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On Eve of Major WTO Meeting, 112 Civil Society Groups Tell U.S., EU: Stop Blocking Discussion of Strong Financial Regulation

Organizations Represent Hundreds of Millions From 160 Nations

WASHINGTON, D.C. – With an Oct. 1 decision pending on whether the World Trade Organization (WTO) will set up a process to discuss the compatibility of its rules with robust financial regulation, Public Citizen joined organizations worldwide calling on their governments to ensure that global “trade” rules do not undermine countries’ ability to strengthen their own financial regulations to avoid future crises.

The [joint statement was signed](#) by 112 major global consumer, labor, environmental and development organizations – including the International Trade Union Confederation, which represents 175 million workers globally, and Consumers International, an umbrella organization of 240 consumer organizations operating in more than 120 countries. The statement spotlights a battle that started after the global financial crisis and will come to a head in a little-known committee of the WTO in Geneva next week.

The groups, many of which campaigned for strong financial re-regulation in their countries, expressed support for a proposal sponsored by WTO member Ecuador that will be discussed at the WTO’s Committee on Trade in Financial Services meeting on Oct. 1. The groups called on countries to support Ecuador’s proposal for a special WTO session to review the current scholarship and opinion at the international level with respect to financial regulation and its relationship to the WTO rules.

The statement notes, “Trade and finance experts have raised concerns that the rules of the World Trade Organization’s (WTO) General Agreement on Trade in Services (GATS) and related WTO financial services rules could pose obstacles to post-crisis efforts to enhance regulation underway on the domestic and international levels ... We cannot afford to wait until the next financial crisis to ensure that countries’ WTO commitment do not interfere with or chill financial regulation.”

A powerful bloc of countries supported a proposal in late 2011 for a formal review of these WTO rules. But as reported in a *New York Times* exposé, several WTO members, including the United States and European Union, blocked it. Now, the same countries have indicated their intent to quash the proposal to even discuss these problems, much less consider possible updates to the old rules.

The groups noted: “In June 2012, WTO member state Ecuador tabled a modest but important proposal, the goal of which is to provide all governments with greater certainty that the WTO rules governing financial services provide sufficient policy space for needed financial reregulation and do not deter improved coherence between the WTO and other international bodies promoting financial reregulation.”

More than 100 countries, including many developing nations, have commitments under the WTO financial services rules, which were established in the 1990s when the expansive financial deregulation now viewed as an underlying cause of the global financial crisis was in vogue. In contrast to the financial re-regulation proposals being discussed in the G-20 or the Bank of International Settlements, the WTO’s outdated, deregulatory rules have never been scrutinized since the financial crisis, the groups emphasized.

Countries that seek to re-regulate the financial sectors that they previously bound to comply with the WTO’s regulatory limits could face a WTO challenge and trade sanctions. Alternatively, to avoid such liability, they could choose not to institute needed policies. Among the WTO rules raising concern are those that prohibit countries from banning risky financial services and products and those that limit the use of capital controls that countries increasingly are employing to avoid destabilizing floods of speculative money. Also raising concern are WTO rules that limit regulations based on the size of a financial institution and firewalls to limit risk contagion between banking, securities and insurance sectors. A WTO provision that could be used as a defense when prudential financial regulations are implemented is at best unclear and some countries worry would be ineffective.

The WTO Secretariat has not been keen to have this matter discussed, noting that if WTO countries’ proposed re-regulation policies conflict with their WTO obligations, countries can try to negotiate compensation terms with other countries to buy back their right to regulate.

In contrast, the organizations supporting the joint statement highlighted the need for countries “to have full confidence that the policy space exists in these agreements for financial regulation.”

During the 15 years that the WTO rules were in effect prior to the financial crisis, most countries were deregulating their financial sectors. However, now that countries are beginning to strengthen regulation in the sector, conflicts with WTO rules are arising. Panama has threatened WTO challenges of other countries’ new policies requiring tax transparency. A European Commission paper noted that a financial transactions tax could violate the EU’s commitments at the WTO.

See the sign-on statement in support of Ecuador’s proposal with the list of signatories [here](#).

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