

The World Trade Organization

Functions of the WTO

- Administers trade agreements
- Acts as a forum for negotiations
- Works to settle trade disputes
- Reviews national trade policies
- Assists developing countries with trade policy
- Cooperates on subjects of mutual interest with other organizations

Membership and Decision-making in the WTO

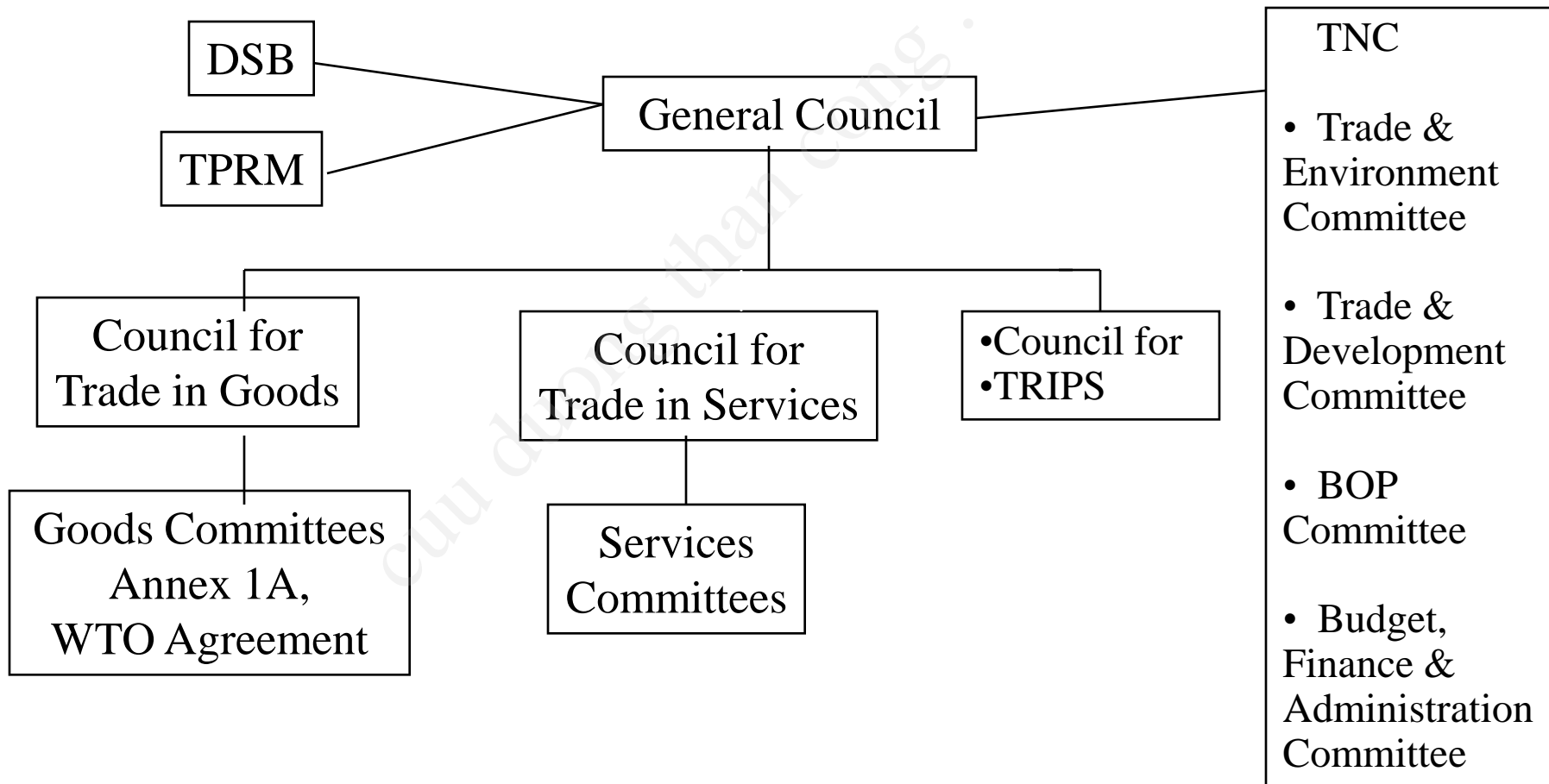
- Some 150 member countries, accounting for over 97% of world trade
- Some 30 other countries are negotiating membership.
- Decisions are made by entire membership.
- While a majority vote is possible, decisions are usually by consensus.

Structure of the WTO

- A Ministerial Conference meets every two years.
- General Council meets regularly at level of Ambassadors.
- Goods Council administers GATT (including agriculture).
- Services Council administers GATS.
- Intellectual Property Council administers TRIPS.

Organs of the WTO

MINISTERIAL CONFERENCE



Secretariat of the WTO

- Director General and Deputy positions selected by members (usually political and term limited)
- Staff of over 500; all in Geneva
- Secretariat has no decision-making powers.
- Provides technical and legal support to councils, committees, working parties and to developing countries

WTO Mission Statement

- The World Trade Organization is the only international organization dealing with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible.

WTO Agreements

- These form the heart of the multilateral trading system.
- Negotiated, signed and ratified by member nations
- Provide legal ground rules for international commerce
- Guarantee member countries important trade rights
- Committed governments to keep their trade policies within agreed limits

WTO Agreements

- In principle remove power politics from trade negotiations and dispute settlement.
- Impose costs on Governments who want to or have to take economic decisions that break agreements into which they have entered.

WTO's Fundamental Principles

- Complicated legal agreement guiding the international trading system.
- Based on five, easy to understand, principles:
 - *Trade without discrimination*
 - *Freer trade, gradually, through negotiation*
 - *Predictability, through binding and transparency*
 - *Promoting fair competition*
 - *Encouraging development and economic reform*

Trade without discrimination

- This means treating all member countries equally.
- It is formally known as the Most-Favoured-nation (MFN) Principle.
- For example, if a WTO member lowers its customs duty for a product imported from one other member country, it must also give the same concession to all other members.

Trade without discrimination

- Members must also not discriminate between domestic and foreign goods, services or nationals once they have entered the market.
- This is known as National Treatment.

Trade without Discrimination

- A few exceptions are permitted:
 - *For partners in a free trade agreement*
 - *For extending better access to developing countries*
 - *General waivers*
 - *To protect morals, human and animal health and National Security*
 - *To counteract unfairly traded products*

Freer Trade Gradually, through negotiation

- The WTO encourages fair trade by disciplining barriers related to:
 - Tariffs
 - Import bans or quotas
 - Other issues
- Now into 9th round of liberalizing negotiations (8 under GATT)

Predictability through Binding and Transparency

- “Binding” means setting a fixed upper limit on tariffs and other commitments
 - *Provides stability and predictability*
 - *Can be changed only after negotiations with trading partners*
 - *NOTE: 100% of agriculture products of developed countries have bound tariff rates.*

Binding and Transparency

- The WTO *discourages* the use of less visible and less predictable barriers (e.g. Quotas)
- It *encourages* transparency through requirements to disclose policies and practices and notify WTO of changes.
- Conducts trade policy reviews

Promoting Fair Competition

- Rules to establish what is considered fair and unfair competition (e.g. Dumping and subsidies are considered unfair competition.)
- Rules to establish how governments can respond to trade disputes.
- Specific agreements, such as that on agriculture, aim to support fair competition.

Encourage Development and Economic Reform

- Fully three quarters of WTO members are developing or transition economies.
- WTO rules and mechanisms provide
 - more time for developing countries to implement undertakings.
 - special assistance (training, legal advice).
 - trade concessions (generalized system of tariff preferences).
 - extend Special and Differential Treatment.

Contingent Protection

- Contingent Protection rights exist for special circumstances:
 - Unfair trade is considered to be trade which is distorted by some action of Government or the private sector.
 - Where proven to exist and to be hurting competition, the importing country can take action.

Contingent Protection

- Several important types of practices qualify:
 - *Dumping*
 - *Subsidizing production and export*
- Safeguards provide a legal trade remedy that permit countries to protect domestic industry against fairly traded products when subject to disruption.

Dumping

- Means selling a good at less than its “normal” value
 - *usually the price in the home market or the cost of production*
- Is the result of an action by the company involved and outside control of Government
- If an industry makes an allegation, an investigation is required to prove dumping and its value.
- If dumped sales cause material injury to domestic interests, then dumping duties can be applied equal to amount of dumping margin.

Dumping

- Material injury
 - *To impose a “dumping duty”, it must be shown that injury has occurred*
 - *Injury can take many forms:*
 - Lost sales
 - Lost profits
 - Reduced employment
 - Unused factory capacity

Dumping

- Injury must be found to be material.
- No standard definition of what is “material.” It is left to each country to set limit
- Dumping duties remain in effect as long as the action is taking place.
- Countries can enter into a price undertaking (not to dump) and have duties waived.

Subsidized Production and Export

- Governments sometimes provide monetary support to their producers.
- Some subsidies are given for industrial development reasons.
- Only non-generally available support is actionable
- Support given only when products are exported is prohibited by the WTO
 - *If found to exist actions can be taken to eliminate them*

Subsidies

- Investigation is carried out to determine existence and level of support
 - Next steps depend on level*
- Another investigation is undertaken to determine if there is material injury to domestic producers in the importing country
- If there is, then a “countervailing” duty is imposed to match the subsidy
- Stays in effect as long as the subsidy is paid.

Safeguards

- Sometimes firms encounter competitive problems even though foreign competition is fair.
- If a government must provide protection for domestic reasons they may do so, but under strict controls.

Safeguards

- Must demonstrate that was unexpected or relative increase in imports.
- Must be able to prove “serious” injury
 - *More than material*
- Restrictions must be for fixed time.
- They must be phased out over that time.
- Some market access is expected to continue to be available.

Contingency Protection versus Trade Principles

- Need to balance basic principle of non-discrimination with the right of each WTO member to ensure that competition is fair.
 - Each sanctioned contingency protection measure requires specific administrative and consultative steps ensuring predictability and transparency.
 - Each contains special treatment in support of development.