

CANADIAN COMPETITION RECORD

**REGULATORY AND TRADE
DEVELOPMENTS****THE HONOURABLE LLOYD AXWORTHY
ADDRESSES BUSINESS EXECUTIVES AT
“RISK ASSESSMENT” SEMINAR**

By: Dalton Albrecht and Winxie Tse
Fraser Milner Casgrain LLP

On May 8, 2002, the Honourable Lloyd Axworthy, the Director and CEO of the Liu Centre for Global Studies at the University of British Columbia and consultant to Fraser Milner Casgrain LLP (FMC), addressed a group of senior executives at an investment and risk assessment seminar presented at the FMC offices in Toronto. The focus of the seminar was to identify and address political and economic risks when conducting business in foreign countries. As corporations, and executives, are increasingly being held accountable by their shareholders and by consumers for the nature of their investments in foreign countries, assessing risk has become an integral part of any business plan.

Mr. Axworthy's presentation consisted of two parts. During the first part of his presentation, Mr. Axworthy introduced the topic and relevance of risk assessment, as well as the other participants: his colleague from the Liu Centre, Professor Hadi Dowlatabadi and Stephen Brereton, Director of the Investment Trade Policy Division at the Department of Foreign Affairs and International Trade (DFAIT). Mr. Axworthy's presentation provided the audience with an overview of the research that had been conducted at the Liu Centre on both corporate responsibility and assessing risk in foreign countries and stated that one of the broad objectives of the Liu Centre is to produce

research that can be adapted for use by the business community so that they can manage these risks before they become devastating to their bottom line.

In his introduction of the importance of the perception of risk, in contrast to actual risk, Mr. Axworthy discussed the conclusions of a global survey of 8000 people from 12 countries conducted by the Liu Centre questioning how risk and the perception thereof relates to individuals' views of security. The majority of respondents felt that their lives today were more risky than they had been previously. The survey results revealed that what the respondents' perceived to be the number one risk to their safety was personal violence and conflict, and second, natural disaster. Mr. Axworthy pointed out that what people perceive to be risky affects policy and decision-making. How people at the management level view risk, and whether it corresponds with the perceptions of the general population, is a critical step in risk management. As corporate executives are increasingly being blamed for and paying the price for not appropriately assessing risk, this issue will become increasingly prominent. As a result, there must be a serious revision of how problems are examined, which in turn affects professional services and how such service providers give advice.

Professor Dowlatabadi gave a thorough presentation of the research findings providing the audience with real life examples and context for the theoretical discussion. [Editor's Note: Professor Dowlatabadi's paper will be published in a subsequent issue of the

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Record]. Mr. Brereton's presentation followed wherein he discussed the various ways in which DFAIT assists Canadian businesses in assessing and mitigating the risks involved in doing business outside Canada.

Mr. Axworthy's main address was given in conjunction with remarks by the Honourable Sergio Marchi, Canada's Ambassador to the World Trade Organization (the text of which follows in this issue of the *Record*).

Mr. Axworthy reflected on his experiences during his career as a federal cabinet minister, lastly as Foreign Affairs Minister, as well as on the variety of international endeavours that he has participated in, and provided his observations on international business trends and how the risks outlined by Professor Dowlatabadi might affect local business.

This evening what I'd like to do is to maybe give you what I can of some of these reflections. Particularly for the likes of people who are practising in professions in the private sector, because what has been one of the most important and highly significant developments in the last year, not by some grand design, but just by sheer practical decisions, is that there has been an expectation in societies of a much higher level of responsibility for the private sector to lead in coming to grips with the changes going on globally.

Mr. Axworthy stressed that, increasingly, demands are being placed on the private sector to take on added responsibilities in terms of risk management and the issues that are related to those risks. As governments become less able to grapple with social issues over international borders, there is an expectation that the private sector will be the "engine of growth". Further, in doing so, the private sector must address issues concerning labour relations, environmental management, human rights and poverty.

Although the interest of the private sector in the liberalization of trade is to improve business and increase profit margins, Mr. Axworthy pointed out, as had been highlighted earlier in the seminar by his colleague, Professor Dowlatabadi, that in the current environment it is not possible to do business internationally and establish broad-based trade liberalization without addressing the broader social issues concerning the environment, poverty, conflict, etc. Businesses cannot prosper if the society in which they operate is in decline and failing businesses will detract from the general well-being of society.

The reality is that you are not going to be able to provide broad-based liberalization of trade or investment without an investment in public goods to mitigate the risks in private capital. That raises everything from providing basic security to an informed regulatory system, to ensuring that there [are] proper social and environmental programs which are shared in a partnership.

Demands are being made on the private sector to invest capital in developing countries and for those capital flows to have a positive and effective impact.

Right now the ratio is approximately ten to one or twenty to one, of private capital versus foreign aid going into the southern part of the globe. But the big question, and this comes back to the theme of the seminar, [is] how this investment proceeds, and the choices that are made depend on the assessment of the risks involved. How do you convince the mining companies, a manufacturer or a financial services provider to go into country XYZ if in fact they're facing chaos in their regulatory systems, potential conflicts, and a very high level of uncertainty in terms of the politics of the region? If I can make

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one basic thesis tonight, it's this: ... [it] is increasingly ... being said that it's no longer possible just to do business globally, but there's also an onus now in terms of the capital flows to do it in a way that makes an effective impact.

The choices that are made in terms of how those problems are dealt with and whether and what type of capital investments are made depend on how the risk is assessed.

I go back to the triple audit that [Professor Dowlatabadi] was talking about. The risk decision is: okay, now we are assessing risk but part of the triple audit is a management decision and we're also going to have to provide the other side of the ledger which is how do you mitigate and lessen the risk and that's where the partnership [between the private and public sectors] has to be made.

Mr. Axworthy stated that substantial capital flows to developing nations are needed to deal with problems of equality because "if we don't deal with equality we're going to pay a big price because eventually it's going to come back to haunt us." That equality will have to be engineered in large part by major liberalization of trade and investment in the private sector. Mr. Axworthy warned that there are consequences for failing to address the social problems, issues of inequality and environmental threats that exist in other countries and, as an example, pointed to the situation in Argentina. "Argentina is not by itself. We have this driving engine: a very stable, highly sophisticated country that goes down the tubes. We have seen the Asian flu but Argentina is a very serious virus and the boomerang effect of Latin America could be severe." Mr. Axworthy also warned that decisions, agreements and initiatives made and developed at the international level to deal with these issues and to

increase trade liberalization will also have an enormous flow-down effect to developed nations, including Canada. "We talk about global trade and trade agreements as if it's some kind of abstract, far-off, ephemeral academic exercise but in fact it is a real question of making very tough choices [about] how you orchestrate and organize yourselves in this country and often in other places. People in the private sector must play a part in that decision-making and what those choices will be."

However, Mr. Axworthy had an encouraging message for the role of Canadians and Canadian businesses in establishing guidelines and defining the rules for trade liberalization and investment. He pointed out that Canadians ranked third in terms of people who are considered most "global". "We travel more, we have better international connections and relationships, we are more active internationally. In terms of communications we are really plugged in." There is an opportunity for companies, professional service providers and individuals to provide input on how we assess risk and make effective decisions on how to deal with them.

We can provide a global framework to our management systems that will apply to our decision-making, not just in terms of individual firm activity, but how those decisions translate to a broader area of public policy; whether it is a foreign aid issue or trade issue, there is a very serious need for input from companies, sectors, institutions and associations. There is a real vacuum there and I guess I am enough of a believer in this country; I think we have the capacity to fulfil it.

Ultimately, these private initiatives will advance economic, social and environmental standards among the countries of the world.

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GLOBAL TRADE DEVELOPMENTS – REMARKS DELIVERED ON MAY 8, 2002

By: The Honourable Sergio Marchi

Introduction

It is a pleasure to speak to such a sophisticated group of international business people, and to share the podium with my friend and former Cabinet colleague, Lloyd Axworthy.

If I had spoken to you when Lloyd and I were still at the helm of the Department of Foreign Affairs and International Trade, I would have told you that the WTO had 130-something Members, and that despite being beleaguered by protestors and bogged down in interminable multilateral meetings, Canada and other WTO Members were all hoping to one day launch a new round of global trade negotiations.

I'm now happy to report that the WTO has embarked on a new round, that Membership has grown to 144 Members – including China – and for the moment the protestors are not as loud as they once were. I regret to report, however, that the meetings are still as numerous and long as ever.

I sometimes fear that Marshall McLuhan was right when he said “there are no more great men; there are only great committees”.

To understand the state of play on the multilateral trade agenda, we need to recognize that it is driven by the launch of a new trade round in Doha, Qatar, last November.

The WTO Agenda

First, Members agreed to negotiate:

- liberalization of goods and services trade;
- agricultural reform;

- clearer rules on anti-dumping, subsidies and countervailing measures;
- certain trade and environment issues;
- a multilateral registry for wines and spirits; and
- reform of the dispute settlement system.

Ministers also explicitly recognized the importance of stable and predictable conditions for investment, and agreed to launch negotiations on a global investment framework at the next Ministerial meeting, conditional upon agreement on negotiating modalities.

Three other negotiations – on global rules for competition policy, transparency in government procurement, and trade facilitation (the “Singapore issues”, first put on the WTO workplan at the 1996 Ministerial meeting in Singapore) – are also to be launched by consensus at the Ministerial Conference next year.

Beyond Traditional Trade Issues

Second, the Doha agenda also mandates useful work on:

- sustainable development;
- coherence in global economic policy-making; and
- a commitment to greater transparency – an issue that is key to the credibility of the WTO, and one that Canada has championed.

Doha Development Agenda

Third, and perhaps most importantly, Members strove to bridge the development divide, the global gap between rich and poor. The Doha Development Agenda – as we've called this round – will contribute to economic growth and reduction of poverty in developing countries.

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Members committed to deliver more and better trade-related technical assistance and capacity building, so developing countries can participate more effectively in negotiations and maximize the benefits of the global trading system.

The Doha mandate also addresses developing country concerns about basic market access for their exports to developing countries. This is where the rubber hits the road. Reducing trade barriers in all sectors by one-third could boost the global economy by an amount about the same as Canada's GDP. And the World Bank estimates liberalization in the services sector alone could lead to gains of up to 1.6% of GDP in India, and 4.2% in Thailand!

China

Fourth, a notable accomplishment at Doha was the decision – after 15 years of negotiations – to accept China as a Member. More than 97% of world trade is now governed by WTO rules, giving the WTO unrivalled potential for stimulating global economic growth.

Progress: Start of a Long Road

Doha was just the beginning of a long road. We now have much work to do and very little time to do it. The deadline for completing all negotiations – January 1, 2005 – is less than three years away now. In WTO time, that is a very ambitious deadline. The last round took almost eight years to complete. The issues this time are just as contentious and complex, and more players, particularly developing countries, want a say in the outcome.

There has been good progress since Doha on the framework for negotiations – the plumbing side of the equation:

- Mexico was chosen to host the 2003 Ministerial Conference;
- Members established the Trade Negotiations Committee, selected chairs for seven negotiating groups, and agreed on a lean and efficient negotiating structure and workplan;
- Members raised 30 million Swiss Francs, double the target, for contributions to the WTO's "Global Trust Fund" to finance technical assistance; and
- every negotiating group has discussed a work programme, guidelines and timelines, and we are starting to get into the meat of the issues.

So, by almost every measure, the WTO is moving faster than the GATT did in the Uruguay Round. But then again, we don't have eight years to finish the job!

The Challenges Ahead

As you can imagine, a number of challenges lie ahead, and we need to turn them into opportunities.

The first challenge, and greatest enemy, is time.

The deadline for completing negotiations is January 1, 2005 – less than three years away. Members will have to focus and work toward it with unwavering determination.

The biggest challenges are the issues on the table.

There is unprecedented pressure to open markets to politically sensitive exports from developing and less-developed countries:

- textiles and clothing;
- agricultural products; and
- industrial exports.

Some developing country Members warn that they will resist the launch at Mexico of negotiations on the

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Singapore issues – particularly negotiations on global rules for investment and competition. This would be challenged vigorously by the EU and Japan in particular, who argue that they need to get something on investment and competition in order to give on agriculture. This could be the biggest roadblock to success at Mexico.

Cooperation between the U.S. and the EU.

United States Trade Representative Robert Zoellick and European Trade Commissioner Pascal Lamy deserve tremendous credit for working cooperatively before and at Doha. The chemistry of any round is unpredictable: outside events can be as influential as the negotiations themselves. It is vital that they continue to work together and prevent disagreements – e.g., steel, farm bill – from complicating the transatlantic relationship, and potentially spilling over and poisoning negotiations.

The U.S. needs flexible and realistic negotiating authority.

To close by 2005, U.S. negotiators need “fast-track” Trade Promotion Authority from Congress – and soon. Other Members will not make difficult concessions if there is a risk that, after everyone else has agreed, Congress will send U.S. negotiators back to the table for more.

The final challenge: to build public support internationally.

Political leaders cannot make the tough choices required if the public only hears the critics and support for trade is cool. Citizens, businesses and governments must all build support for the WTO’s work, especially during these negotiations.

To be frank, most of my colleagues in Geneva feel that – compared to bilateral and regional initiatives –

the private sector internationally took less interest in Seattle and Doha. Given the stakes for global business, this needs to change. We need an active partnership with the private sector, both big and small business, CEOs and workers alike.

What are the Stakes?

For Canada – a nation with a mid-sized economy, and one in three jobs and almost 45% of our GDP supported by trade – the success of this round is very important.

But the benefits of a new round of rule-making and trade liberalization go far beyond Canada. The WTO is a global institution, after all, and what are the most important issues for people across the globe? Poverty reduction, access to clean water, hunger, life expectancy, a better environment.

One of the first steps toward addressing these problems is to provide the foundation for stable, sustainable economic growth. Along with good governance, social investment, and the other pre-requisites for development, trade and investment liberalization are key building blocks in that solid foundation for growth.

The World Bank recently estimated that abolishing all trade barriers could boost global income by \$2.8 trillion, and lift 320 million people out of poverty by 2015. Now that’s just an estimate. I don’t pretend to believe that the Doha round will abolish all trade barriers, but a figure like that serves as a strong reminder of the economic potential of this trade round.

So I am optimistic that, together with other important global efforts such as the G-8 focus on Africa, the recent Financing for Development conference in Monterrey, and the Global Fund for AIDS, TB and Malaria, we can give today’s poor the tools they need to become tomorrow’s producers and consumers.

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In conclusion, I remain optimistic about our prospects for success. Some sceptics believe our objectives cannot be accomplished. Now that China is a WTO Member, it may be appropriate to quote an ancient Chinese proverb: "The person who says it cannot be done should not interrupt the person doing it."
