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G-20's Bizarre Contradiction: We All Pledge to Re-Regulate Financial Services ... and Further De-Regulate Financial Services

G-20 Nations Fail to Remove Existing WTO Limits on Financial Service Regulation, Call for Completion of WTO Doha Round that Furthers Finance Deregulation and Cede Existing Policy Space Necessary for Recovery

WASHINGTON, D.C. – Today's G-20 commitments to enhance financial service regulation clash with deregulation requirements in the World Trade Organization's (WTO) 1999 Financial Services Agreement. Instead of G-20 leaders calling for completion of WTO "Doha Round" negotiations that include *further* finance deregulation, they needed to agree to fix the existing WTO rules that facilitated the current crisis, Public Citizen said today.

"It is crazy that the G-20 leaders vowed to re-regulate the financial system while simultaneously undermining their ability to actually do so," said Lori Wallach, director of Public Citizen's Global Trade Watch division. "Instead of agreeing to change WTO rules that now obligate 105 nations to continue the extreme finance deregulation policies that got us into this economic mess, the G-20 leaders called for completion of a WTO expansion that includes additional financial deregulation."

The London summit communiqué also includes a commitment "to refrain from raising new barriers to investment or to trade in goods and services" and to "rectify promptly any such measures."

"Instead of targeting only actual protectionism, this overreaching pledge commits countries to eliminate non-trade measures that many have employed to stop certain risky financial activities and stimulate economic activity," said Wallach. "What is supposed to be an anti-protectionism pledge is so broadly cast that it snares policies totally unrelated to trade, such as tough new financial service regulations that will incidentally limit trade and investment in risky financial services."

The WTO and various corporate lobbies have launched a global campaign to gin up fears about a supposed new wave of protectionism. A WTO report issued last week described "significant slippage" in the global commitment to free trade and included a long list of recent "trade measures" as evidence. Yet the list included unilateral tariff cuts, domestic food and product safety protections, WTO-legal procurement policies and anti-dumping actions. Indeed, the report stated that "There is no indication of an imminent descent into high intensity protectionism involving widespread resort to trade restriction and retaliation." The G-20 declaration identifies falling demand as the lead reason trade flows have declined, while also noting growing protectionist "pressures."

“The manufactured hysteria about creeping protectionism has caused a bit of G-20 communiqué schizophrenia,” said Wallach. “One page of the communiqué identifies ‘major failures ... in financial regulation and supervision’ as ‘fundamental causes of the crisis’ and commits to ‘action to build a stronger, more globally consistent supervisory and regulatory framework for the future’ while the next page reaffirms the leaders’ commitment to concluding the WTO Doha Round negotiations that require further deregulation of finance.”

The G-20 communiqué also suggests that completion of the Doha Round could “boost the global economy by at least \$150 billion” annually. That the G-20 communiqué would include such a figure is worrisome, given that the WTO, which is the source of this claim, provides no basis for its calculation and in 2005 declared that the Doha Round could account for up to \$90 billion in boosted global economic activity, a figure it published in response to widespread criticism of its 2003 claims that the Round would generate \$539 billion in new activity.

“Implementing the G-20’s ambitious goals will require changes to existing WTO rules that lock in domestically and export worldwide the extreme financial services deregulatory agenda that fostered the global economic crisis,” Wallach said. “It also will require the replacement of the WTO Doha Round agenda with new negotiations that liberate from the WTO’s constraints the domestic policy space that is needed to re-regulate the runaway financial services industry and stimulate the economy.”

WTO Financial Services Agreement rules:

- **Forbid governments from limiting the size of banking, insurance and other financial service firms.** As Simon Johnson, former chief economist of the International Monetary Fund has said, “too big to fail is too big to exist.” Yet WTO rules explicitly forbid signatory governments from limiting the size of foreign financial service firms, even if such limits are equally applied to domestic firms;
- **Forbid governments from establishing “firewalls”** that, for instance, prevent firms involved in commercial banking or in providing insurance from gambling peoples’ savings on risky investment businesses;
- **Forbid establishment of new regulation or reinstatement of regulations removed to comply with the WTO.** The WTO FSA “standstill rule” agreed to by the United States and other Organization for Economic Cooperation and Development (OECD) member countries explicitly forbids countries from establishing any new regulatory policies that might roll back their deregulatory commitments. These commitments were made by previous governments with respect to a vast array of insurance, banking and other financial services; and
- **Limit the degree of government oversight.** Under current rules, domestic regulations are subject to review by WTO tribunals to make the subjective determination of whether “they are not more burdensome than necessary.” Also forbidden are moves by member countries to “apply licensing and qualification requirements and technical standards that ... could not reasonably have been expected of that Member at the time the specific commitments in those sectors were made.” This requirement conflicts with the widely accepted imperative of adopting new regulation of financial services.

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