

International Trade Committee

Oral evidence: Developments at the WTO, HC 2076

Wednesday 20 March 2019

Ordered by the House of Commons to be published on 20 March 2019.

[Watch the meeting](#)

Members present: Angus Brendan MacNeil (Chair); Mr Nigel Evans; Mr Marcus Fysh; Sir Mark Hendrick; Mr Chris Leslie; Julia Lopez; Faisal Rashid; Catherine West; Matt Western.

Questions 1 - 43

Witness

I: Alan Wolff, Deputy Director-General, World Trade Organisation.

Examination of witness

Alan Wolff, Deputy Director-General, World Trade Organisation.

Q1 Chair: Good morning. We are very privileged to have a leading member of the World Trade Organisation here. I should maybe let Alan Wolff introduce himself as a Deputy Director-General of the World Trade Organisation. Mr Wolff.

Alan Wolff: I have been Deputy Director-General of the WTO, World Trade Organisation, for the last 18 months. It is a four-year term and I have been in the trade area for a lifetime. I served in the US Government as Deputy Trade Representative in the Carter Administration, as General Counsel of the Agency in the prior Republican administration, and was most recently Chair of the National Foreign Trade Council, which is a free trade business organisation in the United States, so I am not a stranger to trade; new-ish to the World Trade Organisation from the inside and it has been an extraordinary and wonderful experience. I am glad to be here.

Q2 Chair: We are very grateful that you have given us time this morning. It is a particularly apposite moment for us to probe what WTO might well mean in the context of where the UK is. If I can set out a general scene setter at the moment, the World Trade Organisation has become something we have talked about a lot more in the United Kingdom over the last two and a half to three years. Why do we need such an organisation? What evidence is there that there have been beneficial effects from the existence of the WTO?

Alan Wolff: World trade has nearly quadrupled since the WTO was founded. That is 1995 to the present, so the last 23 years. It had gone up by a much larger factor since 1947 when the GATT—the General Agreement on Tariffs and Trade—was put into effect. Basically it provides rules for trade, not in every respect but in many.

Tariffs have been successfully lowered over eight rounds of negotiations. Quantitative restrictions are outlawed but for certain circumstances. You were discussing safeguards a bit earlier, so there can be quantitative restrictions. There are exceptions to the rules but, by and large, most of world trade—put the headlines aside—still is conducted under the rules of the World Trade Organisation.

Chair: Thank you. If I could ask you to speak quite loudly as, because of the heaters being on too high, we have the windows open with jets overhead and a bagpiper—God bless him—giving us his best on Westminster Bridge. Nigel Evans, can you beat the bagpiper and ask your question?

Mr Nigel Evans: I would love to beat the bagpiper but it is against the law.

Chair: I can see the SNP complaining about that one.



HOUSE OF COMMONS

Q3 Mr Nigel Evans: Good morning. What does it mean for a country to trade under WTO rules normally?

Alan Wolff: Being on the outside means you have no rights. Any country can discriminate against your trade to any extent and, unless you have a bilateral agreement with them, you are out in the cold. There are 22 countries in the queue for accession who want to join the WTO and their general motivation differs from case to case. The last two in were Liberia and Afghanistan in 2015; both countries that had gone through a rather hellish domestic situation: Liberia with Ebola after a domestic civil war. Afghanistan's problems do not need to be detailed. They want to join in order to have a better per capita GDP, better incomes for their people, integrate into the world economy.

I was in Tashkent three weeks ago. Uzbekistan is under new leadership. It is opening up. It is a double landlocked country. The countries surrounding it are landlocked as well. It traded a little bit with Kazakhstan and not at all with anyone else. The per capita GDP is \$6,000. They are seeking to join the WTO in order to have the domestic reforms that allow them to participate in the world economy, become competitive and raise the living standards of their people

If you look at the list, West Timor is in desperate trouble. Sudan, South Sudan, Ethiopia, Somalia and countries that wish to diversify their trade, so Belarus and Uzbekistan, for example—

Q4 Mr Nigel Evans: None of these countries you are mentioning are in the same ballpark as the United Kingdom, for instance.

Alan Wolff: No.

Q5 Mr Nigel Evans: I want you to paint, if you can, for me what sort of expectation you would have with the United Kingdom, what you currently know of the state of play and what your expectation would be as to how much of our trade, for instance, would be on WTO rules and how much would be on bilateral trade? What sort of impact do you think that us leaving in nine days' time—as the Chairman said—would have on the UK without a deal?

Alan Wolff: The WTO is pretty good. It is the foundation for all bilateral and regional agreements. In other words, if you look at what the Chinese are negotiating in Asia; it is based on the WTO and then builds up from there. It depends how much better does it get than that?

The Common Market, which became the single market, is built on the WTO and improvements in terms of elimination of all border barriers.

Q6 Mr Nigel Evans: That would take years. We have nine days.

Alan Wolff: The UK is an original member of the WTO. It can overnight put into effect a tariff schedule. It already has one. It has already negotiated an agreement on Government procurement terms. It has a services schedule that it will put into effect right away in terms of the



HOUSE OF COMMONS

access it allows others in services. It is not the same as a single market but, at a certain level, the UK is in the same shape as the United States or any other country is that is not in the broad customs area.

Q7 Mr Nigel Evans: All this screaming of children saying, “We are going to crash out on WTO rules”, what is your reaction when you read those sorts of headlines?

Alan Wolff: The question would be the time for adjusting. I am sure the United States has mutual recognition agreements with the European Union, as others do. There is a certain basis for trading that has been created for those who are outside of the single market and a question is—and others are far more expert than I—how long would it take to replicate the openness that the US experiences with China? There is no bilateral agreement between the US and China. There is no bilateral agreement between the US and Japan. There are plenty of Japanese goods and Chinese goods in the US market and some going in the other way.

A question is: how long does it take to adjust? Do you have customs people who are up and running and ready to facilitate entry? You people are in a better position to know what you will have in place than I am.

Q8 Mr Nigel Evans: Could you just finally say something about “most favoured nation status” and what that entails?

Alan Wolff: No discrimination. Not that there are not exceptions. There are exceptions, but most prominently currently the US and China have exchange tariffs that are higher, additional tariffs that do not apply to anyone else. That is a departure from most favoured nation treatment. By far, 85% to 95% of world trade is based on most favoured nation treatment. There are exceptions for free trade agreements. There are exceptions for safeguards and other trade remedies but, by and large, world trade is on an MFN, most favoured nation basis, non-discriminatory, and you can get into a lot of trouble—you can get sued.

California had a mixing requirement for fuels for environmental reasons. It seemed to favour—according to a WTO panel—domestic as opposed to imported fuels. That sort of thing does not stand. If you do not change it you either pay compensation or get retaliated against, so non-discrimination.

Q9 Chair: When I was watching your hands there explaining the WTO and free trade agreements afterwards, it seemed like the WTO was the ground zero and everybody else built on that for economic gains after that. If countries were to get rid of their free trade agreements and to trade solely at WTO, what economic effects would there be to countries that do that? Presumably, there would be an increase in tariffs. What would people notice day to day if everybody went to WTO trading?

Alan Wolff: For those in a single market of course there would suddenly be tariffs—not very large tariffs for industrialised countries—and there



would be of course be divergences in regulation. For other purposes, I have used the UK Treasury's estimate of loss of GDP over time, accurate or not. It says 8% or greater loss of GDP by the year 2035.

Q10 **Chair:** Do you feel that going to WTO trading terms would damage GDP?

Alan Wolff: I think that a single market is sort of the gold standard. The WTO does not have complete coverage of services by any means, for example. It is rather slight. The WTO does not have agreements on industrial subsidies with some few exceptions. Domestic subsidies of industry are not regulated. The WTO does not regulate agricultural subsidies all that well. What the UK Treasury memo means to me is that if the world were a single market it would be \$90 trillion better off by the year 2035—if that is an accurate figure—just extrapolating.

To put that into perspective, all of Africa's GDP in a year is 3.3 trillion so an additional \$90 trillion would be pretty good but no one wants a global single market. Nobody is seeking that. No country.

Q11 **Chair:** The hypothetical is that, if the world was a single market, you would have a 90 trillion gain to global GDP by the year 2035. If countries are currently trading with regional trade agreements, with bilateral and multilateral agreements and go to WTO, what is the effect of moving away from agreements to go back to WTO on GDP and does this happen often?

Alan Wolff: I don't know of examples but there probably have been free trade agreements that have come apart. The US threatened to terminate NAFTA, the North American free trade agreement, but did not and negotiated a new agreement between Mexico and Canada and the United States. Does trade take place in large volumes? As I say, very large trading countries—the US, China and Japan—do so under the WTO and with no special other arrangements and plenty of trade takes place.

Q12 **Chair:** On the GDP effects, though, of moving to WTO or moving away from WTO and moving to trade agreements or away from trade agreements, what is the general pattern there?

Alan Wolff: The whole idea of a regional trade agreement, which the single market is, is that it is an exception to MFN. It is an exception to non-discrimination. It is discriminatory. The whole idea by Jacob Viner—an economist of some years back—is that it would be more trade creating than trade diverting. That is not always the motivation of a country entering into a free trade agreement. The Korean Trade Ministry, years ago, when there was going to be a US-Korea agreement said, "I am in it for trade diversion". What is trade diversion? "I will be able to sell my cars on a better basis, no tariff, than Japan will".

There is in every regional trade agreement some degree of diversion and then the question is: is the world better off for the trade agreement? That analysis is rarely performed. In other words, the review within the WTO is a country comes in—or a couple of countries—they say, "We just formed



HOUSE OF COMMONS

a free trade agreement. We are notifying it. These are the terms", and other countries get to comment, get to speak up. But the analysis of: was this better for the world or just good for those couple of countries that entered into the agreement? To my knowledge, that analysis is never done.

Q13 **Chair:** How many WTO members are not parties to any regional trade agreements?

Alan Wolff: Offhand I don't know. There are 440-odd bilateral trade agreements, so they are quite prolific. New Zealand does not have an agreement with the United States. It does have an agreement with Chinese Taipei and it has an agreement perhaps with the EU. It has an agreement with mainland China. There are plenty of them, a huge number. I don't know what agreements India has, but I assume it has some agreements with some neighbours.

Q14 **Chair:** Therefore, just about every WTO member is party to some regional trade agreement?

Alan Wolff: They have proliferated. The EU has some 96, when I counted last year on the website. About 18 of them were under negotiation but CETA with Canada has taken place. The Japan agreement is pretty much done, I think. The US professes its interest in bilateral agreements but has very few, some 16, and not with very large countries, generally speaking, other than Canada and Mexico.

Q15 **Chair:** To clarify: countries move to the trade agreements presumably because they are seeing gains in GDP.

Alan Wolff: That is the idea. It works best when it is regional integration. Africa is just now ratifying a continent-wide free trade agreement. Intra-African trade is about 10%. It is very low. African countries do not trade with each other, by and large. The hope, on behalf of those who are signing it, is that they will be able to have a boost in GDP by trading more within their continent and that that will be good for the world.

Q16 **Chair:** My final question: you have created these regional trade agreements, whatever—to revert backwards, you would probably have a GDP pit.

Alan Wolff: There would be. If the US, Canada and Mexico did not have their free trade agreements, the automobile trade would be disastrously affected. We already have examples of aluminium and steel disruption because of tariffs. It would be dramatically negative.

Q17 **Sir Mark Hendrick:** By however many GDP trillions you mentioned that the world would be better off if the whole world was a single market, has any work been done to ascertain whether certain countries would benefit far more than other countries? You mentioned Africa. Would it lift Africa out of poverty, for example?



Alan Wolff: I deal with cotton. I chair a consultative forum on the development of systems for cotton. I don't chair the trade negotiations dealing with cotton. There are trade restrictions and there are subsidies that adversely affect the production of cotton in Africa. If there were a single market, and there were no restrictions, the poorest of the poor—Chad, Mali, Benin, Burkina Faso, the West African countries—would be shipping a lot more cotton to the extent that they are competitive. They are not all that competitive, however, so there are two factors. One is that they have to get better at producing cotton. They have to get the productivity up, which means better seed, better farming techniques, and they need technical assistance to get there.

My part of the equation is that other countries, without exception, want to help the West Africans and others, who are very poor, to get more value out of cotton, cotton by-products, cottonseed oil for fuel, and the other by-products that come out of cotton. If there were a single market, would there be a growth in African exports? Absolutely. The same for tropical fruit, which is not always welcome in every country.

Q18 **Sir Mark Hendrick:** Coffee?

Alan Wolff: Coffee, absolutely. However, no country whatsoever, I think, has uttered the words "single market" as an objective on a global basis. It is simply, "Could we do a lot better? Could we cover more services?"

For the first time, e-commerce is now being looked at for coverage. Countries accounting for three-quarters of global GDP have said, "We want to have rules for e-commerce". Not all countries are interested in it. Would it make a difference? It would make a big difference because countries have not yet regulated electronic commerce to a great extent but they are all thinking about it. When they get involved in it, do they all do it in a way that unduly harms each other? That is a big question. The key challenge for the WTO is to adapt to current world trade conditions and e-commerce is one area. Investment: there is not much in the way of investment rules and regulations.

How do we help medium and small enterprise? Most of trade, most of economic activity, is small and medium enterprises. With the web you can come up with an idea now, an application, and you can sell it any place in the world, if they will let you, but there is no requirement that others let you. Filling in the vacuum in the rules in a number of areas is vitally important and it is being looked to. However, is it being looked to on everything? No.

Freedom of movement of people in order to provide services: can someone fly from one country to another in order to provide a service? There are very few commitments in that area, the so-called mode 4. The Indian Government is very interested in expanding the ability, let's say, in computer software advisory services. India is very interested in expanding the area where there can be delivery of services in person.



HOUSE OF COMMONS

There is a lot that can be done that is not right now being addressed. Some is; some isn't.

Q19 **Sir Mark Hendrick:** Protectionism rails against that?

Alan Wolff: Absolutely.

Q20 **Julia Lopez:** I would be interested to know what you think the implications are—both for the global trade order and the WTO's normalisation—of the current trade disputes between the USA and China. Do you think that the WTO is adequately equipped to deal with something of that magnitude? More generally, how do you think the rise of China is going to affect the global rules of trade?

Alan Wolff: The WTO is not a supranational organisation. It is an international organisation. The 164 members can raise whatever subject they want to raise. If they want to bring a dispute within the walls of the WTO, they can do so. China and the USA have for a small amount—meaning 10s of billions of dollars of additional tariffs—brought that before dispute settlement, but there are 100s of billions of dollars of exchanges of additional tariffs where neither has chosen to bring it into the WTO. That is their right.

Bilateral consultations are taking place, which I would hope would lead to improved rules in the WTO. In other words, they agree something on industrial subsidies between themselves, some sorts of disciplines, or on how state-owned enterprises will be more transparent, or whatever it is they agree to and I would hope that China and the United States would come to the WTO and say, "We worked out this modus operandi, this new arrangement, and we think it makes sense for everybody because every country has state-owned enterprises, every country has industrial subsidies, all the members do, and we think these disciplines we have come up with make a lot of sense for the world". There is no indication that they plan to do that. They will come up, or not—a bit like Brexit, we don't know what the outcome is—and either they will be able to come to a conclusion, or not.

With Japan—which was in my era in the US Government the problem for the US in trade—it took some 30 years to come to an accommodation. Japan changed. There was investment that moved across borders, and there was ultimately a solution. I don't believe in overnight solutions.

Looking at that as an instance, a rising economic power always brings with it some degree of friction, and it is hard to imagine that suddenly there will be a solution that solves all problems overnight without some continuing efforts on both sides. If you read the papers—including *The Economist* this week—there are adjustments taking place in China with respect to greater domestic consumption, that sort of thing. That is part of an adjustment process that tends to lead in the direction of smoothing things over.

Q21 **Julia Lopez:** From your experience, how does China interact with the



WTO? Does it seem to understand the use of the organisation and want to engage closely with it? Or do you get the impression that China is keen to try to modify and influence those rules in a way that might lead to quite substantial change within the organisation?

Alan Wolff: There has been underinvestment on the part of pretty much all players in the WTO. In other words, China has had some reform proposals, which were put on the table, but the degree of active engagement on the part of all the members, including the United States, could be improved.

Q22 **Julia Lopez:** Do you think that the UK leaving the EU and becoming able to formulate its own independent trade policy could give fresh impetus to the WTO?

Alan Wolff: If the UK had—?

Julia Lopez: If the UK is able to—

Alan Wolff: To have its own voice?

Julia Lopez: Yes.

Alan Wolff: I was around when the UK did have its own voice and it was a good voice. It was a good voice within the EU and it is a good voice outside the EU. The UK is a co-founder of the current system, the post-war system, 1946-47, and its ingenuity—and I think its ability to conceptualise organisations for the world—is an imperative contribution, whether it is within the EU, in Brussels, or outside the EU.

I was talking to various people in the Departments yesterday. I realised that there are other things going on that occupy attention, but the UK can make a major contribution. It is in the UK's DNA to make a major contribution as to how to make the world better. I look forward to major contributions from the UK.

Q23 **Sir Mark Hendrick:** On that last point, you say it is in the UK's DNA. I am sure the intellectual capacity is here in the UK, but do you think that outside the EU the UK will still have the economic muscle to be able to influence events in the way that perhaps we would like to?

Alan Wolff: I think so. My experience has been that along comes, for example Singapore with Lee Kuan Yew, a city state, a couple of million people at the time probably—now Singapore has six million people—but they punched above their weight. Lee Kuan Yew was influential. I don't think everything is just related to GDP or percentage of world trade. The ability to contribute has a lot to do with intellectual capital.

The Australians are leaders on e-commerce, along with Singapore and Japan. Australia has taken the lead but it is not the world's largest country. New Zealand is trying to compose the differences over the quasi-judicial side, the appellate body side, of the WTO. New Zealand has a very good ambassador, who was the chief Trans-Pacific Partnership



negotiator. New Zealand contributes more than what would be indicated by a country of four million people stuck in the middle of the South Pacific.

- Q24 **Sir Mark Hendrick:** Coming back to Julia's earlier point with regard to China—China is a member now of the WTO—how far off do you think China is in becoming a proper functioning market economy?

Alan Wolff: That is another what-does-Brexit-look-like question. The USA and others were very encouraged by the liberalisation of China by Deng Xiaoping in 1978 and the joining of the Chinese to the WTO in 2001. The Chinese changed 10,000 laws and regulations in order to get into the WTO. A question would be the degree to which state-owned enterprises would behave like commercial enterprises, and the jury is out.

- Q25 **Sir Mark Hendrick:** I believe Deng Xiaoping worked quite a lot with Lee Kuan Yew, in terms of taking advice about the way in which they liberalised and opened up. However, it seems that China can never do enough to satisfy the United States in terms of opening up, liberalisation, transparency on state-owned enterprises, and so on. How far away do you think China is from gaining that degree of respect and recognition with regard to the liberalisation they did manage to achieve and being integrated into the global economy in a positive way?

Alan Wolff: China has a very talented bureaucracy. I would anticipate that there are those within the Chinese Government who know full well what would smooth trade relations with other countries. Whether they get there or not, and whether it is acceptable to others—such as the EU, Japan and the United States of America—the jury is out. I don't know. I do know that there is either adjustment on both sides or there is continuing friction. I know that from the Japan experience.

When we were dealing with Japan, Government and industry had very close relations. It was not a subsidy issue as much as a regulatory issue. They had a large-scale retail-store law, which meant that you could not have discounting. You could only have small shops in Japan. They changed over time. There were dozens of laws. There was a premiums law; if you were selling film—and I worked with Kodak—you could have a contest where the prize could not exceed the price of one item that you were selling. You could award not a trip to Hawaii, but a roll of film, as the prize in a contest.

Imports have to have some ability to have some sparkle to them, some competitive edge, as in the case of Japan. This is not true of China. China has plenty of import penetration, but problems with China that had been experienced are different. If you are selling to state-owned enterprises, will they buy on the basis of pure commercial considerations or does their board cause them to buy domestic when domestic is available? Those sorts of things have to be sorted out.



Q26 **Sir Mark Hendrick:** With regard to WTO reform, what do you think needs to be done to the WTO to make it a more effective organisation?

Alan Wolff: The Canadians have taken it upon themselves to look at the existing organisation; various countries have taken various pieces of this action since the G20 said there should be reform. The Canadians, with 12 other countries, have taken on board looking at how the existing committees work, what works well. The standards committee, the Committee on Technical Barriers to Trade, works very well. Countries notify their standards in draft and accept comments as to whether the standard is more restrictive than is necessary to achieve the regulatory objective.

There are parts of the WTO that work exceptionally well and there are parts that do not work as well. We do not use current data. We use notified data. I once said to the Director General of the WTO, a few back, "Why don't you subscribe to the *Financial Times*? Then you would know what was going on in the world". He said, "I do subscribe but the members won't let me read it". We deal with notified data. As far as I know, at some levels the WTO is officially unaware that there are major exchanges of tariffs between China and the United States. If they have not been notified, it does not have an internal reality. I could be entirely mistaken, but I don't think so. If a country does not notify its agricultural subsidies—which has happened and still happens—then officially we do not know what its subsidies are, but there are experts out there in academia who do know.

There are a number of things that could change. There is no executive and a possible analogy, which would hit home, is if there were no Cabinet in the UK and the House of Commons operated simply by committees and the committee chairs changed once a year. Is there monitoring that is as good as it could be? Are there initiatives taken, if there is no executive? The WTO has no executive. It has committee chairs. Is there something that could be done on that side? Legislating, the WTO has been unable to come up with new agreements for a few years. What needs to change in order to have a legislative function? One answer is these open plurilaterals, such as e-commerce, through joint initiatives.

The third area is the quasi-judicial area. That is in the process of falling apart because the US will not allow appointments of new appellate-body members. There is a lot to be done but there is a great opportunity to get it done.

Chair: Before I go on to Matt Western, the point of chairs being appointed for a year in the House of Commons, that is a very scary idea that does not go anywhere at all. Matt Western.

Q27 **Matt Western:** Elaborating on that point, Ambassador, the pressure from the US in blocking the appointments to the appellate body, does that threaten the future effectiveness of the WTO?



HOUSE OF COMMONS

Alan Wolff: It is not a tactic I would have chosen or that 163 countries, the other 163, applaud at all. The question is: what is to be done? The US is not budging. It is not moving. Either other countries, other members in the WTO, will say, which they are doing, "Is there any validity to any of the complaints of the US? Maybe we ought to be thinking about whether they have validity or not". That process is beginning, being facilitated by the New Zealand ambassador, and there is every possibility of having a solution.

In other words, the US says the appellate body, under the rules, is to render its decisions within 90 days. There are no exceptions. It just says, "You will decide an appeal within 90 days" and the appellate body does not do that. It, itself, has chosen not to do so. Therefore, what is the answer? Clearly, the appellate body is not living up to the agreement and there is a variety of answers that can be given.

One answer is, "Deliver your opinions within 90 days". That is the US position. Others would say, "Well, if the parties agree that they should take longer, maybe they extend it". However, a group of countries is coming to grips with the complaints. Where are we in December, when two out of the last three appellate body members cease to have official status—except under their own interpretation—which is that they continue to serve on any case they were serving on? The US says it is not written into the agreement so it is illegitimate.

There are other ways of dealing with disputes other than the current system. There is arbitration, for example. There is mediation. There are other workarounds. What we do not know is what the world will be like after December.

Q28 **Matt Western:** Do you think the proposals that the New Zealand ambassador is working on, and the Canadian proposals, will be successful?

Alan Wolff: There is engagement, which for six months or so there was not; there was just resentment. There is now engagement and there is the possibility of coming up with solutions.

Q29 **Matt Western:** I want to come back to something, very briefly. A few moments ago you talked about the US, Canada, Mexico and the automotive sector. I think you said that the automotive industry would face a disaster if there had not been a trade agreement. Can you be more specific, very briefly, or quantify what the impact could have been?

Alan Wolff: Starting to have tariffs on parts; cars go back and forth across the border repeatedly in the process of manufacture. The Canadian Embassy, in its lobby, has a television screen that says that more trade daily goes across the one bridge between Detroit and Windsor than all trade with Japan in a year, that sort of thing. It is a vast amount of flow, back and forth. If all of a sudden there were tariffs interposed, or any other restrictions, that would not only harm the car trade but into



HOUSE OF COMMONS

cars go a lot of electronics, carpeting, glass, aluminium, steel. The supply chains have to be respected.

Q30 Chair: Our time is running short. There are two or three more questions to bring the session to a close. First, what would the consequences be if the current objections to the UK's proposed goods schedules were to become subject to the formal disputes settlement proceedings at the WTO?

Alan Wolff: My understanding of the proposed schedule—87% duty free is what I have read—is that it is far more liberal on average than the existing EU tariff. That does not mean that some country or other will not say, "Wait a minute. What we were really interested in is fresh tomatoes" or something or other, "and you didn't help us". So can countries have an issue with what is done if there is any increase? I don't know that there is any increase in here, but any discrimination against that other country, any increase, and they could raise the issue.

Q31 Chair: Therefore, if that—TRQs, or whatever—came into a dispute settlement proceeding, would it mean you could still operate?

Alan Wolff: TRQs—tariff rate quotas—there is no right result when you re-divide a quota. In other words, there isn't a standard to go by. Countries that will feel they are disadvantaged will raise the subject. Does it become a formal dispute? It probably just becomes a negotiation.

Q32 Chair: It is not WTO resolvable; it is only negotiation resolvable?

Alan Wolff: Ultimately it is consultations. The world used to have textile quotas and you ostensibly could have a rather large textile quota, but then you would say, "For boys' underwear we are going to have a different category than for girls' underwear and you cannot move anything from one category to another". You could make a tariff rate quota very restrictive by sub-dividing it. That is basically the issue.

We used to be able, if we could not sell to the UK in one quarter, to sell to Italy instead. We had much more freedom to utilise the EU quota that existed. Now, you have started to carve it up. It is not the same for us because there is a variation in the market from year to year. Is it irresolvable? No. There will be consultations and these matters get worked out.

Q33 Chair: But there would be no WTO ruling on it.

Alan Wolff: It could go to dispute settlement, but it is largely likely to be a matter of bilateral negotiation: "You did not do that for me over here, but over there I could have used a little help". All of life is a negotiation.

Q34 Chair: Can I move you to another area now, the Northern Irish border? The EU's border with the rest of the world as it hits in some of these areas in Northern Ireland, particularly the one of major discussion, potentially. How does the WTO view that border and the various suggestions around that border? That Northern Ireland with the Republic



of Ireland becomes one zone so that it becomes a member state of the EU. The WTO might find part of that state to be effectively in another state or be another member if the UK became an independent member, with part of its territory now being part of the European territory. Are there any particular views on the legalities around that?

Alan Wolff: I would imagine that the UK will seek to justify WTO rules whatever it comes up with. The basic rule is non-discrimination. If there is discrimination, then the question is whether there is an exception that applies.

- Q35 **Chair:** If the UK were discriminating for part of its territory—this would be the situation of the famous backstop that would put UK territory effectively as European Union territory—where does that leave both the EU and the UK in that scenario, when they are including part of a territory? Does the WTO not being notified of this have an effect? What does the WTO know and what can it do? Or would another member likely bring a complaint about that?

Alan Wolff: It depends on whether they feel disadvantaged. It comes down to commercial interest: “Are you doing something that hurts my producers?” whether it is agriculture, my farmers or my industries, or my services. Then it would be a matter of consultation.

- Q36 **Chair:** It is an open question. If somebody feels that the EU has extra beef tariff-free because it has this area of Ireland included in its territory that is producing more beef, and that that is maybe injurious to, say, Argentinean beef—I am just thinking off the top of my head here—so because of Northern Ireland’s contribution, regardless of how large or small it was, if Argentina or Brazil felt there was damage to them, they could raise a complaint.

Alan Wolff: They could raise a complaint but first they would raise the issue as a matter for consultations.

- Q37 **Chair:** My final question. There is a lot of talk about the UK trading at WTO levels, foregoing all its other and previous agreements. Roughly, if the UK were to abandon everything else and to trade at WTO levels, would the economic effects be positive or negative?

Alan Wolff: If the UK left the WTO?

- Q38 **Chair:** No, if the UK were to abandon all other trade agreements.

Alan Wolff: But for the WTO?

- Q39 **Chair:** To just use WTO trade levels, would the economic effects from that approach to trade be positive or negative?

Alan Wolff: That would take a fair amount of analysis of what currently exists.

- Q40 **Chair:** If you are a company trading with France—



HOUSE OF COMMONS

Alan Wolff: You have a UK Treasury estimate. I do not have an independent basis for making an assessment.

Q41 **Chair:** Do you agree or disagree with the UK Treasury estimate, which says it would be negative?

Alan Wolff: What I did with the UK Treasury estimate was to apply it to the world. A single market is clearly better. The US is a single market. We talk about there only being one single market. That is not true. There are two single markets. The US was a bunch of independent states and they do not have borders. There is free trade across those borders because of the US Constitution. Is that preferable to, say, our relations with Canada or Mexico, even with a free trade agreement? Absolutely. A single set of laws makes a major difference.

Q42 **Chair:** What would the effects be in the US states if they were to just trade with each other at WTO levels?

Alan Wolff: That would be chaos. There are no customs booths at the border between Massachusetts and Vermont. Maybe there should be, but there are not.

Q43 **Chair:** If European states in their single market chose to do the same, would there be chaos?

Alan Wolff: That depends on capability. There are those who say there are all kinds of scientific ways of having trade move smoothly, or that you can just abandon the notion of much in the way of inspections at the border; whatever. As I said earlier, the fact of the matter is that the US has seemed to be very easily pierced by imports from China, some \$900 billion a year. We do not have any arrangements with China of a bilateral sort. China has managed to get into the US market. The Japanese did—and have, and do—as well. The US is a low-tariff country but there are areas of restrictiveness.

We have had sugar restrictions given to us by Britain in colonial times that we have never gotten rid of. I cannot say “we”—they, those Americans. They have sugar restrictions. They have subsidies on cotton that they find that they cannot politically get rid of. If you went state by state, and each state decided what they would take off the others’ goods, that would be chaotic but my assumption is that that is not the way the world is going to be.

Chair: Fair enough. On the mention of sugar, I think that is perhaps a sweet note to end the morning’s session on. Thank you very much. Thank you all. Thank you for your time, Deputy Director-General of the World Trade Organisation. It is much appreciated.