

LESSON 3.

WORLD TRADE ORGANIZATION (WTO)



<http://www.wto.org>

What is the World Trade Organization?

The WTO is a negotiating forum ... Born out of negotiations, where member governments try and sort out the trade problems they face with each other.

The WTO's current work comes from the 1986-94 negotiations called the Uruguay Round and earlier negotiations under the General Agreement on Tariffs and Trade (GATT). The WTO is the host to new negotiations, under the “Doha Development Agenda” launched in 2001.

It's a set of rules ... At its heart are the WTO agreements, negotiated and signed by the world's trading nations. These documents provide the legal ground-rules for international commerce. They are essentially contracts, binding governments to keep their trade policies within agreed limits. The goal is to help producers of goods and services, exporters, and importers conduct their business, while allowing governments to meet social and environmental objectives.

The system's purpose is to help trade flow as freely as possible. It also means ensuring that individuals, companies and governments know what the trade rules are around the world. In other words, the rules have to be “transparent” and predictable.

And it helps to settle disputes ... Trade relations often involve conflicting interests. Agreements, including those negotiated in the WTO

system, often need interpreting. The most harmonious way to settle these differences is through some neutral procedure based on an agreed legal foundation.

The World Trade Organization (WTO) deals with the rules of trade between nations at a global or near-global level. There are a number of ways to look at the WTO.

It's an organization for liberalizing trade
a forum for governments to negotiate trade agreements.
a place to settle trade disputes and
a system of trade rules.

Born in 1995



The WTO began life on **1 January 1995**, but its trading system is half a century older. Since 1948, the General Agreement on Tariffs and Trade (GATT) had provided the rules for the system.

The General Agreement to give birth to an unofficial, de facto international organization, also known informally as GATT. Over the years GATT evolved through several rounds of negotiations.

The last and largest GATT round, was the Uruguay Round which lasted from 1986 to 1994 and led to the WTO's creation. Whereas GATT had mainly dealt with trade in goods, the WTO and its agreements now cover trade in services, and in traded inventions, creations and designs (intellectual property).

Principles of the trading system

The WTO agreements are lengthy and complex because they are legal texts covering a wide range of activities. They deal with: agriculture, textiles and clothing, banking, telecommunications, government purchases, industrial standards and product safety, food sanitation regulations, intellectual property, and much more. These principles are the foundation of the multilateral trading system.

Trade without discrimination

Most-favoured-nation (MFN): treating other people equally

Under the WTO agreements, countries cannot normally discriminate between their trading partners. This principle is known as most-favoured-nation (MFN) treatment. It is so important that it is the first article of the General Agreement on Tariffs and Trade (GATT), which governs trade in goods.

National treatment: Treating foreigners and locals equally

Imported and locally produced goods should be treated equally – at least after the foreign goods have entered the market. The same should apply to foreign and domestic services, and to foreign and local trademarks, copyrights and patents. This principle of “national treatment” is also found in all the three main WTO agreements (GATT, GATS and TRIPS).

Freer trade: gradually, through negotiation

Lowering trade barriers is one of the most obvious means of encouraging trade. The barriers concerned include customs duties (or tariffs) and measures such as import bans or quotas that restrict quantities selectively. By the 1980s, the negotiations had expanded to cover non-tariff

barriers on goods, and to the new areas such as services and intellectual property.

Predictability: through binding and transparency

Sometimes, promising not to raise a trade barrier can be as important as lowering one, because the promise gives businesses a clearer view of their future opportunities.

The multilateral trading system is an attempt by governments to make the business environment stable and predictable. The system tries to improve predictability and stability in other ways as well. One-way is to discourage the use of quotas and other measures used to set limits on quantities of imports. Another is to make countries' trade rules as clear and public ("transparent") as possible.

Promoting fair competition

The WTO is sometimes described as a "free trade" institution, but that is not entirely accurate. The system does allow tariffs and, in limited circumstances, other forms of protection. More accurately, it is a system of rules dedicated to open, fair and undistorted competition.

The rules on non-discrimination – MFN and national treatment – are designed to secure fair conditions of trade. So too are those on dumping (exporting at below cost to gain market share) and subsidies.

Many of the other WTO agreements aim to support fair competition: in agriculture, intellectual property, services, for example.

Encouraging development and economic reform

The WTO system contributes to development. On the other hand, developing countries need flexibility in the time they take to implement the system's agreements. They inherit the earlier provisions of GATT that allow for special assistance and trade concessions for developing countries.

More recently, developed countries have started to allow duty-free and quota-free imports for almost all products from least-developed countries. On all of this, the WTO and its members are still going through a learning process. The current Doha Development Agenda includes developing countries' concerns about the difficulties they face in implementing the Uruguay Round agreements.

The GATT years: from Havana to Marrakesh

The WTO's creation on 1 January 1995 marked the biggest reform of international trade since after the Second World War. It also brought to reality – in an updated form – the failed attempt in 1948 to create an International Trade Organization.

Much of the history of those 47 years was written in Geneva. But it also traces a journey across continents, from that uncertain start in 1948 in Havana (Cuba), via Annecy (France), Torquay (UK), Tokyo (Japan), Punta del Este (Uruguay), Montreal (Canada), Brussels (Belgium) and finally to Marrakesh (Morocco) in 1994.

GATT helped establish a strong and prosperous multilateral trading system that became more and more liberal through rounds of trade negotiations. By the 1980s the system needed a thorough overhaul. This led to the Uruguay Round, and ultimately to the WTO.

GATT: ‘provisional’ for almost half a century

From 1948 to 1994, the General Agreement on Tariffs and Trade (GATT) provided the rules for much of world trade and presided over periods that saw some of the highest growth rates in international commerce. It seemed well-established, but throughout those 47 years, it was a provisional agreement and organization.

The original intention was to create a third institution to handle the trade side of international economic cooperation, joining the two “Bretton Woods” institutions, the World Bank and the International Monetary Fund.

Over 50 countries participated in negotiations to create an International Trade Organization (ITO) as a specialized agency of the United Nations. With the Second World War recently ended, they wanted to give an early boost to trade liberalization, and to begin to correct the legacy of protectionist measures which remained in place from the early 1930s

The combined package of trade rules and tariff concessions became known as the **General Agreement on Tariffs and Trade**. It entered into force in January 1948, while the ITO Charter was still being negotiated.

Even though it was provisional, the GATT remained the only multilateral instrument governing international trade from 1948 until the WTO was established in 1995.

For almost half a century, the GATT’s basic legal principles remained much as they were in 1948. There were additions in the form of a section on development added in the 1960s and “plurilateral” agreements in the

1970s, and efforts to reduce tariffs further continued. This was achieved through a series of multilateral negotiations known as “trade rounds” – the biggest leaps forward in international trade liberalization have come through these rounds which were held under GATT’s auspices.

In the early years, the GATT trade rounds concentrated on further reducing tariffs. Then, the Kennedy Round in the mid-sixties brought about a GATT Anti-Dumping Agreement and a section on development. The Tokyo Round during the seventies was the first major attempt to deal with trade barriers that do not take the form of tariffs, and to improve the system. The eighth, the Uruguay Round of 1986-94, was the last and most extensive of all. It led to the WTO and a new set of agreements.

The Uruguay Round

It took seven and a half years, almost twice the original schedule. By the end, 123 countries were taking part. It covered almost all trade, from toothbrushes to pleasure boats, from banking to telecommunications, from the genes of wild rice to AIDS treatments. It was quite simply the largest trade negotiation ever, and most probably the largest negotiation of any kind in history.

The Uruguay Round brought about the biggest reform of the world’s trading system since GATT was created at the end of the Second World War despite its troubled progress, the Uruguay Round did see some early results. They called for regular reports on GATT members’ trade policies, a move considered important for making trade regimes transparent around the world.

The seeds of the Uruguay Round were sown in November 1982 at a ministerial meeting of GATT members in Geneva. In fact, the work programme that the ministers agreed formed the basis for what was to become the Uruguay Round negotiating agenda.

However, it took four more years of exploring, clarifying issues and careful consensus-building, before ministers agreed to launch the new round. They did so in September 1986, in Punta del Este, Uruguay. It was the biggest negotiating mandate on trade ever agreed, and the ministers gave themselves four years to complete it. The Uruguay Round agreements contain timetables for new negotiations on a number of topics.

By 1996, some countries were openly calling for a new round early in the next century. The response was mixed; but the Marrakesh agreement did already include commitments to reopen negotiations on agriculture and services at the turn of the century. These began in early 2000 and were incorporated into the Doha Development Agenda in late 2001.

The Doha Development Agenda

At the Fourth Ministerial Conference in Doha, Qatar, in November 2001, WTO member governments agreed to launch new negotiations. They also agreed to work on other issues, in particular the implementation of the present agreements. The entire package is called the **Doha Development Agenda (DDA)**.

The WTO replaced GATT as an international organization, but the General agreement still exists as the WTO's umbrella treaty for trade in goods, updated as a result of the Uruguay Round negotiations.

THE ORGANIZATION

The WTO is 'member-driven', with decisions taken by consensus among all member governments.

The WTO is run by its member governments. All major decisions are made by the membership as a whole, either by ministers (who meet at least once every two years) or by their ambassadors or delegates (who meet regularly in Geneva). Decisions are normally taken by consensus.

Highest authority: the Ministerial Conference

The WTO belongs to its members. The countries make their decisions through various councils and committees, whose membership consists of all WTO members. Topmost is the ministerial conference which has to meet at least once every two years. The Ministerial Conference can take decisions on all matters under any of the multilateral trade agreements.

Second level: General Council in three guises

Day-to-day work in between the ministerial conferences is handled by three bodies:

- The General Council
- The Dispute Settlement Body
- The Trade Policy Review Body

All three are in fact the same – the Agreement Establishing the WTO states they are all the General Council, although they meet under different terms of reference. Again, all three consist of all WTO members. They report to the Ministerial Conference.

The General Council acts on behalf of the Ministerial Conference on all WTO affairs. It meets as the Dispute Settlement Body and the Trade Policy Review Body to oversee procedures for settling disputes between members and to analyze members' trade policies.

Third level: councils for each broad area of trade, and more

Three more councils, each handling a different broad area of trade, report to the General Council:

- The Council for Trade in Goods (**Goods Council**)
- The Council for Trade in Services (**Services Council**)
- The Council for Trade-Related Aspects of Intellectual Property Rights (**TRIPS Council**)

As their names indicate, the three are responsible for the workings of the WTO agreements dealing with their respective areas of trade. Again they consist of all WTO members. The three also have subsidiary bodies (*see below*).

Fourth level: down to the fundamentals

Each of the higher level councils has subsidiary bodies. The **Goods Council** has 11 committees dealing with specific subjects (such as agriculture, market access, subsidies, anti-dumping measures and so on). Again, these consist of all member countries.

Also reporting to the Goods Council is the Textiles Monitoring Body, which consists of a chairman and 10 members acting in their personal capacities, and groups dealing with notifications (governments informing

the WTO about current and new policies or measures) and state trading enterprises.

The **Services Council**'s subsidiary bodies deal with financial services, domestic regulations, GATS rules and specific commitments.

The Secretariat

The WTO Secretariat is headed by a director-general. Divisions come directly under the director-general or one of his deputies.

Director-general

Pascal Lamy is the fifth Director-General of the WTO. His appointment took effect on 1 September 2005 for a four-year term.

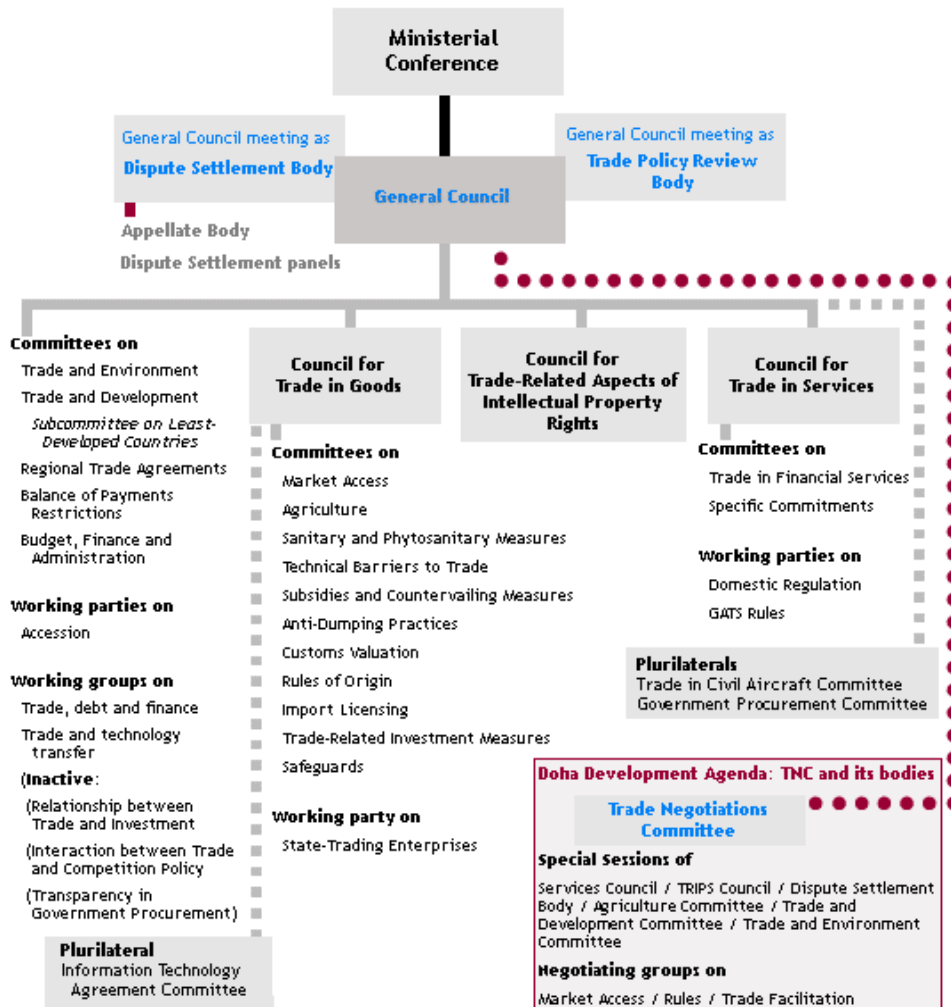
Office of the director-general: administrative support for (disputes) Appellate Body, Textiles Monitoring Body.

The WTO Secretariat is located in Geneva. It has around 550 staff and is headed by a director-general. Its responsibilities include:

- ❖ Administrative and technical support for WTO delegate bodies (councils, committees, working parties, negotiating groups) for negotiations and the implementation of agreements.
- ❖ Technical support for developing countries, and especially the least-developed.
- ❖ Trade performance and trade policy analysis by WTO economists and statisticians.
- ❖ Assistance from legal staff in the resolution of trade disputes involving the interpretation of WTO rules and precedents.
- ❖ Dealing with accession negotiations for new members and providing advice to governments considering membership.

The WTO's main functions are to do with trade negotiations and the enforcement of negotiated multilateral trade rules (including dispute settlement).

WTO structure



- Key**
- ● ● Trade Negotiations Committee reports to General Council
 - Reporting to General Council (or a subsidiary)
 - Reporting to Dispute Settlement Body
 - ■ ■ Plurilateral committees inform the General Council or Goods Council of their activities, although these agreements are not signed by all WTO members

Answer these questions taking into account what you have read.

- 1.- What is the WTO?
- 2.- Explain the principles of the trading system
- 3.- What is the GATT? and its historical development.
- 4.- Why is the Uruguay round important for international trade?
- 5.- How is the WTO organized?
- 6.- What are the main functions of the International Trade Centre?
- 7.- Why do you think the International Trade Centre was created?

REFERENCES

Documents from the World Trade Organisation <http://www.wto.org>

Content research and adaptation: Prof. Marina Meza