

PASCAL LAMY: "With precaution, the world is no longer flat"

By our correspondent Caroline de Gruyter

"The corona crisis will not lead to de-globalisation, as some say. World trade will be severely crippled by the crisis, but it will revive. Globalization will continue. What does change is its structure. We used to try to protect companies against foreign competitors through protectionism: levying tariffs. Now we are increasingly confronted with so-called 'precautionism': we are going to protect our citizens and consumers in advance against all kinds of possible risks".

Pascal Lamy, former Director-General of the World Trade Organisation (WTO) and former European Commissioner for Trade, has been stuck in the Normandy countryside for weeks. He uses that time to discuss digitally with people all over the world about international trade - his specialty - and what it looks like after Covid-19. "Protectionism remains a risk for free trade," he says during a conversation about Whatsapp, "you can see that in the attitude of the US. But in general, import tariffs are much lower than fifty years ago. Back then, they were 30 percent on average, now they're only 5 percent. The barriers are often different nowadays: they don't serve to keep out foreign competitors but to protect citizens".

Will you give me an example?

"If you protect your companies from foreign competition, you do not do so for ideological reasons - not because foreign products are not good. A bicycle is a bicycle, anywhere in the world. It has a handlebars, wheels, and so on. In that sense the world is flat: everybody uses the same definition. After the Second World War, everybody had sky-high tariffs. Next countries started negotiating. You export scrap, the other wheels. You trade them against each other. You both go down with your tariffs. That's how it was for decades. Tariffs kept dropping. That's how we got rid of the biggest obstacles in world trade.

"The obstacles we now increasingly see come from a completely different angle: safety requirements for food toys and cars, environmental regulations, bans on certain pesticides. These are precautionary measures. If I want to export roses to your country, I have to comply with all sorts of sanitary measures. That means the world is no longer flat. A good rose in one country is not the same as a good rose in another country. This kind of obstacle has existed for a long time. At the WTO, we kept a close eye on them, because it could be disguised protectionism."

Because countries introduced a new environmental law that 'accidentally' barred access to foreign competitors of a large company?

"Yes. Now we're seeing more and more precautionism. That makes world trade more difficult. Tariffs are much easier to negotiate than health standards or the requirements you set for an architect."

Why is that harder?

"Because those things have to do with risk. What's a risk for one is not a risk for the other. Risks are heterogeneous. What a risk is is determined by mental processes. Through dreams and nightmares. It's about good versus evil. It's about culture, philosophy, rumors and metaphysics. It also has to do with the ageing of society, and with prosperity. The richer you are, and the older you get, the more careful you become and the less risks you take."

You don't compromise on risks, do you?

"Yes, but those deals are made differently. You fight protectionism by going down with all parties. You lower tariffs together with your trading partners. With precautionism it goes the other way around: all parties go up."

Why is that?

"You can't tell a country to lower food safety standards in order to import cheaper food. You can't, because then you put your citizens at risk. They wouldn't accept that. You can say to the other country: why don't you raise the standards as well? That's how you remove barriers by harmonizing your legislation."

Isn't that how it works on the European market?

"Yes. And one of the most important moments was the ruling of the European Court in the Cassis de Dijon case in 1979. A German company wanted to import French cassis. That was allowed, but he wasn't allowed to sell them, because a German law prohibited the sale of fruit liqueur with so little alcohol in it. Then the judge in Luxembourg said: what is good for the French is also good for the Germans. Borders for European beer make no sense either. That was quite a political statement, because with that he actually said: we're all a bit the same and so we have the same standards, so we can trust each other's laws. Something like that is impossible between Sweden or Bangladesh. Or between Angola and Mexico. They think differently about food, about animal health, and so on."

Did the financial crisis in 2008 exacerbate this precariousness?

"I don't think so. 2008 was a classic shock to world trade. A typical U-curve: first steep down, then up again. Little else has changed. The corona crisis has intensified and production lines are going to change. Countries want to protect their populations and will introduce all kinds of laws as a precaution, not only for health but also to strengthen vulnerable production lines for certain essential products".

So they always have medicine or mouth caps?

"Yeah. It's all about resilience now. I was in a video conference yesterday with Alan Kirman who said, "In world trade, production lines were set up according to the just-in-time principle. Now that's gonna be just in case. That's exactly what it is. What drives you most is not to keep foreign competitors out of your market, but to protect your people."

You say precautionism was already there. Do you have an example?

"The EU and the US tried to negotiate a trade agreement a few years ago. That was a flop. Why? Because both sides weren't clear about what their goal was: to align precaution. The EU doesn't want

hormone meat or chlorinated chickens from America. The Americans could have known in advance that Brussels wouldn't give up.

Concluding trade agreements therefore becomes more difficult.

"Yes. In protectionism, the one who has no protection controls the game, or the one with the lowest rates. In precautionism, the one with the highest level is master of the game. Nobody goes to the EU and says: you have to make your pesticide legislation less strict, then we can make a deal. The EU does not bend. Such a deal will only happen if others make their legislation as strict as the EU."

That only works because the EU is big, doesn't it?

"Yeah, nobody says to Panama, you need to relax the law on pesticides. That also has to do with the costs. They are often significantly higher in the case of precautionism than in the case of protectionism. Let's stick to the flowers. If a company from Rwanda wants to sell flowers in America, they'd have to respect all kinds of procedures, but they also need certificates to prove that they do. A certificate costs \$25,000 a year. You have to call in lawyers, advisors who will guide you through the procedure. Companies that want to go into Europe have the same thing. Precautionism increases the cost of a product coming from outside by about 15 percent. With protectionism those costs are much lower: the average import tariff is only 5 percent."

So you're only willing to pay the 15 percent if a large market like the EU wants to enter?

"Yeah. You only do that in a big economy. Not a small one. You bypass them, otherwise the costs don't outweigh the benefits, of course."

This is the 'Brussels effect' the American professor Bradford has just written a book about.

"The Europeans, along with the Americans, are the masters of precautionism. Because the EU collectively, as a bloc, makes policies for the environment, consumer protection and the climate, companies all over the world make their products according to European rules. If European countries did it separately, something like this wouldn't happen. For developing countries, of course, it is less fun. Those flowers in Rwanda have been grown according to European rules for years. So have chickens from Brazil. It's been like that for 25 years. They check on the spot whether everything is done according to European rules. What producers in these countries have difficulty with is that Europe, America, Japan and China have different rules. They would benefit if those giants harmonised their rules."

But of course it won't be easy. The US and China both want to dictate product standards worldwide.

"Yes, and as a result, world trade may slow down. The corona crisis doesn't make it any better. Not only because the virus intensifies the rivalry between the US and China, but also because no country will decide to relax its sanitary and consumer rules after such a major health crisis. EU trade policy will become more precautionist rather than less. Just look at this recent paper where France and the Netherlands are jointly arguing for stricter environmental requirements and a Carbon Border Adjustment Mechanism in trade agreements. If you had told me a couple of years ago that Paris and The Hague would do something like this together, I would have thought something crazy had smoked. Anyway, it's a very interesting signal."