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**WHEN THE CONSUMER HAS A CHOICE, THE CONSUMER HAS POWER -  
SAYS PETER SUTHERLAND**

"When the consumer has a choice, the consumer has power - a power that the wise producer respects and allies himself with," said Peter Sutherland, Director-General of GATT, today (21 June) in Washington D.C. "High levels of trade protection don't just drive a wedge between domestic and world prices, they also set up a barrier between domestic producers and consumers, since competition is the greatest incentive to a supplier to take his customers seriously."

Speaking at a ceremony where he was presented with the Consumers for World Trade Award, Mr Sutherland drew attention to some of the most important reforms which would result from the implementation of the Uruguay Round agreements, affecting basic consumer items such as food and clothing, through, for example, transforming restrictive import quotas into tariffs.

Mr Sutherland emphasized that the Uruguay Round agreements encourage governments to act openly and responsibly to determine effective consumer standards, for example, food standards. "No-one wants to see these standards compromised. The aim is to ensure that consumers get the most ample supply of safe food possible, with a choice from suppliers all around the globe."

On suggestions that the new World Trade Organization might affect exercise of national sovereignty, Mr Sutherland said, "I can say categorically that the WTO is no threat to the sovereignty of this or any other country".

"The Uruguay Round deal is about opportunities, not threats. Freer trade is not a flood which sweeps away jobs and national standards, but rather an irrigation system for growth whose channels are the negotiated rules of the multilateral system."

The full text of Mr Sutherland's speech is attached.

**Freer Trade, Freer Choice - How the Uruguay Round Result Helps Consumers**

**Address by Peter D. Sutherland, Director-General, GATT to the**

**Consumers for World Trade Award Dinner**

**Washington D.C., 21 June 1994**

**I**

Let me say, in thanking you for this award, that I think the presentation is the wrong way around. I should be honouring this and many other consumer groups, in the US and around the world, for their contribution to the success of the Uruguay Round. There is no doubt that it has been a significant one. Groups such as this one, and its counterparts in other countries, have done the vital service of persuading negotiators and political leaders to look beyond the throng of special interests and sectoral lobbies to the broadest group of all - the consumers. Those who espouse protectionism as a cure-all for economic and social ills tend to disregard the consumer interest. They apparently assume that consumers will be too ill-informed or too apathetic to notice or to mind putting up with high prices and limited choice. They need to hang on their wall the words of the great advertising man David Ogilvy, who knew more than most about consumer attitudes: "the consumer is not a moron".

Consumers know the facts of economic life in the most direct possible way. If the Round had failed it would have been consumers everywhere who paid the bill. They would have paid through loss of the opportunities to increase purchasing power that come with economic growth. And they would have paid directly through higher prices if - as was highly likely - such a defeat for the open trading system had led to a resurgence of trade barriers and conflicts.

So the success of the Round is very much a victory for consumers. But it is a victory which is not yet complete. The whole package of tariff cuts, rules for fairer competition, and institutional improvements is not yet a working reality. Its implementation will not begin until it has been ratified by national legislatures; the target date for its entry into force is 1 January 1995. Until that date, the benefits of the Round remain in the shop window, tantalizingly out of reach. With that fundamental point very much in mind - it is one I will come back to - let me highlight some of the ways in which the results of the Uruguay Round are good news for consumers.

**II**

The most fundamental way is through the boost this package gives to trade, economic growth and incomes everywhere. Consumers do not exist in isolation, any more than producers do. As earners and as spenders they benefit from a general increase in economic activity. Stimulating trade is one of the few ways of boosting the economy that does not risk restarting inflation. And the Uruguay Round is the biggest package of trade-stimulating measures ever.

On the world scale, a provisional estimate by the GATT Secretariat puts the global value of the improvements in market access at an extra \$755 billion-worth of trade annually by 2002. Figures like this should be treated as very conservative, especially because they do not include the value of trade in services - the fastest-growing sector of world trade.

**MORE**

For the US, a better global trade climate will help maintain the recovery in economic growth. Trade is an increasingly important component of the US economy - its contribution to total national income more than doubled, from 10 per cent to over 20 per cent, in the years from 1960 to 1990. It has been estimated that one in six US manufacturing jobs, for example, now depends on exports.

The Uruguay Round results will help to revive demand for US exports in traditional markets like Europe and Japan, where it has been hit by recession. They will also improve openness and security of access to the fastest-growing markets for US goods - consumers in the upper-income developing countries. These markets - which include the Asian "tiger" economies and much of Latin America - account for all of the 18 per cent growth in US manufactured exports since 1990. US consumers thus have every interest in the continuing rise of their Asian and Latin American counterparts in purchasing power and influence.

Some estimates put the overall gains to the US economy as high as \$100-200 billion a year once the Uruguay Round results are fully implemented. Whatever the figures, it is clear that this trade deal means more growth and investment, more jobs in the better-paying export sectors, and more disposable income in the consumer's pocket.

This, then, is the very positive economic background against which we can look at the specific gains for consumers.

### III

An ITC study estimates that trade barriers in this country cost US consumers \$19 billion a year. These barriers will not entirely disappear as a result of the Round, but they will be reduced, and the effect of that reduction will be felt in the shopping basket and at the checkout. The cuts in protection agreed in the Round will make a real contribution to reducing living costs and - perhaps more important - to keeping them down. This is because the package doesn't just reduce protection, it reforms it, to make it more transparent, fairer and more consumer-friendly.

The cuts in protection are significant enough by themselves. In developed countries such as the US, the overall reduction in tariffs on industrial products is 38 per cent - these tariffs will now average less than 4 per cent. And the value of manufactured imports entering duty-free will more than double from 29 to 43 per cent. Zero tariffs on pharmaceuticals, medical equipment and furniture, for example, will have an impact on most household budgets.

The reform of protection means the end of one of the most objectionable practices from a consumer viewpoint - so-called voluntary export restraint agreements and other "grey-area" measures. They are called "grey-area" measures because their status under existing GATT rules was unclear. Their status as far as consumers are concerned is in no doubt, however. These are the sort of measures which restrict the supply and the range of imported cars in several countries. Domestic producers can use them as cover to keep their prices higher, foreign producers and their agents take extra profits on a tight supply, and the loser is - as usual - the consumer.

Apart from automobiles, measures of this sort have also kept prices unduly high - and choice unduly limited - in many of the fastest-growing sectors of consumer demand, especially consumer electronics.

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All of these restrictions will be phased out as part of an agreement which also maintains the right of governments to use safeguard actions and clarifies the circumstances in which they may legitimately be applied. Governments will still be able to give temporary extra protection where justified. They just won't be able to go on using loopholes in the GATT rules simply to carve up markets at the consumer's expense.

Perhaps the most important reforms are those which affect the most basic consumer items - food and clothing. For twenty years in the case of textiles and clothing, and more than twice as long for agricultural products, countries have placed quotas on imports. In agriculture, they have also been able to subsidize exports of overpriced products, so that the domestic consumer has been hit not only by inflated prices and limited choice but also - as a tax-payer - by the cost of subsidies. The OECD has estimated the total transfer from consumers to producers in the US at \$360 per head in 1992 - and this was below the OECD average.

The effect of textile quotas has been similar. The bill has been estimated at between \$200 and \$400 a year in a four-person American household. And because the quotas bear more heavily on low-cost products, poorer consumers are most affected. In any case, basic food and clothing items bulk larger in their expenditure than in that of wealthier people, so overall high protection in these sectors works like a tax on the poor.

Implementing the Uruguay Round results will not mean the immediate end of higher-than-average protection on agricultural and textile products. But it will mean that this protection - immediately for agriculture, over ten years for textiles - will be transformed from quotas to ordinary tariffs.

I can best illustrate the importance of this change by inviting you to come shopping. You go into one shop looking for a suit, and find a bureaucrat behind the counter telling you what colour and size you can have - he won't let you see the other stock, and you can only pay with a blank cheque. In the next shop his colleague will sell you grocery items whose variety and prices depend on whether the supplier has done him any favours lately. Meanwhile on the other side of the street there are supermarkets and discount clothing outlets - but you're not allowed to go across to them.

Sounds like Eastern Europe in the bad old days? In fact it's not a bad picture of how the régime of import quotas has worked in western democracies. Of course in real life the bureaucrat isn't actually behind the counter; if his intervention was that obvious I don't think consumers would have tolerated the system for a second. Artificially-induced shortages, discrimination among suppliers, price-rigging cartels are all, rightly, anathema to consumers - and very often against national law. Well, international law is beginning to catch up, not before time.

#### IV

The immediate gain to consumers from shifting to tariff-only protection will be in transparency. It takes a team of economists to work out how many extra dollars a quota or a VER puts on price tags - indeed, it's amazing how new protectionist devices end up favouring only the lobbies that promote them and not the industries or jobs concerned that are often rendered less competitive. Tariff schedules, on the other hand, may not exactly be light reading, but they do set out clearly and reliably what the level of protection is on a given item. When consumer groups want to look closely at the incidence of protection and what it means for living costs, the information will be much more readily accessible.

MORE

This trade deal, therefore, doesn't just save consumers money. It contributes towards their greater empowerment, by expanding information and choice.

When the consumer has a choice, the consumer has power. It is a power that the wise producer respects and allies himself with. High levels of protection don't just drive a wedge between domestic and world prices. They also set up a barrier between domestic producers and consumers, since competition is the greatest incentive to a supplier to take his customers seriously. Heavily protected industries could make up their own version of the famous slogan - "we don't need to try harder".

But of course they do, since it is a complete illusion that import protection, however high, protects firms against change. All it does is let them down harder in the end, and their workforce with them. Firms that don't want to go the same way as the makers of celluloid collars welcome competition - they use it to improve their productivity and their relationship with their consumers. Trade liberalization on a practically global scale - which is the unique achievement of the GATT - helps them to do so. The market opening agreements which have been negotiated mean a phased and predictable increase in competition, not an avalanche. They should enable US producers to become more competitive both at home and abroad, especially by developing their areas of comparative advantage. And because they are multilateral agreements they mean that adjustment by US industries is matched by similar adjustments in America's trading partners around the world, as well as by better access for American exports.

Few of these points are news to consumer groups. However at this crucial time for the implementation of the Uruguay Round results, I think it is impossible to over-emphasize that this deal is all about opportunities, not threats. I know the great majority of American business people see it that way.

V

Liberalizing trade means reducing government intervention and increasing the individual's range of choice. I cannot imagine anyone in this country getting very far politically if they stood up in public and advocated increased government intervention and reduced individual choice. Yet this is the position those who fear more open trade seem to put themselves into.

Organizations like yours have done much to correct the misinformation which is responsible for many of these fears. I think it is increasingly appreciated that freer trade is not a flood which sweeps away jobs and national standards, but rather an irrigation system for growth whose channels are the negotiated rules of the multilateral system.

Concern over food standards is a case in point. No-one wants to see these standards compromised - and as you all know, that is absolutely not what the Uruguay Round agreements involve. Instead they encourage governments to act openly and responsibly to determine the safety of food on legitimate safety considerations, not in the form of disguised protectionism and excessive regulation. The aim is to ensure that consumers get the most ample supply of safe food possible, with a choice from suppliers all around the globe.

Issues like this sometimes reflect a broader anxiety over what the new World Trade Organization means for national sovereignty. I can say categorically that the WTO is no threat to the sovereignty of this country or any other.

MORE

Let me summarize the main things the WTO is - and what it is not.

First of all it is a natural evolution of the GATT, not a radical or revolutionary new departure. It is based on exactly the same principles as the GATT - notably non-discrimination and reciprocity. It simply extends these principles - which have proved their worth to the US and the rest of the world for nearly fifty years - into new rules on trade in services and intellectual property. The WTO is the legal and institutional umbrella over these new agreements and the existing GATT. It combines them into a single undertaking by each member country, and it administers a common dispute settlement procedure across all agreements.

The Uruguay Round negotiators realized that stability in trade relations can be attained only if the mutually agreed rules and market access commitments are backed up by procedures ensuring their proper enforcement and an institutional framework ensuring their proper administration. Both the enforcement procedures of the WTO and its institutional structure, though they strongly resemble that of the GATT, will rest on more solid legal foundations. But the WTO will **not** create unwanted new obligations. It will administer obligations mutually agreed among its Members on the basis of reciprocity, and it will serve as a forum for negotiating further such obligations. If anything, it will enhance the sovereignty of its members by providing them with a more stable international economic environment in which to conduct their policies, and a clearer, more enforceable framework of rules to ensure their rights are respected.

## VI

The launching of the Uruguay Round in 1986 owed much to American initiative, and American leadership was a vital factor in bringing it to a successful conclusion. The success of the negotiations can be seen as a victory for principles which have made this country's economy strong - principles like openness and competition within the rule of law. Now, American leadership is needed again, to make sure the reinforcement that the Round has given to those principles is lasting and productive. The lead that the President himself has given is immensely valuable, and I hope it will be widely followed. For prompt ratification is essential. Neither consumers nor the rest of the economy should be kept waiting for the return on this great global investment.

Consumers helped keep the Round in focus. They made sure the negotiators didn't lose sight of the basic realities with which their efforts ultimately have to connect. I hope the voice of the consumers will be heard as it calls on legislators to make sure the Uruguay Round deal is ratified this year, so that the WTO and all its associated benefits do indeed become a reality on 1 January. That will be an award in which all consumers can share.

END