn back, but where should we go? I am convinced though, that we should not continue along the same path.

You were justifiably saying that the adjustment to international trade is painful. I would add that it has been much more painful in fact than we would have thought as we hadn't foreseen the consequences of the arrival of the Chinese 'elephant' on the international scene. Until then we were in a relatively tranquil world for international trade. It was even quite rational. Granted, Japan was a top performer in certain domains and there was competition between the US and Europe, and some with developing countries. But there was nothing really destabilising or destructive. For some 15 years now, we are seeing the destruction of value, both material and human, with the mass arrival of imports from a country where price distortions and State subsidies make a mockery of any notion of free markets, at the expense of those who don't protect themselves from it.

Let's come back to the example of the liberalisation of the textile and clothing market. The quota system, which had been adopted until 2005, was not so bad. Year in, year out, the Europeans negotiated import quotas for textile and clothing from about 50 different countries, as did the US for their imports. Every year, an additional percentage was added and everyone was happy. This also had the effect of maintaining a high level of textile and clothing production in North Africa, Turkey and a little bit in Sub-Saharan Africa. When in 2005 the moment came when the EU formally committed to removing these textile quotas, I tried to slow down the movement. With the Trade Commissioner who was your successor, Peter Mandelson, I defended the argument that this would have a very negative impact on developing country exports to the sole benefit of China and accelerate migratory movements towards Europe, which were already significant at the time. The Commissioner was more convinced by the retailers who suggested that with Chinese textiles being cheap, many more people would be employed in European shops than could be employed by producing these same products in Europe. The battle was lost and I deeply regret it because it was a first of many more examples of the same still to come. I regret it even more because textile production went to China and then partially to Vietnam and Bangladesh where are to be found ethically unacceptable conditions of work. We can see more clearly now the economic and social consequences in countries like North Africa. I am a

European patriot, one of a rare breed, and I worry more about what is happening here and in North Africa, and indeed in Africa in general, than about what is happening in Asia. If we want to have and to conduct a trade policy, we must think of the global effects of what we are doing, without limiting ourselves to short-term or purely linear or dogmatic considerations. And above all, we should not allow ourselves to be dominated by purely commercial goals.

Lamy: Concerning the role of China in textile and clothing, this is changing. It is true that the Chinese and low-wage countries have benefited from this comparative advantage. It was in fact quite legitimate, as it was their only one at the time. But it is true that from the moment when Chinese wages increased by 15% per year, as you have just said, production moved from southern China to northern China, and from eastern China to western China, and then from western China to Bangladesh, Vietnam and Cambodia. The global economy is full of relocations in the textile and clothing sector, assuming that the cost of labour is key in the price of an average purchase of textiles and clothing. This is not at all the case when the quality increases. And things are adjusting.

Could this lead to questioning of free trade?

Lamy: When I was European Commissioner and afterwards, I never spoke of free trade. There is no free trade. I don't like to speak of dreams or nightmares because I prefer to speak of reality. And trade opening is the reality. It is not about knowing if heaven or hell are good or bad. It is interesting in itself. But the real consequences of this debate are not major. The real issue at stake is knowing if trade opening is beneficial from an economic and a social viewpoint. And my answer is yes.

Carl: My answer is much more nuanced, skeptical even. Openness can be beneficial up to the point where it can become destructive. And its destructive effect is aggravated when you have a large sluggish body like the European Union faced with an interventionist country like China.

Has it become more difficult to conclude trade agreements today?

Lamy: Yesterday's world, in which trade barriers were aimed at protecting producers, is dissolving in globalisation and the political economy of negotiators has significantly changed. In the future, it will no longer be of interest to limit imports. As the import content of exports increases – which is the logical extension of the expansion of value chains – targeting imports is just as harmful for the competitiveness of exports. Today's institutions regulating international trade, whose purpose is to open trade by removing trade barriers, were created in yesterday's world. As this world disappears, the future obstacles to trade – which are already here if you look at the real costs of operators – is a world where trade barriers are no longer measures to protect the producer but rather to protect the consumer. Or more precisely, the differences in consumer protection measures. I want to insist on the fact that it is not the measure that is the problem, but rather the difference between measures, and that the solution is not to remove or reduce the measures, as it was in the old world. Regarding the level of sanitary and phytosanitary precaution, nobody will reduce or remove these. If something will move in terms of protection, it will be upwards. Given that the issue at stake concerns the difference between measures, the political economy is very different because in the old world, negotiators had the producers against them and consumers on their side. But producers are more easily heard than consumers – there are no consumer demonstrations demanding cheaper t-shirts. It is therefore a very peculiar political economy. In a precautionary world, it's the opposite. You have the producers on your side because they want economies of scale with a harmonised level, for example aflatoxin authorised in hazelnuts or ractopamine in pork. Consumers are being told that it's dangerous because their level of precaution, which they hold dear, risks being negotiated downward.

It is in fact at the meeting of the age-old and perfectly legitimate reluctance to globalisation through trade opening with its underlying social impact, and of this new way of opening up trade by reducing differences between levels of precaution, which was found in the TTIP (Transatlantic Trade and Investment Partnership). The negotiators collided head-on with this new political economy. Producers were opposed to tariff reduction and consumers were worried because they were told "Watch out! We are going to harmonise protection." And without due care, the impression that this harmonisation will be downward, can prevail. Karel de Gucht, then Trade Commissioner, launched



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these perilous political negotiations without realising the minefield into which he was stepping. As it happens, he ran into the Germans and the Austrians, which are not protectionist countries but rather 'precautionist' ones.

The verdict on how this trade policy is conducted is therefore mixed. While critics have calmed down somewhat, for various reasons, this is not necessarily the case for CETA (Comprehensive Economic and Trade Agreement) between the EU and Canada. Other components also intervene, in particular, the issue of investment, which has been lumped together with trade issues. It is a choice that is perfectly legitimate, both legally and technically. We have all worked for this. Except that we did not see at the time that there too was a third political economy that was coming into play, with a whole series of people, of relatively good faith, who considered that it was inadmissible that businesses could bring states to court. This happens every day, but they discovered it during the bilateral negotiations between the EU and Canada. It is a third issue that has, to a certain extent, heightened this growing sensitivity that you have mentioned.

But we must look more closely to see if, in the old world, EU trade policy did in fact open trade in the EU's interest, and if in the area of precaution, which cannot be negotiated, we are moving towards a form of upward convergence or not, to the benefit of EU producers.

Carl: It has become much more difficult to conclude agreements because 'people' are able to measure the impact of what has been done since 1990 in terms of trade opening. They have understood, in a diffuse way, that we are leaderless, that their future and that of their neighbours depends on decisions made 20,000 leagues away, by foreign governments, by the dark forces of the 'market' over which they have no control. The arguments put forward by the neoliberals have not convinced them. I will come back to my remark on the subject of the return of utilitarianism: claiming that a trade agreement is desirable because it would lead to a 1.05% increase in GNP lacks credibility if you have any idea at all of the reliability of economic impact studies. And even if they were credible, so what? To know if a particular agreement is desirable, you also need to examine its impact on those who suffer the consequences.

What has changed as compared to our days in office is the consequence of a whole series of events whose accumulation has shifted a portion of public opinion, including myself. We should know when to stop before we lose complete control of our economic future.

2 . THE EVOLUTION OF WORLD TRADE: 'DEGLOBALISATION' OR NEW TRANS- FORMATIONS IN GLOBALISATION?

China's entry into the WTO has led to largely unanticipated distortions. What did we not fully anticipate?

Lamy: Trump considers that China's accession to the WTO in 2001 was a mistake. Globally, it was not a mistake, except retrospectively on two points that we have not managed to resolve since then.

Firstly, the battle that we lost with China's entry to the WTO, is the battle that we did not lead: that of subsidies. For the rest, I regret none of the conditions with which we negotiated China's entry to the WTO. Especially because in exchange we obtained the opening of the Chinese market, which is considerable in relation to their former level of protection, and which greatly benefited exporters, whether European, American or those from third countries. They benefited from a comparative advantage in some areas. By joining the WTO, the Chinese took out anti-protectionism insurance, which they badly needed at the time to help their economy grow and which they paid at a much higher price than any other developing country of the time. I realised this ten or twelve years later: China's access conditions to the WTO created a new regime, which was halfway between that of developed countries and developing countries, from the viewpoint of the opening up of the Chinese economy. We forced China into a degree of openness that was closer to that of developed economies. While Brazil, India, South Africa and all the others had a tariff ceiling of 30%-40% with regards to manufacturing, we forced the Chinese to accept 10%. Chinese protection in agriculture, negotiated in 2001, was lower than European protection at the time! So we should not pretend that opening to China just took place on one side: they made huge efforts which incidentally have deeply disrupted their own economy, with the level of social suffering that we know, especially among rural farmers. Simply, with their political regime, this was not very obvious.

The collective mistake that we made – as the good trade negotiators that we all were – was to focus too much on accessing the market. Firstly, for

goods, because it's easier. For services, a little less, because even though China is more open than other developing countries, the Chinese economy has been much less open in terms of services than it has been for goods. This has not changed since. The proof that we made China swallow a very bitter pill at the time is that they have done very little since.

We therefore made the mistake of not tightening the net of the WTO Anti-Subsidy Agreement when China entered in 2001. We did not anticipate that one day China would become rich. We thought it was a poor country and we forgot that twenty years later they would be rich, and the budgetary resources that they have today are a real problem for us. Furthermore, even if it probably seems difficult with hindsight, at the time we should have had them enter the agreement granting access to public procurement, as a condition for their accession to the WTO, even if we had them enter progressively. We didn't do this and it hasn't happened since.

Given the current strength of the Chinese economy, there are therefore two aberrations: the fact that they can continue to subsidise it without any major difficulty, because an anti-subsidy action is extremely complex to launch at the WTO, and because they are still not in the public procurement agreement. This is not normal. We saw China as it was without adequately thinking about what it would become after 15 years. However, it is not just Europe's responsibility that is an issue. Nor that of the Americans or the Japanese, nor the Indians or the Brazilians, who also suffer the consequences of Chinese subsidies. It is not that the issue was not at all raised at the time, but that legal experts explained to us that we were not squeaky clean ourselves, and that if we started tightening the net of the Anti-Subsidy Agreement we might just get caught in it too. We saw the speck of sawdust without seeing the plank. In any event, the Americans have always seen it that way.

Carl: The problem is not that we didn't anticipate this evolution of China, but that we have not reacted with the means at our disposal, here and in the United States. Why? There are several reasons, all bad, whether political or economic. Firstly, with the sudden and rapid expansion of trade with China and the arrival of imports in Europe and the US of surprisingly cheap products compared to what we had known before, exporters, importers, carriers, intermediaries of all sorts and resellers have earned large amounts of money. This extraordinary windfall has been worth hundreds of billions of euros and its political impact has been and is huge: money counts in politics... This applies to the European Union just as much as the US, who, all in all, did not act much better than us.

Secondly, the composition of exports of certain EU States has allowed them to take unprecedented advantage of access to the Chinese market, with extraordinary profit margins. I am of course referring to Germany, but also to Northern countries, ship owners and enthusiastic intermediaries, not to mention those countries in Eastern Europe in which China uses the carrot and the stick very well. The result: the EU is very divided and above all incapable of taking measures against Chinese imports.

And then thirdly, my advisory activities have allowed me to measure the extent to which, on the issues of anti-dumping and anti-subsidies, Beijing is capable of influencing the EU Member States by putting pressure on each of them and by twisting the arm of the smaller ones, while, for the bigger ones, there is always the risk of compromising certain exports, with direct threats from China to the businesses themselves. Without falling prey to American-style Manichaeism, this is a country whose 'values' and political and economic system are so far from ours that we have to manage our relations with them in a way that is radically different from those employed with the US or India.

Concerning China's accession protocol and access to the Chinese market, I totally agree. We put a lot of pressure on China, and in the agricultural domain, I believe, it was excessive. At the behest of the Americans, we limited them to an agricultural subsidy of 5%.

Where I disagree, however, is when you say that we did not manage to introduce sufficient rules in terms of subsidies. I believe that the accession protocol, which is still valid, is not so bad. What has been cruelly lacking since China's accession, i.e. since your departure and mine from the European Commission, is the implementation of this accession protocol, which comprises elements on subsidies, obligations for China in terms of alignment with international prices, protection of intellectual property and a whole toolbox of binding obligations, which is perfectly usable and yet has not been used, neither by the Europeans nor the Americans. In both cases, for the reasons mentioned above: the enormous gains from a t-shirt exported from China at €0.50 and sold here and in the US at €5, but also due to the lack of courage and will and 'Community solidarity', or even due to 'neoliberal dogmatism'.

All this explains why the accession protocol, which is a legal act, an international agreement that binds the parties, has not been used. To such an extent that since then, we and others – not only the Europeans of course – have become the victims of China's successive five-year plans. They decree that within five years they want to become world leader in a particular domain, for example in

solar energy, which was a very promising sector in Europe from an industrial standpoint until six or seven years ago. We have therefore become the target of this Chinese will to impose itself in various sectors, the list of which we can find in the successive five-year plans. To such an extent that even the Germans are now concerned about the fact that electric cars feature on this list. What can be done, with 28 divided Member States and a Commission with no one to guide it, against this centralised country that has an authoritarian or even dictatorial political system, very different to our 28 European democracies?

Do you share this pessimism?

Lamy: Regarding China, I am less pessimistic than Mogens Peter Carl. The real problem is that the quantum of opening of the Chinese economy from a multilateral stance has not varied in relation to the commitments made when they entered the WTO - taking into consideration the fact that these commitments were not applied immediately in 2001 but progressively implemented.

From a bilateral viewpoint, they accepted a few adjustments - a little bit of 'duty free' and 'quota free' for a certain number of developing countries - but nothing significant in relation to the size of their economy as there was internal resistance, for services in particular. If China is piloted as efficiently as you say, the Chinese economy would have opened up its services a long time ago. It was mentioned in their five-year plans, but they didn't go ahead with it because there was internal resistance to lowering producer protection. China is like Japan for that matter: traditionally the goods markets were relatively open and competitive, but not the services markets. It is the Chinese consumers who suffer in terms of services: they don't have access to the quality of services that they are entitled to in the 21st century for the money they spend. It is one of China's current problems, and in the future it will be a hindrance to relaunching its domestic consumption.

What we had not foreseen was not so much the speed and the impact of these transformations, but the fact that our social systems would not follow this evolution. At the end of the day, China's accession to the WTO was a step in the intensification of globalisation, in the sense of intensification of trade flows with the consequences that Ricardo and Schumpeter had foreseen. This brings us back to the need to bolster our social insecurity reduction systems.

Carl: Our social security systems have only been revised downward very slightly in continental Europe. It is these systems that helped to avoid the

otherwise inevitable revolt of the unemployed, 3.5 million in France, 20 million in the EU. Some extremists describe this as a situation in which 'slaves' (Chinese) work for the unemployed (Europeans). Just like other caricatures, there is some truth to it. China has played a role. For the rest, it is our macro- and microeconomic errors and our errors in terms of trade policy that are partly responsible. We buy social peace with social security, which allows us to continue with these misguided policies.

Added to China's powerful upswing is a concern that the downturn in global trade that has led to debate on a possible deglobalisation. Should we consider that value chains are now mature and have a tendency to shrink, or are we witnessing a further transformation of globalisation?

Lamy: I don't believe in 'deglobalisation'. The reasons that led to globalisation are first and foremost linked to technology and to the global efficiency of market capitalism. They cause political reactions and in some cases give rise to a protectionist, nationalist, isolationist discourse, such as Trump or Le Pen, but until now this protectionism has not a serious effect on reality, except washing machines, steel or aluminum as products with high added value. Nor do I believe that this could have an effect without causing serious damage, as we are at a stage of globalisation that would make deglobalisation extremely costly: the interconnection of production systems for goods and services is such – and this was not the case twenty years ago – that dismantling these chains is now too costly.

We currently have two examples: the first, Brexit. We are just realising that taking the egg out of the omelette has a cost. How much? Some say "I don't care how much it costs because I am independent", assuming that this could be true. It is an obvious case of deglobalisation but it's not working. In any case, it can only happen at a cost. The other example is Trump: more bark than bite.² For the moment at least. He can always continue his rhetoric on his desire to deglobalise America and take it out of the omelette. Until now, Washington has only taken the traditional anti-subsidy and anti-dumping measures, as well as safeguards. The big issue.

Carl: I completely agree that there is no deglobalisation. Those who claim that there is one are playing with figures. The fact that there is a small negative difference between the evolution of international trade and that of global

2. Elvire Fabry, "Trump Trade: More Bark than Bite ?", Policy Paper No.193, Jacques Delors Institute, 21 April 2017

GDP is of no significance. It is a false debate that should be left to the statisticians. The real question is to know whether it is a good thing that globalisation continues as it is today or even if it accelerates on the basis of new trade liberalisation agreements. My answer is no. We must stop there, take a break allowing us to revise and improve our internal and external policies, and not blindly continue a race towards what post-nationalists consider as the nirvana of a border-free world. Unfortunately, we Europeans, have for a long time been past masters in extremist theories and policies, and post-nationalism and European neo-liberalism are perpetuating this unfortunate leaning. I am under the impression that we are doing what a European leader once said: when you've gone too far, you must know how to see it through to the end...

What new evolutions in globalisation can impact international trade?

Lamy: We must expect relative changes in the price of capital and labour which affect the dispersion of production processes, with offshoring and onshoring continuing. If you put the price of carbon at €40 a metric tonne, globalisation will not be the same as that we know today, but it will still be there. What will actually change are the relative prices and therefore the trade flows. At a comparable rate of openness to trade or not, I don't believe that this changes things significantly.

However, the border between goods and services becomes undetectable. And the impact is major because the legal regimes of trade in services and trade in goods are not the same. Furthermore, there is robotisation and artificial intelligence. The way in which trade flows form is dependent to a fairly large extent on these systems, and the great novelty in globalisation is not the intensification of commercial transactions but that of data exchange. These days, the only real deglobalisation is financial, caused by the 2008 crisis. However, the globalisation component that is experiencing exponential growth and that will greatly transform the way in which international trade is regulated (because we will have to deal with the issues of the data property rights, the localisation of servers, etc.) is that of data exchange. When we see what the Chinese are doing in terms of IT control, we are far from the time when the Chinese had entered the WTO by accepting the Western concepts of the time. The way in which they treat social networks gives us a glimpse into transformations as far reaching as that of the move from the era of protection to that of precaution. This will have a major impact on how we view the real openness of the economic system.

3 ■ ASSESSING EU TRADE POLICY

Faced with the major challenges that you have just mentioned, how do you assess the conduct of EU trade policy? Is Europe as naive as some say?

Lamy: On the whole, Europe is no more or less open than its main competitors, apart from China. We still have not collectively and multilaterally resolved the issue of knowing whether or not China is a rich country with lots of poor people or a poor country with lots of rich people. The answer to this question has a huge impact on the trade regime that we adopt for China. It is a serious issue. At the WTO, there is a multilateral legacy which is a legacy of positive discrimination for developing countries. The fact that China benefited from this system for so long, and continues to label itself as a G77 and a G90 country is a major multilateral issue that we haven't resolved. Beyond that, and without going into too much detail, Europe protects and defends itself just like the others, including in terms of trade defence instruments.

Let's take the example of steel. It is true that the EU takes less action in terms of trade defence for steel than the US. But it suffices to observe that the Americans manufacture one third of what Europe produces in steel, to consider that the number of anti-dumping procedures is not necessarily a good effectiveness test if, in any case, the steel industry is not doing well. From this point of view therefore, I think that this idea that Europe is at the mercy of every wind that blows is naive and does not stand up to scrutiny when the level of protection is in fact measured. The fact that in terms of public procurement or investment, certain EU Member States go further than the concessions that we made both bilaterally and multilaterally. This is not regulated at European level and it's a weakness.

Carl: I don't agree. During a debate with Hubert Védrine, he reiterated his well-known formula according to which Europe was becoming the global village idiot and I expressed my disagreement: it is not that we are becoming the global village idiot but that we have already become it! I'm exaggerating slightly, but not so much.

Trade policy is a set of rules, practices, positions, actions that rule economic relations with third countries. Now, there is an asymmetry between our behaviour and that of others. I see this very clearly in the case of trade

defence. Without believing for an instant that anti-dumping or anti-subsidy measures are a panacea, they remain indispensable instruments. In Europe, however, they are applied in a delayed and sluggish way, or not at all. You mentioned the steel industry, for which, after nine months of long and painful enquiry, we applied customs duties of 20% against Chinese imports, whereas US applies duties of 150%.

What can you say about the case of Chinese solar panels? Initially the European Commission had adopted an intransigent approach and the final compromise upset the European solar panel manufacturers: is this an example of naivety?

Carl: The anti-dumping services of the European Commission have been drastically reduced in the past ten to fifteen years. There is now just a fraction of people working in this department, if we compare their number to that of equivalent US departments, and this at a time when it's the opposite that should have been done. It's unilateral disarmament and history has seen others, with the effects that we know all too well.

About solar panels, the Commission had concluded that there was dumping and subsidies for Chinese solar panel manufacturers and had proposed countervailing duties of about 100%. It first of all lost the battle against the EU member states because the Chinese managed friendly or by other forms of persuasion to create a majority against the measures proposed by the Commission. The latter was also facing opposition from Germany, where the largest European company in the sector, SolarWorld, is established, because Merkel wanted to sell some more Airbus aircrafts to China. The Commission therefore implemented a lop-sided system that provided no real protection and that was merrily circumvented by the Chinese. Do we have effective means of control, implementation and the will to use them? The answer quite simply is no.

Lamy: Nobody has an impermeable trade defence system. And the Commission has just made a noteworthy improvement with the new anti-dumping regime that has been approved by the Council and the European Parliament. But behind all this lies a strategic question. When you are as much in favour of renewable energies as Europeans are, should you not be delighted that it has become a 'commoditised' market, in which the price is practically the only purchase criterion, and that this has created lots of jobs in the services area? Is the photovoltaic industry a strategic industry today? I'm not so sure.

Carl: The photovoltaic industry, and other industries of its type, is certainly 'strategic'. It is the most promising sector and the most capable of becoming competitive in terms of renewable energy production. The EU, France, Germany and Italy have invested heavily in R&D in this sector and our businesses are perfectly capable of producing solar energy panels with state-of-the-art technology. It is true that our production costs are and will be a little higher, especially if we don't protect this technology against Chinese subsidies (as the US and India do). And so? It is not this factor alone which should dictate our policy for a sector that is vital for our energy future. Once again we have the impression that the decision has been made to abandon this sector – 'by whom and how?', we don't know –.

You used the term 'asymmetry', a term very often used to describe the opening of Europe to foreign direct investment in relation to the degree of openness of other countries, particularly China. These past few years have seen the multiplication of strategic asset takeovers in Europe by Chinese investors. How do you assess European policy in this issue?

Carl: We are like a house open to all winds. Around 1990 we decided to open the EU to foreign direct investment but we could not agree on any particular regime in terms of inward investment. It is in fact a more general phenomenon: we have never been able to agree on a differentiation between internal openness to other EU Member States and openness to third countries. The same observation applies to public procurement. We were unable to do it towards third countries because Member States refused to bend to a Community discipline, having become what the Italians call *esterofili*, preferring the foreigner, or in this case, the non-EU third party. What the Commission proposes is too weak. It is lacking real substance because it knows that it would face opposition from the Member States.

Lamy: The Commission's recent initiative on control of foreign direct investment is a step in the right direction. This is what needs to be done. Each of the EU Member States has adopted foreign direct investment control systems. But if everyone keeps ploughing their own furrow, this is good for the Chinese who have tried in a certain number of cases to pit countries against each other, assuming that these investments could be substituted from one country to another. The idea of pooling this at European level, so that everyone would know, is a step in the right direction.



The opening of the EU when the internal market was being created happened in the form of the opening of capital markets and not the investment regime. It is true, in this case, that we opened the capital markets in relation to the outside as we opened them in relation to the inside. Incidentally, this happened under pressure from the UK at the time.

The same does not apply to public procurement. Undertakings to open public procurement, which were made by the Europeans at multilateral level within the framework of the WTO, are perfectly equivalent to those of other countries, in particular to US undertakings. Granted, in the absence of a European public procurement regime specifying that we are not allowed to concede our motorways to the Chinese, some EU countries go even further. It is the unilateral measures that do not come under any kind of framework. Moreover, when Michel Barnier was European Commissioner for Internal Market and Services, he tried in vain to create a framework for these.

Does EU trade policy really defend the interests of the Europeans?

Lamy: Today, the defence of Europeans' interests in the globalised world is more through precaution than protection. As soon as we impose our norms and standards in the areas of health, safety and now the environment, traceability at our borders, etc., trade policy has a political sensitivity that corresponds to that of the Europeans. The real issue is to know if we are correctly administering precaution. It is a technical issue, even if we can consider that with the evolution of information techniques, it is now easier to control this.

Carl: I'm sorry but my answer is no. First of all, I would like to know what this 'EU trade policy' is. For years it has been expressed by what resembles a headlong rush towards new free trade agreements. It has become dogmatic where it should be pragmatic. The 'noble' side of the profession of a 'trade' official or civil servant is and always has been to negotiate, rarely to ensure that what is negotiated is applied by the third country concerned. Above all, I see no trace of this famous 'Europe that protects'. Too often, industry sees the Commission as an enemy, as a body that doesn't want to understand its problems and that does not want to act to resolve them.

Do you feel that the trade agreements are a good lever to promote European environmental standards?

Carl: It is a complex issue. The impact assessment report on CETA, presented by the committee entrusted with assessing the impact of CETA, headed by Katheline Schubert, considers that the agreement doesn't go far enough to force Canada to commit to fighting climate change. How far do we need to go? Do we want others to adopt our values, in all fields, in this case to protect against climate change? It is an imperialist reflex to which I am not opposed as such and I don't believe that imperialism has necessarily always been a crime against humanity. However, the question is to know whether we should focus on what is purely commercial, as the Commission seems to want in the short term, to avoid a repetition of debates on CETA, or if we should have a broader view. I fear that by focusing on what is purely commercial, we will cause the same reactions from civil society. I have contradictory opinions on this. While not being 'anti-imperialist', how far should we go? For example, in the bilateral negotiations with India, should we insist on social and environmental protection? All of this deserves deeper discussion than what we are currently engaged in.

Lamy: It's true that there is a problem. From the moment when precaution is ever more important, when somebody exports cars produced using energy from shale gas to your country, we consider that these are not good cars because they are bad for the environment, from our point of view. If the Canadians produce shale gas, it's because they consider that, seen from their perspective, it's not bad for the environment, or in any case not as bad as from ours. We are getting into very sensitive areas here.

Should precautionary standards therefore, whether in health or the environment, integrate trade agreements, insofar as incidentally no international standards exist that can be applied? We cannot draw all regulation of globalisation towards trade agreements. There are environmental agreements and trade conventions on chemical products that exist independently of the WTO. There are WHO conventions and those of the ILO. We cannot focus everything on trade policy, under the pretext that the regulation of international trade is more visible and, from a certain point of view, more structured because it is more essential to the functioning of market capitalism than other regulations. Some of this polarisation comes from the existence of the WTO dispute mechanism which is infinitely more effective than the others – which is in fact the reason why the new US administration is attempting to paralyse it. It is a virtue but it is also a danger.

The question was raised for asbestos and it has been resolved. It was said, of course, that asbestos was bad for health and its importation was prohibited. Furthermore, there was at the time at the WTO a dispute between Canada and the EU, which the EU won. The question was also raised for hormones and GMOs, even though it has never been resolved. The typical response given is to refer to science.

We are in a register of interconnection of collective preferences that goes much further than producer protection. The key issue, therefore, is to determine how far we need to harmonise collective preferences to open trade in tomorrow's world. At the time this was called PPMs (process and production methods). At the WTO, it was forbidden to mention these PPMs. Twenty years ago, an electric battery with lead and a battery with another component that was less dangerous for the environment were considered as 'similar products', and it was impossible to differentiate between them. This has changed. But to what extent should we make these preferences, which are a range of values, converge? In terms of precaution, such as risk management, nothing is absolute.

Carl: We are talking about the same thing. The additional problem that I see is the weakness of these other international fora (ILO, WIPO, UNEP, etc.) and their inability to produce sufficiently strong rules and to implement them. This leaves the WTO, which has the only effective dispute settlement system, a huge responsibility when one or other of its members asks it to use its very general rules to settle a specific dispute which does not fall under its direct responsibility (social, environmental, phytosanitary, etc.). This sometimes leads to results that are not only unpredictable but also incomprehensible and strongly contested. But all of this deserves more extensive discussion.

Is the promotion of European standards moving from the control of goods imported to the control of the production method of these goods in third countries?

Carl: Yes, but in a very limited way, partly due to the fear of being condemned by the WTO. Let's take the example of eggs. We have European rules on animal welfare protection, which includes hens. Our producers must invest considerable amounts of money to comply. This is not the case for the main exporters such as Brazil and the US. In my opinion, we should prohibit the import of this type of goods that are not produced according to our rules,

which are dictated by ethical, non-commercial concerns. These are extremely concrete issues. Let's also take the more difficult example of the iPhone which is manufactured in a Foxconn factory in China. Should we prohibit its import because it is manufactured in inhumane conditions? I am in complete ethical contradiction because I purchased one knowing that the conditions of its production are very poor. Should the public power that is the EU take over? Is it up to citizens to modify their consumer behaviour? Or should Apple take action? In my opinion, all three should act.

At what percentage is this no longer ethical when 5% of the value of the iPhone is Chinese?

Carl: That's a very good question. Let's take the easiest example of the t-shirt made in Bangladesh in the appalling conditions that we know, where factories catch fire and collapse. Does the person in charge of European trade policy have an ethical duty to change this by erecting barriers at the border or by using other means of pressure? Primarily, it seems to me that it is up to the major European importers to act. The iPhone is also an emblematic case. It matters little that only 5% of its added value occurs in China: it is assembled there after all!

Lamy: In this case the answer came from the brands. If you have a respectable brand you should be able to show that your products are not manufactured in inhumane conditions. Civil society organisations are more and more assertive now and put on the pressure. The palm oil channel has been cleaned up largely due to pressure from civil society: today, some banks do not give credit without a certificate of conformity. Things are evolving.

Carl: I agree that part of the answer must come from civil society and producers, but it must also come from the public authorities, whether in a unilateral way or via negotiation and they should ensure that these commitments are implemented. I have doubts regarding the efficacy of certification systems, often managed by the industries that are directly concerned and I am wary of 'witch hunt' tendencies by civil society. Public authorities must take their responsibilities, they must not be dissuaded by fear of the WTO or, if necessary, we need to change the rules.

Lamy: It is this multi-governance that must be developed.

The issue of traceability of production methods all throughout the value chain is a growing concern for European public opinion.

Carl: For the moment there are very few controls as all the major European ports are competing to prove that they are the fastest and the most efficient.

Lamy: Radars and scanners helped ease past tensions between security on the one hand and trade facilitation on the other. The technology used in modern control systems provides detection means that do not prevent the circulation of goods.

Carl: But the scanner does not help determine if the toys in the containers that come from China, the US or elsewhere, and which, thanks to self-certification, are all stamped with the well-known 'EC' mark, correspond more or less to European rules; and we have 28 European customs authorities. This problem of traceability and control concerns what we produce at home and what we import. The problem arises everywhere with a lack of public control as shown by the multiple phytosanitary scandals in Europe. It is a societal phenomenon. Thirty years ago, there were many more controls than today. How can we tolerate the huge trade in pharmaceutical products, which are more or less adulterated, via the Internet? Once again, we suffer from a lack of public power, of control, at all levels, European and national, except in terms of proliferation of standards of all types that are not all respected.

Should international agreements therefore be more binding?

Carl: At the time I was in favour of GSP+ which grants additional preferences to countries who commit to implementing a certain number of international conventions (ILO, environment, etc.). But these just remained good intentions. The Philippines is not a country in which workers' rights and the environment are protected in an exemplary manner. This did not prevent the European Commission from granting this famous status to the Philippines in 2014, because they had ratified each of the 25 international conventions required, without the EU worrying about their actual implementation. I don't call this trade policy.

Lamy: This type of conditionality only exists for unilateral regimes, such as GSP+. This does not exist in bilateral regimes as the partner countries would not accept it. The question is knowing what to do if the conditionality foreseen by a regime of trade preferences is not respected, as one must be capable of applying the agreements that have been signed.

Carl: I don't like the word 'binding' in this context. But should we continue to grant benefits within a framework of unilateral concessions when the country at issue is not doing what it undertook to do? Of course not. In the case of bilateral agreements, it is much more complicated because there is no dispute settlement system, except in a few rare cases. There are some powerless mixed committees that get together.

On the environment, would you be in favour of a carbon tax at the border as proposed by Emmanuel Macron?

Lamy: Not really, unless we were to consider that when the carbon content of our products is higher than what we import, we could grant an import subsidy.

Carl: I, for my part am very much in favour. When I joined DG Environment twelve years ago, for three years I oversaw the launch of the EU Emissions Trading System (ETS). If we were the global village idiots by taxing ourselves in such a way as to increase the energy bill of our industry in Europe, when this was not done elsewhere, we were risking a 'carbon leakage' effect. I therefore defended the idea of a carbon tax at the border applied to carbon-based products. This fear turned out to be partly exaggerated because the price of the CO2 certificates resulting from the functioning of the ETS crashed, in part due to the economic crisis. But the day when the ETS really starts to bite, the problem will arise. Having our steel or our cement produced in China, with higher CO2 emissions than in the EU, would be environmental and economic nonsense.

Lamy: Producers have in fact managed to paralyse the Commission by arguing the risk of carbon leakage and have led it to implement regimes with ultra-generous benefits that prevented the carbon market from taking off.

Carl: Let's suppose, as I had proposed when I was working with Jean-Louis Borloo, when he was Minister for Ecology and Energy, that we introduce a threshold and a ceiling to the ETS, and that this threshold is set high enough to have an impact on the real economy, i.e. on the relative costs in Europe of steel production, of certain chemical products, etc. In this case, a carbon tax at the border would be vital. But let's stop victimising ourselves: the EU only represents 9% of global greenhouse gas emissions. Why tax our industry to the advantage of countries producing three or four times more greenhouse gas emissions and who do little for the climate? Beyond all the major international conferences, in order for the declara-

tions on combating climate change to translate into acts and to give ourselves the means to exert pressure on third countries so that they take this direction, the most effective way would be to introduce a carbon tax. That would be a wake-up call for a lot of people.

Lamy: A simple tax would be much easier. Measuring the carbon footprint remains very complicated. And once again, particularly from the WTO viewpoint, what happens if what you produce has more carbon than what you import? Europe's export mix (cars, machine-tools, etc.) is particularly high in carbon. So, if we must create a club, in my view, a simple tax of 2%, 3% or 5% on imports from countries who are not in the club, is easier and more effective than a carbon tax at the border.

Carl: This reminds me of the reaction of a Taiwanese delegation that came to see us after the presentation of the carbon tax proposal that the Commission had addressed to the EU Council. They were wondering what the impact would be and how to avoid being hit by a possible carbon tax. I recommended that they do the same thing as us, by creating their own ETS. They were in favour, but it all failed due to misperception of the carbon tax as a protectionist tool.

Lamy: The Chinese are nevertheless implementing a system inspired by the ETS and we are reforming the European system to give it some bite.

What do you expect from the negotiations of new EU-led trade agreements?

Carl: Among the multiple negotiations launched by the Commission, let's take the example of the well-worn subject of MERCOSUR, which, from a purely economic viewpoint is by far the most promising. Should we insist that Brazil, who wishes to export even more chicken to the EU, applies our measures on animal welfare? It had never been requested before in a trade negotiation and it would be a major innovation.

Brazil also insists on having a very high tariff quota for bioethanol. However, the more they extend the production of sugar cane which is the raw material for bioethanol, the more the Amazonian forest is burned, as the land previously earmarked for other crops is exploited for sugar cane. This has an obvious effect on the climate and probably cancels out most of the positive effects of bioethanol. Where do we stop? I would be in favour of opening the European market to Brazil on condition of its agreeing to commitments on this type of issue.



Lamy: These are very difficult issues. And yet they are simple to resolve if there is an international standard. Imagine an international animal welfare organisation that would determine standards for laying hens. At the WTO, Article XX of the GATT goes even further than international standards if we want to prove that there are good reasons to believe that we must go further. But if there are standards in the Codex Alimentarius or in the World Organisation for Animal Health, they are few and far between, and in environmental affairs the multilateral agreement on climate change is not very precise. It is notifications from countries that dictate and one must refer to the implementation of individual notifications to determine if the country in question produces under conditions that comply with the Paris Agreement concluded at COP21.

Carl: I am not expecting anything positive from future agreements, except for some European exporters. Rather, we can expect an even further dilution of the protective cushion of our economy and a restriction of our freedom of action caused by an additional layer of international commitments. In my opinion, we need to take a break in negotiations with third countries. One can always do impact assessments that show that a particular agreement would increase GDP by so and so many percent. Pascal Lamy's predecessor, Leon Brittan, had in fact commissioned a study aiming to prove that the liberalisation of international trade is good for the economy. An honest answer would be to say 'it depends', sometimes it is, sometimes it isn't. But the issue today is more about asking ourselves: are we able to stop in the middle of the slippery slope?

In particular, today's decision-makers must understand that what was good twenty years ago is no longer necessarily good today, in a world where power relations, and others, have significantly changed. Trade policy must be pragmatic, i.e. modified in accordance with the evolution of our strengths and weaknesses, and our ethical objectives and convictions, not to mention geostrategic concerns.

Lamy: Trade opening, under certain conditions³ which are not always met, is a good thing. The solution to a problem is not to discontinue opening trade, but to create the conditions necessary to allow it. There is clearly more than a nuance between us concerning the opportunity to continue trade opening.

This is on the understanding that in EU trade policy there is a blend of offensive and defensive, because it must allow Europe to exploit its compar-

3. Pascal Lamy, *The Geneva Consensus*, Cambridge Press, 2013.

ative advantages in global trade. If we want to pass judgement, we must do it for both; the offensive side and the defensive side. All the more so if there is European growth of 1.5% for the coming ten years, and if the Americans are at 2.5% with emerging countries at 5%, the offensive aspect will be extremely important for our economic interests.

Carl: What you quite rightly call 'offensive' has been the guiding thread of European trade policy for quite some time. At the time you tried, as I did myself, to change this almost exclusive focus. But we partly failed. China has significantly changed the equation and this is what is sparking these reactions from civil society against the conduct of the trade policy as we have known it, which started with the assumption of a conquering Europe, while now leaving it open to all winds. Anti-globalisation protests go back much further than the debate on CETA. This began in Geneva during the Uruguay Round summits. Then they escalated during the G8 in Evian and Seattle and in Genoa at the turn of the century.

Lamy: People were marching in the streets to say that trade opening was very bad for developing countries – which turned out to be unfounded. It's quite the opposite.

Carl: Opposition to CETA is a motley blend of criticism, some of which is probably founded and some which is not. I'll leave aside the criticism concerning the opacity of negotiations. This is not the real issue. The issue is knowing what you want in substance.

Lamy: This has all changed. The opacity of negotiations has changed because we started to discuss more sensitive issues, such as precaution, which understandably leads to a demand for heightened transparency. If you negotiate customs duties on a bicycle as opposed to customs duties on scrap iron, you don't say at the outset how much you are going to pay. You will always try to pay the lowest price possible. It's trade poker and in poker you don't show your cards. In the area of precaution, it's completely different; transparency is essential.

You have met now, at the end of March, to confirm the text of your exchanges. Do the measures recently announced by Donald Trump to correct the US trade deficit have an impact on your analysis? What should be the European response to this aggressive unilateralism?

Carl: The US government is full of contradictions. On the one hand, it is us-



John Ferriola

asha Miller

ing unilateral measures, and on the other it is asking the WTO to condemn certain Chinese measures. But Donald Trump cannot have his cake and eat it. I do not take the current US government for a black sheep but rather for a lost sheep. We must bring it back to the WTO. Otherwise, instead of being an affirmation of power, these measures announce the opposite: a decline of imperial power. They are loudly announced by a President at the head of a country whose relative power is in decline, to protect a small part of its industry that has in many ways has declined much more than European industry. It is an admission of weakness, knowing also that a true imperial leader treats his «allies» with gentleness and politeness, while waiting for them for some tributes and support for his plans...

The WTO's ability to regulate international trade is under severe strain. It is true, and in this respect the United States is partly right, that the WTO must be reformed to better reflect the reality of 2018, such as the need to combat the distortions caused by China. However, this is not done by action or blackmail contrary to the rules patiently negotiated in Geneva, between its 164 members. We are now living in this so-called "multipolar" world where no country can impose its will alone.

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This is a good objective for European trade policy: to bring the United States back to the WTO and negotiate a «dusting» of its rules with them and, by definition, with other Members. In conclusion, I think that the current crisis acts as a reminder for all of what we owe to the WTO, as critical as it may be with regard to certain aspects of its evolution, its functioning or some of his rules.

Lamy: I completely agree on this point. This is Plan A: negotiating the WTO reforms suggested by the United States, which is where the problem lies. Others, including the EU, will surely also have proposals. But we also need to have a plan B, in case it turns out that the US wants to demolish the system, or even return to the GATT before 1994. A WTO without the US, as there is a UNESCO without the US. A kind of «lonesome cowboy».

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INTERNATIONAL TRADE: DOES EUROPE PROTECT?

CONTRASTING VIEWS OF PASCAL LAMY ET MOGENS PETER CARL

Interview carried out by Elvire Fabry,
senior research fellow at the Jacques Delors Institute

Pascal Lamy was an advisor to the Finance Minister Jacques Delors, and then to Prime Minister Pierre Mauroy. In Brussels from 1984 to 1994, he was Head of Cabinet to the President of the European Commission, Jacques Delors. He became CEO of the Crédit Lyonnais, and then EU Trade Commissioner in under Commission President Romano Prodi. Between 2005 and 2013 he has been Director General of the WTO. He is President emeritus of the Jacques Delors Institute.

Mogens Peter Carl was senior official at the OECD and Senior Economist at the World Bank. At the European Commission, he was Director-General for Trade. He was then Director-General for the Environment. He left the Commission in 2008 to join J-L Borloo, then Minister of State for Energy and the Environment, as his representative for Europe. He is a Senior Advisor to GIDE and President of the Association IP Europe.

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