The Doha trade round has reached a critical stage, after five years of stop-start negotiations. Many are pessimistic and feel that the international mood is insufficiently engaged to bring success. Nevertheless, a deal may in fact be closer than some might imagine, especially if sufficient political will can be generated at the ongoing WTO negotiations in Geneva and the forthcoming G8 summit in St Petersburg.

The Doha Development Agenda (DDA) negotiations are the first global trade talks to treat development issues as a priority. After the failure of the previous Millennium round amid riots and mayhem at Seattle in 1999, the big ‘Quad countries’ (US, EU, Japan and Canada) recognised that progress in global trade could only continue if those in developing countries believe that free trade reform will benefit them.

The trade round almost failed at Cancún in September 2003 but new EU and US positions on export farm subsidies last year enabled progress to resume.

It took until July 2004, following intensive negotiations, for WTO members to accept proposals to cut the subsidies richer countries give their farmers for exports. In a breakthrough at the Geneva meeting, the key nations including the US, the EU, Brazil and Japan, agreed to eliminate the problematic export subsidies, to limit other subsidies and to lower tariff barriers.

Developing countries also won the right to protect ‘special’ products crucial to the well-being of their economies. Meanwhile, the more controversial aspects of competition and investment were quietly dropped after Cancún.

The DDA negotiations resumed cautious progress at the Hong Kong ministerial in December 2005, but progress has been slow and many consider there is now a real risk of failure.

A brief summary of the obstacles currently facing negotiators would include:

- the EU needs to be persuaded to make bigger tariff cuts in agriculture;
- the US needs to accept bigger cuts in domestic agricultural subsidies; and
- the developing countries (Brazil, India, China and South Africa) need to move purposefully towards the removal of import barriers by cutting tariffs on industrial products.

Once these obstacles have been overcome, negotiators could then make the necessary additional progress in services and rules before the end of this year.

If parties to the negotiations can keep a sense of the wider economic prize to be achieved by an agreement, a satisfactory outcome for the round can still be achieved. Yet agreement must be reached across all areas of the negotiations, so it is important that participants are urged to make concessions in often-sensitive areas in order to reap offsetting gains in the areas in which they may have an advantage.

Considerable differences still remain between the EU and the US in domestic support to agriculture, and between the developed and developing world in liberalising ‘southern’ goods markets. However, the pendulum of blame is now beginning to swing back from the EU to the US position, especially in agriculture, as the key obstacle to the round.

At least now, however, with the publication of the draft text on agriculture by Crawford Falconer, the chair of the WTO’s agriculture committee, on June 22, the key modalities (a tiered formula) to be used are now spelt out. And while very substantial gaps remain in the text to be agreed between the parties, it is at least now clear where these divergences are, so that remedial work can be focused upon them in the coming weeks.

The EU’s present offer continues to consist of cutting farm tariffs by an average of around 39% and exempting 8% of its tariff lines as ‘sensitive products’. On domestic farm support, the EU is presently committed to cuts in domestic subsidies of 70% on items believed to be trade distorting, while also offering a 60% cut in agricultural tariffs. Meanwhile, the US has been asking the EU for an 83% cut in domestic farm support, taking into account the higher base of domestic subsidy in the EU.

In return, the US proposals now offer a 60% reduction in their domestic farm
support for trade-distorting payments and are offering a 90% cut in tariffs. However, achieving this reduction in domestic support will still require significant reform of the US Farm Bill due in 2007, while the EU proposals are made on the basis of an actual CAP reform package already achieved in 2003.

Finally, a major positive element in the negotiations should be the fact that both the US and the EU agreed in Hong Kong to eliminate export subsidies by 2013, as an absolute date.

Under normal circumstances, these positions are far from irreconcilable, and indeed the concessions presently on offer by the US/EU (especially on eliminating export subsidies) would have been unimaginable two or three years ago. Nevertheless, opinions remained divided as to whether a successful outcome can be achieved at the technical level, and especially on the desire for a deal at the highest political levels.

Some see the recent move of US trade representative Robert Portman to the US Treasury as an indicator of the low priority the US administration assigns to trade, while others insist that under Susan Schwab, the replacement for Ambassador Portman as USTR, the US remains both willing and able both to deliver the necessary leadership to achieve a meaningful trade deal next year, and to encourage developing countries to make their own reforms in return.

There is little doubt that any ‘crisis of confidence’ can still be overcome, but only given political will at the highest level.

The reluctant EU member states can still be ‘brought round’ in order to enable EU Commissioner Peter Mandelson to offer the bigger cuts in farm tariffs required to bring the broad outlines of a meaningful deal into view by the end of this summer. However, the EU institutions may be reluctant to support the Commission in making further agricultural concessions (especially on domestic support) without being clear that the US negotiation mandate in agriculture will actually require a major reform of the US Farm Bill.

Problems remain in agriculture

In large part the uncertainty here arises from the complexity of the various formulae and in particular the elasticities used when applying them.

But many, especially NGOs, now consider the US (or its agricultural lobby’s) desire to match any concessions in domestic support with one-for-one gains in fresh market access for US exports as a core obstacle for the round.

And signs are emerging of greater realism in the agricultural debates in Europe. The reality of any successful Doha round, for both the US and the EU, must mean that US world export-market shares will continue to fall in some sectors, such as poultry and beef, while remaining competitive in other sectors, such as cereals. The EU meanwhile is likely to remain competitive only in medium-quality wheat, grain-fed beef and specialist, high value-added products.

The core technical issue in agriculture remains the fact that the US now has more tariff-distorting domestic support, arising from the US reliance on counter-cyclical payments (CCPs), than the EU. These CCPs are often not included in influential OECD calculations of PSEs (producer support equivalents) but nevertheless may still require an equivalent degree of domestic US farm reform (moving these counter-cyclical payments towards the green box) to that of the EU’s 2003 CAP reform, if fresh additional concessions from the EU are to be forthcoming (our interpretation).

Outside the agricultural detail, it is to be hoped that the US negotiators (and farm lobby) can better appreciate the triangular aspects of the overall negotiations. This is simply to argue that any net losses (both for the US and EU) in agriculture can be offset by commensurate net gains in the other two areas of goods and services, in the context of an overall trade deal designed to benefit all parties.

Indeed, evidence is now emerging that the US proposals in agriculture may not entail as significant a reform of the US Farm Bill, as for example was undertaken in the 2003 EU CAP reform. A new economic simulation of the US agriculture proposal (see IATP, 2006) appears to confirm what some in the EU, but especially NGOs and developing countries, have long suspected: the US proposals may actually increase the allowable amount of domestic agriculture spending in the US.

Hence, it would appear that the US Trade Representative is caught between the lobbying of US agribusiness exporting companies on the one hand, which want more market access (especially to emerging markets in developing countries), and domestic commodity groups on the other, which want to maintain high domestic support payments and are sceptical that greater market access will benefit them.

This may help to explain the constrained position that US negotiators find themselves in as the Doha Round moves forward. More worryingly still, the IATP report asserts that the US proposal fails even to go as far as the 2004 July Framework in acknowledging the need for effective special and differential measures for developing countries.

Meanwhile, efforts by the EU to organise a ‘stocktaking meeting’ in late June for select trade ministers on the DDA services negotiations may allow the parties to better grasp the essential 3-way or ‘triangular’ trade-offs between the agriculture concessions, those in goods (non-agriculture market access) and progress in services.

The intended message of course being that any revised ‘big country’ offer in agriculture must be reciprocated by reciprocal moves by developing countries in goods and services, focusing minds on the triangular linkages between market access in all three areas.

The gains under Doha

A timely reminder of the economic benefits comes in a recent OECD paper (see Ash & Tangermann, 2006), filling a vacuum in recent relevant research that underscores the likely DDA gains from the halving of (present levels of) trade protection and domestic support across all sectors.

1 This political division was not evident at the time of the Uruguay Round, when the larger commodity groups allied more closely with agribusiness.
An interesting feature of the paper is the finding that agriculture remains a pivotal source of gains. The potential prize calculated from Doha is a welfare gain of $44 billion globally, with most of these gains arising from agricultural reform, of most relevance to LDCs, and most of these agricultural gains come from basic reform of market access measures.

Table 1 below presents recent OECD (Ash & Tangermann, 2006) and other results showing a wide range of estimates of the potential global welfare gains from trade liberalisation reported in previous studies. The estimates obtained in the present analysis are towards the lower end of the range of estimated results obtained in previous analyses. This is especially evident in comparing the estimated $24 billion of welfare gains from agricultural liberalisation estimated in the present study with the estimated $193 billion (static) reported in an earlier study by the World Bank.

Nevertheless, the question of whether individual developing countries or regions lose out from OECD agricultural policy reform – labelled ‘dangerous nonsense’ by Bhagwati (2005a) with support from Panaghariya (2004) – can now be addressed.

Generally speaking, the evidence suggests that developing-country farmers would benefit from a reduction of OECD agricultural trade protection and domestic support, although some could lose out in relative terms through preference erosion.

Nevertheless, the same increases in world market prices that benefit developing-country farmers will reduce the benefits for developing-country consumers.

Although the argument that rich country reform will hurt poor countries cannot be substantiated, the OECD study does confirm that most of the estimated benefits from OECD reform of agricultural policies (over 90%) go to OECD countries themselves.

This merely confirms the accepted wisdom that progress in trade should occur unilaterally and remind us of the benefits of the WTO and the multilateral system, which underpin the ‘received wisdom’ on trade.

Nevertheless, at $44 billion, the OECD study’s estimated welfare gains – although less than in earlier studies – remain highly significant.

Other key findings from the modelling are:

- Benefits from multi-sector reform are higher for non-OECD than for OECD countries.
- About 50% of global gains come from OECD agricultural reform.
- Reductions in OECD agricultural tariffs account for more than three-quarters of these (gains from agricultural reform).

Developing countries generally gain more from OECD reform than from their own reforms (in both agriculture and non-agriculture).

Over 75% of global gains from agricultural policy reform come from cutting import tariffs.

Nevertheless, developing countries generally gain substantially more from opening their markets to OECD industrial goods than from OECD agricultural reform.

These findings mean that LDCs stand to gain from a balanced WTO package – and not one focused primarily on agriculture. Hence, if most participants can now coalesce around agreement that a deal is broadly speaking worthwhile, then we turn to the politics, and it must almost certainly be done before mid-2007, when the US administration’s ‘fast-track authority’ expires.

If the issue ultimately becomes a matter of political will, a chance should arise at the highest levels to resolve matters in and around the leaders of the Group of Eight (G8) meeting, at St Petersburg in early July.

Recent remarks made by President Bush on a visit to Europe indicate that he may now be engaged in the process and, given his weak domestic standing, willing to inject sufficient personal authority behind the talks to achieve a much-needed success story on the international policy stage.

<table>
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<th>Liberalisation scenario</th>
<th>Global welfare gains ($ billion)</th>
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<th>Other</th>
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* Includes gains from services liberalisation.
** Includes gains from trade facilitation.
Pro-development issues

In the eyes of many observers, the success of the Uruguay round created a perversive situation in which poor countries were asked to shoulder costly commitments but were not supplied with the political or institutional means to do so.

Developing countries have long criticised the WTO for its perceived procedural bias in favour of the industrialised nations. At the 1999 Seattle Ministerial Conference, several groups of developing countries released statements criticising their exclusion from key decision-making processes at the WTO. Ministers from African, Latin American and Caribbean nations, for example, complained that they were not allowed to participate in ‘green rooms’ or the informal negotiating groups where sensitive issues were being discussed.

During the Uruguay Round, WTO members assumed a broad set of new commitments, ranging from the enforcement of intellectual property rights to customs policy reform.

At Doha, member governments took a series of measures to address these development issues, establishing a working group on trade, debt and finance and issued declarations on the problems of small economies, least-developed countries and technical cooperation. The Ministerial Declaration also incorporated special and differential treatment and capacity-building clauses into most of the major issue areas, reflecting developing country concerns as to the technical and administrative burdens associated with preparing for comprehensive and lengthy trade negotiations.

Do these various technical measures, however, and the increased size of the WTO, mean that the mandate and composition of the WTO now reflect increased awareness of the needs of developing countries? A core question facing the multilateral process today is whether this re-balancing can lead to a more viable WTO – or whether expansion and overload may lead to its gradual paralysis.

Trade not aid?

With the notable exception of China, the global momentum in favour of more markets and less government intervention has slowed down considerably. The climate of ideas has changed since the heyday of the Washington Consensus only a decade ago. There is less enthusiasm for trade liberalisation in the developing world and there is greater all-round enthusiasm for aid (see Erixon & Sally, 2006).

Broadly speaking, the critics are making three arguments. First, there are weak links between trade liberalisation, growth and poverty reduction. A stronger version holds that trade liberalisation damages developing countries and makes the poor poorer. Second, developed countries should liberalise trade, but developing countries should not. And third, developing countries should use interventionist industrial policies to promote infant industries. This requires more flexible WTO rules.

However, these arguments can be countered with the evidence. In-depth country studies going back to the 1970s and 1980s – and more recent (although less dependable) studies using cross-country regression analysis – strongly suggest that countries with more liberal trade policies have more open economies and grow faster than those with more protectionist policies (Erixon & Sally, 2006).

According to World Bank and OECD figures, since 1980 developing countries with a total population of about three billion – mostly in Asia – have more than doubled their trade-to-gross domestic product (GDP) ratios, doubled real per capita incomes and have cut average import tariffs by more than one-third.

Even the recently downward revisions in World Bank estimates of future trade liberalisation effects are far from being insignificant. If long-run productivity gains were added, welfare gains to developing countries from full liberalisation of merchandise trade would rise to $200 billion per annum and about 127 million people – more than 10% of the world’s very poor – would be lifted out of extreme poverty.

Naturally, much greater gains would result from radical liberalisation of developing-country services markets and from all-round opening of labour markets to workers from developing countries.

Of course, as Erixon and Sally point out, trade liberalisation on its own is of course no panacea. To fully capture productivity gains, external liberalisation must be part of broader market-based and institutional reforms – but the central point remains that the more prosperous developing countries are those that have liberalised external trade and foreign direct investment.

The high price of failure

We have advanced the case that many of the various ingredients of a successful outcome are closer to being in place than many might think. As we reach the crucial make or break point for the DDA in the next few months, and crucial political engagement is required, we now feel that it is also important to draw attention to what would be lost by the failure of the round.

Our concern is to avoid the damage that would be inflicted on the global commercial system by a serious blow to the credibility and institutional authority of the WTO.

While high ambitions remain, there is now a serious risk that time is running out, and the question can be asked whether the seriousness of what would be risked is fully comprehended by all parties.

National governments, international stakeholders and not least the EC institutions should be in no doubt that European business is extremely concerned at the prospect, and likely consequences, of failure.

A healthy, functioning WTO not only remains essential, but is more desirable now than ever. The WTO is the sole multilateral institution capable of driving forward the general process of trade and investment liberalisation. For this function to fail now would be to deprive the much larger numbers of the world’s citizens presently excluded from wealth from benefiting from the full potential of global commercial opportunities.

The Doha round seeks to add the necessary development dimension needed to bring the benefits enjoyed by the developed world to the wider LDC...
community as yet unable to take advantage of them.

Simply put, these potential gains are far too important to be thrown away lightly, especially as a consequence of short-sighted negotiating positions or ‘UN-style’ posturing, which are often based, it must be said, on less-than-solid analytical foundations. Such an outcome has been described as ‘a tragedy’ by a distinguished former Director-General of the WTO (see Sutherland & Ollila, 2006).

It would be a terrible irony if the sheer size of today’s WTO – which, at 149 members, is surely a sign of success – leads to its collapse. An unfortunate by-product of its present size has been a deterioration in the quality of the internal debate. Described as ‘UN-isation’, this has often resulted in excessive posturing and rhetorical public discourse – at the expense of genuine, measured internal discussion within WTO meetings.

The DDA has now had many false deadlines, but the present one seems real enough. Hence, even now at the ‘11th hour’, negotiators and stakeholders must attempt to bestir themselves to imagine what will be lost if the DDA fails irrevocably, to focus on the big picture that can truly strengthen their economies by promoting change, and favouring enterprises that have a future – not protecting special interests from the past.

The alternative to a deal is not the status quo?

It is crucial to understand that the alternative to Doha is not the status quo but rather a changed and weakened world trading order. First, failure would lead to an acceleration of bilateral trade deals … as an alternative route to free trade at the multilateral level.

This tendency is already becoming evident even in EU thinking (with EU-Korea, EU-India now being openly talked about).

Further, a failure of the DDA would bring into question the size and modus operandi of the present WTO – until such matters were resolved, possibly taking several years – the prospects for a further successful round would not be encouraging.

The interim vacuum that this would create would mean the rapid proliferation of regional and bilateral deals, which could:
- seriously damage the trading and investment environment,
- undermine the WTO’s central institutional mechanisms, especially the DSM, & most perversely
- create more interference in ‘beyond the border’ governance than would a multilateral agreement.

Hence, the very credibility of the multilateral trading system is at stake. The GATT & WTO have helped to deliver much of our collective prosperity enjoyed over nearly 60 years. WTO remains the best basis for bringing new prosperity to the developing world, which has so far not fully participated in international trade (especially South-South).

Finally, there will be considerable costs from rules and regulations, especially compliance with rules or origin, resulting in a ‘spaghetti bowl’ of complex, costly and discriminatory trade agreements.

There can be little doubt that all these effects will act as strong disincentives, and the depressive effect this can have on trade in a presently somewhat divided world order are almost certain to be severe.

Overall, such developments that would weaken the WTO can only be viewed as perverse, coming at a time when LDC enterprises – and citizens – should expect to have available to them all the opportunities (and institutions) that have so greatly benefited business in the industrially advanced countries in the past 50 years.

The WTO as a public good

Moreover, untold damage would be inflicted on the WTO as a multilateral institution and therefore arbiter and guarantor of global good governance. In the absence of a world level of government, the multiple states in the world come closest to achieving this

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2 Ironically, many of the more objectionable WTO measures now jettisoned in the Doha round would be more likely to find their way into bilateral or regional deals with large countries or groupings.

3 The classic textbook example of a ‘domestic’ public good is a police force, or public street lighting.
conventional wisdom on trade still has the bulk of the arguments in its favour. In short, there are many things wrong with the world – but free trade is not one of them.

Other serious risks ...

Other serious problems are not hard to discern. First, there is the response of countries that are on the point of joining the WTO – for example, Russia, Vietnam (or even Bosnia or Lebanon, nearer to home) – to a Doha failure:

- it is always a struggle to gain domestic political consent to the demanding conditions of WTO entry.
- if this support is to be maintained, the institution must remain credible.
- a great benefit of accession is the right to participate fully in future multilateral trade negotiations.
- this prospect must be safeguarded.

Second, we must consider what signal would be sent out to new WTO entrants such as China (or Russia or Saudi Arabia).

European business leaders need to state clearly that they see the DDA as an enormous market opportunity and an engine of future global economic growth. We need to know that the emergence of countries in Asia, and in particular incomplete market economies such as China are subject to credible and enforceable rules.

For in reality, there are no other rules governing international trade than those of the WTO. If WTO rules are diminished by the political impact of a failed Doha round, then the whole international system of commerce will suffer, including LDCs.

The outlines of a deal?

We consider that we are in fact close to a deal if the US can be persuaded to scale back its ambitions in certain sectors, for the sake of achieving broad agreement. Hence a last ‘big-push’ could wrap up a deal in time to avoid the expiry of the US President’s fast-track trade-negotiating authority in mid-2007. Of course, it will be only seen in the coming weeks whether the political will is there to enable the negotiators to bring this together.

First, in the area of agriculture, it should be acknowledged that long-standing and widespread condemnation of rich-country subsidies ‘running at $1 billion a day’ and causing ‘massive overproduction’ are really just exaggerations that make the task of reducing subsidies seem politically intractable.

According to Jagdish Bhagwati (2005b) of Columbia University, when one omits the subsidies that are ‘decoupled’ from production and trade, the ‘coupled’ subsidies that distort production and trade are less than $100 billion (£85 billion); and here too the export subsidies are ‘only’ in the range of $3-5 billion annually.

Clearly, these export subsidies are now small enough to be negotiated away and some effort could surely then be made to tackle the ‘coupled’ subsidies. The hope is that Mr Mandelson can get permission to offer further cuts in EU tariffs and quotas (‘market access’ in the negotiations) in return for further reciprocal concessions in the final deal. In the main, the EU has little comparative advantage in agriculture, so the reciprocity it needs has to come in the other negotiating ‘zones’ of manufactures and services (the triangular argument, see above).

We must remember, however, that the Group of 20, which includes the bigger developing countries such as India and Brazil, still have tariffs on manufactures that are significantly higher than the OECD average. Cuts in these can surely be put on the table. Brazil has already indicated a willingness to do so, and it is to be hoped that India is likely to follow.

As we have seen, however, the US has a comparative advantage in some aspects of agriculture, so it cannot entirely ignore the demands of US farmers for ‘sectoral reciprocity’ from the large (e.g. Cairns group) agricultural producers such as Brazil and Mexico, which also have high tariff barriers on agriculture. So the Cairns group should be willing to support a deal that cuts its members’ agricultural trade barriers in return for long-desired market access to the US.

Turning to services, the main commercial interest in the US and the EU comes from the insurance and banking sectors. These services, however, actually lubricate trade, and the developing countries can surely be persuaded to take more quantitative commitments here, providing the EU and the US with additional quid pro quo for their agricultural concessions. The poorest countries must also be brought on board, although some hesitate to liberalise trade for fear they may lose tariff revenues on which they rely for public spending.

Other small LDCs are afraid to embrace liberalisation because they lack adjustment assistance programmes to help workers made redundant by import competition. Other countries enjoy existing preferences and fear ‘most favoured nation’ tariff liberalisation under the Doha round would erode their value.

For many of these problems, the new ‘aid for trade’ programme endorsed at Hong Kong can provide aid funds to respond to these tasks. The WTO and its supporters must hope that this positive step can bring many of the least-developed countries on board for Doha. The Director-General (Pascal Lamy) has been asked to consult with the IMF, World Bank and other relevant international organisations on appropriate mechanisms to secure additional financial resources for Aid for Trade through grants and ‘soft’ (concessional) loans.

Hence, in technical terms, the outlines of a deal that would close the Doha round are now more-or-less clear. It remains for the WTO Director-General to present them forcefully (in the tradition of the ‘Dunkel draft’, which rescued the Uruguay round of talks) and to get the member states to follow up with an extraordinary meeting within six months, the penultimate step to finalising a deal by the end of 2006 and its approval by early 2007. As Prof. Bhagwati has written, “it can be done, it is up to us all to do it.”
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