

**Remarks by José M. Salazar-Xirinachs,
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Decent Work and Trade

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Good morning. It is an honour for me to be participating in this conference and with such distinguished company in this panel.

As Friedrich Buttler said yesterday on behalf of Mr. Somavía, the Decent Work approach opens up many fields for constructive dialogue, and one of them is precisely the relationship between trade and development.

Leaving aside unilateral preference arrangements, such as the GSP, it is in regional and bilateral trade agreements where there has been the most innovation in taking into account the social dimensions of trade. And the first point I would like to make is that it is in regional and bilateral agreements where the greater opportunities to innovate and achieve a better balance between trade and development lie in the near future, and specifically where the EU has a golden opportunity to introduce best practice, for instance with the ACP countries. And it is therefore in this type of agreements where I would like to concentrate my comments.

In the EU, much of the focus on the social dimensions of trade with non-EU partners so far has been put on core labour standards and on how to promote their effective application. This also has been the focus of US trade agreements following the parameters set by Trade Promotion Authority since 2002.

However, the Communication of the Commission on “Promoting Decent Work for All” of last May, and the Council’s “Conclusions on Decent Work for All” adopted last Friday, contain a more comprehensive strategy to achieve Decent Work both within the Union and worldwide. And we at the ILO think that this more comprehensive approach is applicable also to trade policies and negotiations. As Commissioner Mandelson said in commenting the Council’s Conclusions: “Putting trade policy at the service of development means putting it at the service of decent work”.

So, what I would like to do is to look at trade and trade agreements through the lens of Decent Work. In doing this there are three different but complementary aspects that arise:

- 1. First, how to integrate core labour standards in trade agreements.**
- 2. Second, how to integrate broader employment objectives into trade policy?**
3. And the third aspect is not directly linked to trade agreements, but is related to the realities of international business, and it is the fact that *vía* fair trade, CSR, codes of conduct, ethical contracting, government procurement processes and

other initiatives, there is a whole new dynamics going on in global trade and investment relations to improve social, environmental and human rights standards by introducing best practices in companies and global supply chains. I just want to remind you of this trade-related megatrend, but I will circumscribe my comments to the first two aspects that are directly linked to trade agreements.

/ So looking at Trade through the lens of Decent Work means that we need to take a **holistic perspective** and focus not just on the - very important but still limited - issue of core labour standards but focus also on the broader employment and labour market implications. This broader Decent Work perspective does not dilute the importance of labour standards but rather puts them in the right context: not as aims in themselves but as tools to achieve economic and social development. /

I. The integration of core labour standards into trade agreements

Let me comment first on the question of how to integrate core labour standards in trade agreements and make a number of points:

- First, both the 1996 WTO Singapore Ministerial Declaration and the 1998 ILO Declaration stress that labour standards should not be used for protectionist trade purposes and that the comparative advantage of any country should in no way be called into question. This last point signals a consensus that it is understandable that some countries have lower wages or unit labour costs than others. What is not acceptable is that countries derogate from labour law or violate core labour rights to achieve unfair competitive advantage, promote exports or attract investment.
- Second, on the issue of what standards to include it does not seem necessary to reopen a discussion either. By adopting the 1998 Declaration on Fundamental Principles and Rights at Work and its Follow Up, the ILO member states not only established a broad international consensus on a list of core labour standards, but by this act they also recognized that they have an obligation to work towards their realization, which is inherent in ILO membership. / These core labour standards include: freedom of association and collective bargaining; the elimination of forced labour; the abolition of child labour; and the elimination of discrimination in employment. / This obligation exists even if they have not yet been able to ratify the eight fundamental conventions that embody these principles. This list of core labour standards has been written into the provisions of many bilateral and regional trade agreements. The difficult questions are then not so much, as before 1998, about what labour standards to include, but about how to do it, how to design incentives for compliance, how to implement and who monitors progress and how?
- Third, in this respect, what do we at the ILO consider as good practice consistent with the ILO approach? The ILO's approach has been a promotional and capacity building one, based on providing technical assistance and capacity building whether the relevant Conventions have been

ratified or not. This supplements the States' legally binding commitments where Conventions have been ratified. It also supplements another important means of action: the ILO supervisory processes. These are based on regular reporting by governments, participation of employer and worker organisations, and analysis and comment by an independent expert body which identifies problems requiring attention and monitors progress in implementation.¹

- Now, how can trade agreements help? Well, some think that the ILO is very good at finding out what is wrong, but that the mechanisms we have need to be complemented. And there is evidence that the threat of an eventual trade sanction or consequence could indeed help to focus attention and political will in some cases. But let me at the same time stress that real progress can only be achieved via processes of social dialogue and capacity building, so you necessarily come back to the questions of monitoring, transparency, and the right amount and type of technical cooperation. And this is where the strength of the ILO lies.
- **The trade-related approach of the European Union** has been to promote the effective application of labour standards through positive instruments and incentives such as in the GSP and GSP+, illustrated by the cases of Myanmar and, possibly, Belarus.
- However, the new frontier on trade seems to be the bilateral trade agreements that are proliferating, including the upcoming Economic Partnership Agreements (EPAs). In this respect, we think it is important for the EU to explore an integrated approach to trade and decent work. As regards labour standards the challenges are fairly clear:
 - i.) First, to combine intelligent incentives with the right amount and modalities of technical assistance to build the capacity of countries to realize these standards. US-based models are of interest in this respect. All agreements negotiated since approval of Trade Promotion Authority (TPA) legislation in 2002, have a model of inclusion of labour provisions where labour is elevated to a full discipline under the agreement, treated in a separate chapter, not an Annex like in NAFTA, and subject to specific dispute settlement procedures that include consultations, arbitral panel, the possibility of fines and eventually trade sanctions, if the panel determines that “there is a consistent pattern of failure to enforce labour standards.”² In this model there is also a capacity building component but exclusively focused on monitoring and enhancing the countries's capacity to enforce the core labour standards. With the new political balance in the US Congress, it is likely that this model of inclusion of labour provisions in trade agreements will be opened up for discussion and revised.

¹ The ILO's supervisory procedures provide fair and appropriate procedures to promote the implementation of these labour standards and principles and to provide guidance as to steps needed to achieve compliance both in individual cases and in general surveys of standards issues.

² This is the model that, with a few variations, is present in recent agreements such as US- CHILE, US- Morocco, US-Central America (CAFTA), and others.

- ii.) A second challenge for the EU is to achieve a coherent approach between agreements. This means ensuring that the competency of the ILO and its supervisory mechanisms can be drawn on systematically to monitor implementation and compliance with standards. The proliferation of bilateral agreements has not been consistent in this respect. In some cases the cooperation of the ILO has been requested both for monitoring and for capacity building, but in others this has been done through private consultants or NGOs without ILO or tripartite involvement.

II. Integrating broader employment and labour market objectives into trade agreements and Aid for Trade

When we look at trade through the lens of Decent Work we have to focus not only on the “decent” part but also on the “work” part, because, as was said yesterday, rights at work are not of much use if you do not have work. So, the integrated Decent Work approach necessarily leads to pay more attention to the employment and labour market impacts of trade. This can be done in a number of ways:

First, by having a good trade negotiation and a good quality agreement. This is one that incorporates real reciprocity and market access, appropriate transition periods for sensitive products and sectors, and development friendly rules.

Second, for good quality agreements in this sense, that put trade at the service of decent work, negotiations have to be more sensitive to their employment implications. And this is where the need for studies and evaluations of employment impacts come in. Trade agreements lead to economic and social restructuring, some sectors will win and expand, others will lose and contract. / Free trade agreements between partners characterized by major economic, social and institutional asymmetries can have particularly drastic impacts on the less developed partners. Under appropriate conditions the less developed parties stand to gain the most, but also, if transition periods and capacity building are not adequately incorporated, they also stand to lose the most. / Yet, many trade negotiations are done without a clear view of the impacts. Both ex-ante and ex-post impact studies are important.

When ex-ante studies are done, many use general equilibrium methodologies. The problem is that these models normally emphasize efficiency effects and do not include appropriate modelling of labour markets. In fact, many assume full employment conditions: all workers move smoothly away from declining sectors into expanding sectors, with a happy story of labour reallocation. This is not how the real world works. Yet, labour markets can be modelled in these general equilibrium exercises, and employment effects can be incorporated. This is a research priority for us at the ILO and we would like to partner with modellers and the EU to do precisely this more systematically as a contribution to have a better knowledge base on the impact of trade in labour markets.

/ The EU has developed methodologies for Sustainability Impact Assessments (SIAs). There is scope to adapt these to include the employment impacts.

Ex-post analysis can also add to the necessary knowledge base. For instance, analysis of agreements such as NAFTA show that major processes of internal restructuring occur within and between sectors, including rural-urban migration, but they also show very modest net job creation. This is another research priority. We must have a better understanding of quantitative and qualitative effects of trade agreements on labour markets.

Third, it has been long recognized that when there are significant asymmetries between the partners improved market access opportunities are not enough. Cooperation to help the less developed partners remove supply side constraints, promote competitiveness, upgrade skills and infrastructure, support SMEs, and facilitate labour market adjustment can make a big difference to a country's capacity to take advantage of the new trade opportunities opened by the agreement and mitigate its negative impacts. It also facilitates faster international economic convergence and catch up effects, as the experience of the EU itself demonstrates.

This brings us to the issue of trade capacity building or Aid for Trade. A discussion has been going on here on various issues: the scope of aid for trade; delivery mechanisms; and on the key question of whether *to link or not to link* development aid formally as a commitment and integral part of the trade agreement text. / Many developing countries support formal commitments. However, most developed partners reject this and prefer to deal with aid for trade in a parallel track.³

Independently of how you decide to do it, let me stress that the ILO has a wealth of policy advice and tools to assist countries in these challenges, to help remove supply-side constraints, promote competitiveness, upgrade skills, as well as to facilitate labour market adjustment, support appropriate levels of social security and extend social protection to the informal economy, and we would also like to work closely with the Commission in these challenges.

So far I have not discussed social dialogue, the fourth pillar of Decent Work. A very important issue in trade agreement negotiations is how comprehensive are the consultations with workers, employers and other stakeholders before and during a negotiation, and during the trade agreement implementation phase. There are plenty of opportunities here to compare and apply good practices.

Perhaps the main reason why studies, participatory policy discussions around them and effective aid for trade are important, is that resistance to trade agreements often has less to do with the specifics of the agreement and more to do with the insecurities and anxieties of workers and employers, and also governments in developing countries. Unless there is confidence that trade agreements will promote development and decent work, protectionist sentiment and desires to stop or slow globalization are likely to grow.

³ See "Brussels rejects moves to link trade with aid", *Financial Times*, 28 November, 2006. The EC also rejected a review clause proposed by African states to allow them to freeze liberalization after 10 years if EU promises on aid were not met. Review clauses are favoured by the Commission when aimed at accelerating liberalisation, but if linked to aid they are seen as an attempt to micromanage trade.

The Way Forward

To conclude, we have suggested at least six channels that the EC can use to support Decent Work through trade, as follows:

1. By integrating core labour standards in trade agreements with an appropriate balance between positive incentives and cooperation, and incorporating in a coherent way the ILO's monitoring and supervisory functions.
2. By promoting good quality trade agreements with appropriate market access, transition periods and development friendly rules.
3. By ensuring that the employment and labour markets dimensions of trade liberalization are taken into account via adequate impact studies and evaluations.
4. By providing aid for trade, particularly in the context of agreements where there are major economic, social and institutional asymmetries between the parties.
5. By promoting effective social dialogue before and during the negotiations, and during the implementation phase.
6. By supporting the ongoing megatrend in the private sector and global value chains via voluntary auditing, fair trade and CSR initiatives.

At the ILO we are happy to be fully engaged in this conversation and we are ready to further expand our partnership with the European Union on all these fronts.

Thanks for your attention.