

COMMENT

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Why a transatlantic trade pact can work

After the debacle of the Doha round of World Trade Organisation talks, Angela Merkel, the German chancellor, recently renewed a long-standing German call for a transatlantic free trade area embracing the European Union and the three members of the North American Free Trade Agreement. Peter Mandelson, the EU's trade commissioner, followed with his own post-Doha advocacy. He urged bilateral and regional agreements as the only early route to further liberalisation of trade and investment.

However, it is not yet clear how serious Mrs Merkel is about the idea; and the EU commissioner, in his list of priorities for bilateral agreements, never mentioned a transatlantic initiative. In effect, he said Yes to India, South Korea, Russia and the 10 member states of the Association of Southeast Asian Nations; but No to Canada and the US (Mexico was earlier favoured by the EU with a free trade agreement of sorts).

We believe that this is a mistake – but unfortunately not a new one. Despite repeated German urgings and Britain's traditional free-trade instincts, Europe has long shunned even the exploration of a comprehensive transatlantic trade and investment agreement, beginning with its unfortunate rejection of a Canadian proposal as early as 1949 to make Nato an economic as well as a military alliance. More recently, Brussels has rebuffed Canadian and US proposals for a trans-

atlantic free trade accord, arguing that any such agreement would undermine the global nature of trade and investment liberalisation.

The EU argument begins with the idea that all energies must be concentrated on completing the Doha round. Second, it is said that sub-global agreements can have a "spaghetti bowl" effect by complicating international trade, confounding the supposed transparency of global agreements. Third, that developing countries, despite existing preferential or duty-free access to developed-world markets, might feel excluded (even if a transatlantic deal were open to any who could meet its terms).

A global round would indeed be the best solution. But that is sadly not likely to be available. Now Mr Mandelson, without admitting it, has turned the trade world upside down by saying regional agreements are the thing – except transatlantic ones. But why not transatlantic? In his advocacy of bilateral deals, Mr Mandelson emphasises new rules for investment, competition, public procurement and other non-tariff barriers, as well as elimination of all remaining tariffs, but he offers no recognition that in these most contentious areas progress is more likely transatlantically than globally. Since a transatlantic agreement ought properly to be open to other, extra-regional countries to join if they can accept its disciplines, it offers a fine way to accelerate progress on these issues, not hinder it. Neither Mr Mandelson nor his prede-

cessor has explained why North America is excluded from Europe's new bilateralism, but at the end of the day trade in agricultural products must be in their minds as the basic, or even insurmountable, obstacle. As long as Europe, for domestic political reasons, clings to its anachronistic Common Agricultural Policy and the US to its hardly less-extravagant Farm Bill, a multilateral trade agreement appears impossible. Yet for a transatlantic free

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trade agreement, which must meet WTO requirements that it embrace "substantially all trade", agricultural products would form only a small amount of total trade.

Trade purists may well protest that the intentional exclusion of agriculture from a transatlantic agreement is unthinkable. Mr Mandelson himself has talked somewhat vaguely of the need for "deep free trade agreement across the full range of sectors", but given the intransigence on both sides about agricultural protectionism, the

alternative to its exclusion from an agreement is to do nothing. Yet the prizes in every other trade sector are now so large that agriculture, which has everywhere become a lesser player, should surely either be set aside for another day (as presumably it will be, for example, in any EU-India agreement), or postponed for later consideration, once the French have elected a new president. Concentration should now be on barriers behind borders, such as regulations, government procurement and investment rules. This would be no "quick political fix", but a wide-ranging "Doha-plus" transatlantic initiative, open to all who qualify.

Transatlantic ties have been strained by the Anglo-American invasion of Iraq. Enhanced trade and investment links can now do something to offset the damage. And if the EU and the US do not yet feel quite ready to take the plunge, an EU-Canada initiative, building partly on the precedent of the existing EU-Mexico agreement, could be a first step – pointing the way to a later comprehensive transatlantic agreement pending of course any real resumption of the Doha round. If a transatlantic council of eminent persons were now to be appointed, it could usefully be asked to recommend first steps. Why wait?

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