

"A WTO for the 21st Century" –16 November 2018

BRUNO LE MAIRE, MINISTER FOR THE ECONOMY AND FINANCE

Director-General Azevedo,

Commissioner Malmström,

Minister,

Members of Parliament,

Your Excellences,

Ladies and Gentlemen,

It gives me great pleasure to welcome you to the Ministry for the Economy and Finance to discuss modernising the rules and functioning of the World Trade Organization.

Let me start off by remarking to Director-General Azevedo that our desire is not only to discuss modernisation of the WTO, but to carry out this modernisation, and relaunch the World Trade Organization, which is vital to the smooth functioning of international trade.

Trade is the most strategic economic issue today, the most strategic for all of us, for our citizens, our growth and our jobs, simply because, for decades, global trade has been bringing growth and prosperity to the world.

It has shortcomings and weaknesses, of course, but let us first look at what international trade has produced in terms of development and combating epidemics, in terms of living standards and education for the whole planet. International trade has fostered economic development for hundreds of millions of people around the world.

At a time when some would have us believe that protectionism is the solution, I would like to assert that protectionism means impoverishment for our economies and our citizens. International trade, fair trade based on reciprocity rules, will allow our economies to expand, our technologies to bring the well-being that people require, and our economies to create needed jobs.

That is why this issue is so strategic, as international trade has brought prosperity to many countries around the world, it has allowed us to create jobs and revive our economy. Today, however, we are facing difficulties that are increasingly worrying in terms of international trade.

After decades of growth based on open international trade, a new global economic war now threatens us with decades of withdrawal, low growth and impoverishment.

The real risk now is that we will settle into a commercial Cold War between China and the US, in which all the other countries on the planet – including Europe – would be the losers.

The new cold war we are facing today, and from which we must find an exit, is no longer a nuclear one. It is a commercial Cold War between China and the United States, and we must urgently find a solution. This is the current challenge.

How did we arrive at this new commercial Cold War between the US and China, a war that threatens to undermine global growth, the effects of which are already being felt in Europe, with slower growth in Europe and the euro area?

First, we are in this situation because for the past few decades trade has globalised rapidly. In addition, we have undergone a technological revolution that has made new technologies a source of power, even though we do not have the trade tools to cope with these technological changes and new value chains, where technological progress has outstripped manufacturing.

We have also reached this point because, in this emerging and expanding world trade, the Asian continent, and China in particular, is the new global economic reality.

The rapid, proactive emergence of China on the world economic stage has been the most astounding thing of all in recent decades. It has exceeded all expectations, astounded the world and has led to a new balance of world trading power.

But China's emergence, let us not be mistaken, has also been a source of disappointment. Seventeen years ago, Director-General Azevedo, when China joined the WTO, everyone thought that China would join the ranks of other nations, comply with the same rules, and submit to the same principle of reciprocity as other nations, and that world trade would continue at exactly the same pace, under the same conditions and absorb China like any other country.

Things did not turn out that way, and if we do not express ourselves clearly and forcefully, we will not solve the problems we face today.

When China joined the WTO in 2001, everyone thought it would be the new Eldorado, that we could go in and trade as we pleased, with free access to markets. This new Eldorado quickly became in fact a very special Far East, with its own rules, its own way of doing things, with ways of behaving that were not necessarily the same as those of other nations. China began exploiting all the loopholes, the imprecisions, the grey areas of trade rules, which the Director-General was discussing with me just now.

In this special Far East, the Communist Party is present in almost all private companies trading in China. This region has its own notion of intellectual property that does not respect our concept of intellectual property. It puts obstacles in the way of public procurement contracts. It relies on significant state aid which not only penalise our companies but which can even result in us deciding not to develop certain sectors where the necessary opportunities are lacking, or that are not sufficiently competitive.

The case of batteries is a very clear and concrete example of what I am talking about. I hope that the European Union can develop its own next-generation electric battery industry, because I believe in European sovereignty and I would prefer that tomorrow our electric vehicles run on energy-storing batteries made here in France, Germany, Italy, or Spain, in other words and Europe. We have the know-how, the technologies, the automotive industries and the energy companies to do so.

Total, the leading French energy company, has acquired Saft and is ready to develop a new generation of solid-state batteries. They are pursuing opportunities with major automotive manufacturers.

In Germany, economic minister Peter Altmaier has announced plans to develop its own value chain for next-generation electric batteries. And I hope that

France and Germany will very quickly be able to merge their efforts to have energy companies on the one hand, and automotive manufacturers on the other, who are coming together to create a second-generation electric battery industry here in Europe.

But when you talk with manufacturers, what do they say? They are very reserved, and for good reason. They say that in China, with more than 1.2 billion consumers, there is state aid for electric vehicles which are reserved for vehicles with batteries made in China.

So European manufacturers tell us that as long as there are Chinese subsidies for Chinese electric vehicles with Chinese batteries, they are not sure that they have sufficient markets and a sufficient level playing field to "tap this market.

When you invest in a sector such as batteries, you don't invest 100 or 500 million euros, you invest billions and tens of billions of euros.

Well, those tens of billions of euros in investments will not produce a return if the market is not fair around the world. And it is not.

These are the key issues behind the trade issues. Behind the trade issues are technology issues; behind the technology issues are industrial issues and behind industrial issues are the jobs that go with them. In addition, there is the issue of the ability of Europe and other continents to maintain their economic sovereignty.

That is exactly the situation in which we find ourselves. I think it was necessary to make this historical detour to understand how we got to this point where we are today – a commercial Cold War that is dangerous for our economy, for growth and for jobs. We must find a way out.

To do so, there are two possible attitudes – a right one and a wrong one. There is a wrong answer to this new commercial Cold War, and there is a right one.

The wrong answer is retaliation. Increasingly tough retaliation will take us from a trade war – which is currently a cold war – to a genuine open trade war. There is only one step from a cold war to a hot war. I hope it won't come to that.

This wrong answer is the one given by President Trump, with trade tariffs on steel and aluminium, and now on wine, alcohol, the automotive industry – and all of it in tweets.

An open trade war would be economic suicide for the entire world. It would destroy value and jobs, which we reject. There are only losers in an economic war – it is unjustified, unjustifiable and simply stupid.

In any case, the EU does not have to be a collateral victim of this trade war between China and the US. We do not and will never understand why the United States – a friend and ally – should impose sanctions on Europe because it has trade difficulties with China.

Europe refuses to be the collateral victim of a trade war between the United States and China, while acknowledging that we have specific trade issues with China, as I have just noted.

And from this point of view, let me say how proud I am to have, in Commissioner Malmström, a woman of courage and a European commissioner who is able to simply state to our American friends and allies: we are friends, we are allies but we cannot understand why you should slap tariffs on us, and if you do so we will fight back.

And if there are any new US tariffs against Europe tomorrow, Europe will retaliate again, simply because they are unjustified and indefensible. We are ready to talk, as President Juncker did in Washington recently, we are ready to discuss the specific issue of China in world trade, the restoration of a level playing field, the principle of reciprocity, the refusal of state aid, the issue of intellectual property and the reform of the World Trade Organization. Not only do we want to discuss these matters, we want to move them forward.

On the other hand, tariffs are not the right answer to the current trade situation. The right answer, the one we are proposing, is a new multilateralism, a multilateralism described by President Macron, which must be reflected in reforms, Director-General Azevedo, rapid, concrete and ambitious reforms of the WTO. And you can count on France's full support to move forward in the G7, the G20, and in all multilateral fora with respect to this transformation of the WTO.

In concrete terms, what is the answer and what is this new trade multilateralism? First and foremost, it is lucid multilateralism that confronts difficulties and proclaims that, yes, we do have a problem with state aid, we do have a problem with market access and we do have a problem with how intellectual property is defined. And, it is by admitting things that real solutions can be found.

Let's also leave aside the hypocrisy of the issue of special and differential treatment of development, whereby a number of countries claim to still be developing although they are now global economic powers. For as long as this hypocrisy remains, either by failing to flag up problems or by presenting countries as developing although they are much greater powers in terms of technology, trade and industry than our own European nations, then we will not move forward.

Multilateralism must be lucid. But, hypocrisy, the inability to state things frankly and spineless consensus will sound the death knell for multilateralism. Tomorrow's multilateralism will be grounded in lucidity, truthfulness, frankness and respect.

Secondly, we are striving for modern multilateralism that factors in the fresh challenges facing world trade. I'm going to mention two of these challenges which are especially important for President Macron.

The first concerns the environment. Tackling the issue of world trade whilst ignoring its carbon footprint, in particular as regards transport, product development, manufacturing conditions and industrial realities is tantamount to sidestepping one of the major challenges of the 21st century, namely that of climate change.

World trade cannot be revamped without taking account of this challenge. Otherwise, there's no point in even beginning talks or negotiations. France will never take part in discussions on reforming the World Trade Organization that do not place the fight against climate change at the forefront of world trade concerns. In addition, we want to see the matter of carbon footprints included in the issue of world trade exchanges and rules.

The second major challenge facing this modern multilateralism obviously concerns digital technologies. In today's world, the issue of the value created by data is a crucial trade concern. Although I've heard talk of silk roads with routes, ports and rail infrastructure, the real new silk roads that are being built by China and its government are digital ones, and these have taken on the most importance today. How can we let this challenge pass us by? Lucid multilateralism must factor in the issue of the creation of value by digital technologies and data.

Lastly, we want fair multilateralism based on a level playing field or, in other words, on reciprocity. What is allowed in one country must be allowed in another. A country that opens up its public procurement must have access to the procurement markets of its trading partners. A country that opens up its market to new technologies or new industries must be able to trade on the markets of countries to which it has opened up its own markets.

Reciprocity means respect for intellectual property and this is of vital importance for France as these products have special value in this respect. Intellectual property covers fields ranging from the most sensitive technology on nanotechnologies or semi-conductors to the standard of French wine which, as everyone is aware, has its very own specificities and quality.

Fair multilateralism has to be based on principles of reciprocity and openness. But, openness does not mean anarchy. Openness must be subject to rules and there can be no rules unless they are complied with and without sanctions in the event of non-compliance.

In this respect, I would like to tell the Director-General of the World Trade Organization that we believe that the WTO Dispute Settlement Body should be empowered to hand down penalties against those who fail to comply with the rules as an overriding priority. The WTO and international trade cannot be recast if we fail to provide our citizens with guarantees that the rules will be respected and that those who fail to comply with these rules will be punished.

Although there are currently a number of scenarios on the table to move forward with dispute settlement, I consider that the first priority is to ensure that everyone abides by the rules. The WTO needs to shake off the consensus deadlock – as a consensus will get us nowhere – and make bold decisions.

Some will agree to this and others won't, but we must move forward – if necessary in a plurilateral framework – because everyone here knows that if we decide that a consensus is required before any decisions are taken, we won't get anywhere. There are rules which must be upheld and those who fail to do so must be sanctioned.

Lastly, this fair multilateralism based on opening up trade must allow us to safeguard a certain number of our most sensitive technologies and assets. Believing in world trade, as I do and as Cecilia Malmström and all the European countries do, does not mean leaving our markets open to the four winds of globalisation and our most sensitive technologies unprotected.

These technologies are not miracles fallen from heaven. They represent work, financial investment, research and decades of training. Progress on artificial intelligence, search engines or data synthesis systems does not happen overnight, but represents years or even decades of research and public and private investment.

It's therefore quite right that countries should be looking to protect their most sensitive technologies. France has recently bolstered its decree on foreign investments and, make no mistake, we are fully committed to safeguarding these technologies. We will never allow French technologies, which have called for investments, skills, know-how and research, to be looted.

We also welcome the fact that the European Union has become aware of the need to protect these technologies with the upcoming adoption of a regulation providing for review of foreign investment into the EU.

Tomorrow, when we will have European technologies covering artificial intelligence, renewable energy storage, space, semi-conductors and

nanotechnologies, it will be perfectly legitimate for Europe to want to protect its most sensitive technologies. Europe is an open market but it is not a supermarket where everyone can come and loot technologies that have required investments by European countries.

Furthermore, matters should be very clear for everyone in the world. China protects its technologies, and rightly so, as do the United States; so Europe and France will also follow suit. I can see no conflict between defending fair and equitable free trade, as I have just done, and the protection of the most sensitive technologies and I would go so far as to say that they go together.

To conclude, France and Europe have a role to play – a full role – in the planned reform of the World Trade Organization and in the search for a rapid solution to the current commercial Cold War.

Europe can act as an essential referee in Sino-US relations and it is determined to assume this role. We have a single market which, I would remind you, is the world's largest. It is a source of both pride and strength, and we want to defend it.

As everyone is also aware, the negotiation of the Brexit agreement has created a special context in Europe. Many lessons can be drawn from the current political situation. What has Brexit shown us? The bottom line is that leaving the European single market comes at a quite staggering cost. Obviously it can be done, all citizens are free to decide to leave the single market or withdraw from the EU, but Brexit has highlighted the huge financial cost and the fact that lying and irresponsible British politicians have promised their citizens that Brexit will lead to a better future.

The truth is more that Brexit could create an economic nightmare. We can now see the result, the choice faced by the leading Brexiteers between reneging on their ridiculous political promises and an economic catastrophe in which British citizens would be the first victims.

There is a single market in Europe which is a strength and which affords us significant protection. With the reform of world trade, we are determined to transform this market into an asset and genuine force to help improve international trade.

To this end, we want to continue advocating compliance with reciprocity rules and pushing for access to public procurement markets, and for protection of intellectual property. We would also like to see state aid reserved for the development of new technologies or highly-specific sectors and not compromise fair international trade. Lastly, we also want to pave the way for discussions on, or the implementation of, new international rules.

A specific example that springs to mind is international taxation. This is an issue to which, together with President Macron, we are fully committed. World trade reform can only be achieved if it is counterweighed by fairer international taxation. We are advocating taxation of the Internet giants, not because we want to attack GAFA or BATX, but just because with this new trade, within this new international order, there will only be free and fair trade if value is equitably taxed for both manufactured goods and data.

Moreover, France still does not accept that these companies pay 14% less tax in Europe than other firms and manufacturers. There should be new international tax rules – which we are calling for together with my German counterpart, Olaf Scholz – on minimum taxation to stamp out global tax avoidance.

Once again, world trade and free trade will only be accepted if our citizens are provided with guarantees that taxation is fair, that there is no tax avoidance and that all businesses, whether they have turnover of €1 billion or €1 million, pay tax at the same rate and are bound by the same tax rules.

Those were the few talking points that I wanted to raise. I would like to conclude, Director-General Azevedo, Minister of State Lemoyne, and Commissioner Malmström, by reiterating that we are now at a crossroads, but I think you are all very much aware of it.

We can continue to wage a war between nations but it won't be a "hot" war but a trade war, an economic war and a tax war which will eliminate both value and jobs. Alternatively, we could try to firmly commit, as President Macron wishes, to building this lucid and modern multilateralism based on an overhaul of the World Trade Organization. Everyone stands to gain from this transformation, as it will allow for increased trade, more new technologies, improved standards of living and job creation.

This is the path that France and all the European countries suggest taking and I hope, Director-General Azevedo, that we will manage to convince the G7, G20 and as many countries as possible to join us.

Thank you for your attention. END