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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL  
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**Trade, Growth and World Affairs**

**Trade Policy as a core component of the EU's 2020 strategy**

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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT,  
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**1. Context and basic orientations**

The over-riding aim of European economic policy is faster growth. Only sustained economic growth can create more jobs and safeguard our welfare state. But lifting the growth potential of our economies will be a major challenge – a challenge taken up by the Europe 2020<sup>1</sup> triple objectives of smart, inclusive and sustainable growth. This Communication is a crucial element of the external dimension of the Europe 2020 strategy and sets out how trade and investment policy must contribute to this objective, and to our external policies as a whole. It should be read together with two supporting papers: a report on the progress achieved to date on the 2006 Global Europe Strategy and an analytical paper making the case for 'trade as a driver of prosperity'.

Open economies tend to grow faster than closed economies. Trade raises EU growth by fostering our efficiency and innovation. It boosts foreign demand for our goods and services. Open trade also gives EU consumers access to a wider variety of goods at lower prices. Europe's openness to foreign direct investment (FDI) increases our competitiveness. Equally, the ability of our firms to invest abroad enables them to grow globally and create jobs both at home and abroad. In short, whilst remaining vigilant to adjustment costs, Europe must seize the triple benefit from more open trade and investment: more growth and jobs and lower consumer prices.

**The triple benefits from trade opening**

**Economic growth:** Finalizing all the ongoing negotiations (Doha Round and bilateral agreements) and making significant further progress in our relations with strategic partners would lead, by 2020, to a level of EU GDP more than 1% higher than it would otherwise be<sup>2</sup>.

**Consumer benefits:** the gains from a wider variety of goods and services for the average European consumer are in the range of €600 a year, in addition to the gains from lower prices.

**Labour effects:** It is generally agreed that the EU's integration in the global economy through increased trade generates more and better paid jobs. More than 36 million jobs in Europe depend, directly or indirectly, on our ability to trade with the rest of the world. More than 4.6 million people in the EU work for Japan and US-majority owned companies alone<sup>3</sup>.

Source: European Commission estimates. For further details see "Trade as Driver of Prosperity", section II.1.

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<sup>1</sup> European Commission "Europe 2020: A strategy for smart, sustainable and inclusive growth", see [http://ec.europa.eu/eu2020/index\\_en.htm](http://ec.europa.eu/eu2020/index_en.htm).

<sup>2</sup> 1% of EU GDP in 2010 was equivalent to €120 billion according to Commission forecasts.

<sup>3</sup> "The transatlantic economy 2010" by D. Hamilton and J. Quinlan, Center for Transatlantic Relations, Johns Hopkins University, and 'Basic Survey of Overseas Business Activities, 2010', METI, Japan.

But for an open trade policy in Europe to succeed politically, others – including both our developed and emerging partners - must match our efforts, in a spirit of reciprocity and mutual benefit<sup>4</sup>. Trade policy will not gain public support in Europe if we do not have fair access to raw materials, or if access to public procurement abroad is blocked, for example. The EU will remain an open economy but we will not be naïve. In particular, the Commission will remain vigilant in defence of European interests and European jobs. It will fight unfair trading practices with all appropriate means.

Our economy is the largest in the world. It is also the biggest exporter. Our firms exported €1.6 trillion of goods and services in 2009, which is about 13% of our GDP. The EU is also the most important provider and host of FDI. As shown by Figure 1 in the annex, our share in global trade remains stable for now, despite the steep rise of the emerging economies. Europe's strengths in international trade are reflected in public opinion<sup>5</sup>.

By 2015, 90% of world growth will be generated outside Europe, with a third from China alone (see Figure 1). So in the years to come, we need to seize the opportunity of higher levels of growth abroad, especially in East and South Asia. Developing and emerging countries are likely to account for nearly 60% of world GDP by 2030. This is compared to less than 50% today<sup>6</sup>.

The world economy and world trade have undergone profound changes in the recent past. The supply chain of many goods and services now encompasses factories and offices in various parts of the globe. Two thirds of our imports concern intermediate inputs which boost our productive capacity. For our companies to stay ahead, they need to be able to rely on inputs, services and highly qualified people from around the world, and their investments and intellectual property require robust protection.

Our agenda must evolve accordingly, as Europe 2020 makes clear. Cutting tariffs on industrial and agricultural goods is still important, but the brunt of the challenge lies elsewhere. What will make a bigger difference is market access for services and investment, opening public procurement, better agreements on and enforcement of protection of IPR, unrestricted supply of raw materials and energy, and, not in the least, overcoming regulatory barriers including via the promotion of international standards. Through trade, we should also promote the greening of the world economy and decent work.

This agenda will confront us increasingly with the interface between our internal rules and external liberalization and – as the European Council flagged in September – we need to "*further enhance the coherence and complementarity between the EU's internal and external policies as a whole*"<sup>7</sup>. As an illustration, a more complete internal market for services and more systematic regulatory cooperation with major third countries will facilitate international trade in services and the dismantling of behind-the-border barriers.

We shall act at the multilateral level through the WTO, and bilaterally. Doha remains our top priority. However, the bilateral is not the enemy of the multilateral. The opposite may hold truer: liberalisation fuels liberalisation.

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<sup>4</sup> European Council Conclusions, 16 September 2010.

<sup>5</sup> According to Special Eurobarometer Survey 357 on international trade conducted in September 2010, 65% of respondents think that the EU has benefited a lot from international trade and 64% think that European products can compete well with those from outside.

<sup>6</sup> Compared to 49% in 2010, see OECD (2010) "*Perspectives on Global Development: Shifting Wealth*".

<sup>7</sup> § a) Annex I, European Council Conclusions, 16 September 2010.

That is why a large part of our energy will be spent on delivering balanced free-trade agreements put forward as priorities by the Commission in its Global Europe strategy. A first major harvest is near, with the approval of the South Korea agreement. This was a difficult negotiation, and we should have no illusions: the concessions requested of the EU and the trade-offs that will be necessary in forthcoming agreements will be even more challenging.

At the same time we shall be working towards the conclusion of the Doha Round and the further strengthening of the WTO. Doha is much overdue. This is still very precious to achieve, not only for the economic gains it will bring but also to confirm the central role of the WTO in the world trade system.

Nevertheless, the Doha agreement will not give answers to the newer questions that global trade rules ought to take care of. It is time to start reflecting on the next steps after Doha, and the Commission will set up a group of eminent people to that effect.

Once all the FTAs have been approved that are under negotiation or under consideration, the EU will have preferential trade agreements with the large majority of WTO members. Together they account for only half our trade, however. It is equally important to deepen our trade and investment links with the other big economies in the world: the US, China, Japan, and Russia.

We shall step up cooperation with these countries through the fora that have been created for that purpose. We will evaluate if these fora are up to the task or whether we need to explore other avenues with these countries. The prime focus with the US and Japan should be on tackling non-tariff barriers to trade and investment, primarily through regulatory cooperation.

China, now our second biggest trade partner, is a source of both major opportunities and challenges. Given its tremendous growth potential, China is a major attraction for exports and investment. But there is no denying that some of China's industrial and macro-economic policies imply an approach based on state capitalism. There are similar issues in relation to Russia, our biggest near neighbour.

Trade should also drive improvements in social inclusion both around the world and in the EU. Developing countries that have entered global trade and production chains have seen incomes and employment grow rapidly as well as significant reductions in poverty. EU trade policy is helping the poorest economies by also providing generous unilateral trade preferences. More generally we are employing a carefully differentiated approach depending on the level of development of our partners. We are paying systematic attention to coherence with development policies, such as poverty eradication.

At the same time, trade openness continues to enhance welfare levels and boosts employment and wages in developed economies, including in the EU. Openness creates jobs. But we also recognise that the costs of adjustment in particular areas or sectors can sometimes be high, and so we need appropriate national and European social and labour market policies to help workers and businesses adjust. This concern should be reflected in our budgetary priorities, in keeping with the Commission's budget review of October 2010<sup>8</sup>. We have consulted widely throughout the EU in preparing this Communication. Based on this and our internal reflections, these are the chief ingredients of the trade policy agenda that the Commission proposes to pursue in this mandate. It will do this within the new institutional framework of the Lisbon Treaty, which should be seen as a major opportunity in that it lends greater transparency and legitimacy to EU trade policy, gives a

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<sup>8</sup> European Commission Communication on budget review, 19.10.2010, page 15

new voice to the European Parliament in trade matters, and which also sets the stage for a mutual reinforcement of our trade and external action both here in Brussels and in the EU's delegations in 136 countries around the world.

This Communication should be seen both as a key element in the external dimension to the Europe 2020 strategy but also a clear statement of Europe's intentions to play an active and assertive role in promoting the trade policy agenda in the G20 and all relevant global trade fora. Indeed open markets will play a pivotal role in establishing the strong, sustainable and balanced growth to which G20 leaders committed at their Summit in Toronto.

## 2. A trade and investment policy ready for tomorrow's challenges

### 2.1. Smart growth: fast forwarding to the future

Our economic future lies in keeping a competitive edge in innovative, high-value products, generating long term and well paid jobs<sup>9</sup>. Our trade policy must capture this by broadening the scope of our work to take the following issues on board:

- An effective global manufacturing supply chain cannot exist without the vital support of transport, telecom, financial, business and professional services. **Services** represent 70% of world output but only about one fifth of world trade. The low proportion of services in total trade is partly a result of natural barriers (some services are by definition non-tradable), but trade barriers also play a major role. Remaining trade barriers in services are generally by an order of magnitude higher than barriers in manufacturing sectors. Estimated tariff equivalents are generally well above 20% and often much higher (See Table 2). We will seek from our main developed and emerging trade partners, by all means available, greater openness for our services providers, in line with what the EU internal market offers to services providers from third countries; whilst maintaining our objectives in line with the 2005 UNESCO Convention on cultural diversity. We shall continue to offer integration with the internal market to some neighbouring countries (such as Ukraine, Moldova, the Caucasus countries, Egypt, Jordan, Morocco and Tunisia) in sectors such as financial, postal and telecom services.

As suggested during the public consultation process, we should also seek to ensure that regulation of services in all third countries is open, non-discriminatory, transparent and in the public interest, so that also our providers can better do business there. Finally, as technological changes create new services and enhance the tradability of cross-border services, our trade agreements should find ways to prevent the erection of new barriers to trade for those services.

- There has been an enormous increase in capital movements and **FDI**. Around half of world trade now takes place between the affiliates of multinational enterprises trading intermediate goods and services. The Commission has proposed a comprehensive European investment policy<sup>10</sup> to better address the needs of investors from all Member States. It will seek to integrate investment protection together with investment liberalisation into on-going trade negotiations. To do this, it will soon propose updates of relevant negotiating directives, starting with Canada, Singapore, and India. The Commission is also considering whether stand-alone investment agreements with other countries, such as China, would be worthwhile.

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<sup>9</sup> European Commission Communication "Europe 2020 Flagship Initiative - Innovation Union" - COM(2010) 546, 6.10.2010.

<sup>10</sup> COM(2010) 343, 7.7.2010.

- **Public procurement** is an area where foreign markets are particularly closed for EU companies. With a share of over 10% of GDP in large industrialised countries, and a growing share in the emerging economies, public procurement contracts constitute business opportunities in sectors where EU industry is highly competitive. This includes sectors such as, for example, public transport, medical devices, pharmaceuticals and green technologies. We will continue to press for more opening of procurement abroad, and we will in particular fight against discriminatory practices. We have been actively negotiating further access for our companies both in bilateral negotiations and in the context of the WTO Agreement on Government Procurement. We are pushing for early Chinese accession to the GPA on the basis of an ambitious offer, in line with Chinese WTO accession commitments. But while our market is already largely open, those of our major trading partners are much less so, especially at regional and local level (see Table 4 in Annex). The Commission will therefore present in 2011 a legislative proposal for an EU instrument to increase our leverage to secure improved symmetry in access to public procurement markets in developed and large emerging economies, building on the implementation of our international commitments. Likewise, there should be more symmetry in access to research and development programmes in third countries to match our own high level of openness, as discussed in the recent Communication on Innovation Union<sup>11</sup>.
- Trade and investment flows are key to the **diffusion of innovation and new technologies** across the EU and in the rest of the world. This is true both for "new" sectors such as telecoms and more "traditional" sectors - for instance high-tech textile production. We are advocating the extension of the moratorium on tariffs for electronic commerce and will pursue our efforts to update the 1996 **WTO Information Technology Agreement** to extend its scope, remove non-tariff barriers to trade in these products, such as duplicate conformity testing and increase its geographical membership<sup>12</sup>.
- **Regulatory barriers** to trade in goods, services and investment are especially harmful, particularly in our major trade partners, given the intensity of our trade and investment relationship with them. Particular concerns relate to lack of acceptance and/or use of international standards, and often burdensome certification or inspection requirements, including for industrial products and our agriculture or fisheries exports. Countries have the right to establish their own levels of public policy protection and to regulate accordingly, such as maintaining a high level of human health and safety and environmental protection; and of course regulation must also be enforced. Knowledge that such regulation is in place and enforced also provides reassurance to consumers as they make purchases, whether of imported or domestically produced goods and services.
- But while differences in laws and regulations, or the absence of common standards or mutual recognition, may be legitimate in some cases, they too often constitute an important source of business costs for our companies abroad. While difficult to quantify, non-tariff barriers are often the source of trade disputes while lowering the associated trade costs can generate significant savings<sup>13</sup>. So enhanced regulatory cooperation – both in order to promote equivalence or convergence (of rules, standards, testing and certification practices) internationally and to minimize unnecessary costs in regulation worldwide – is an important aspect of our trade relationships particularly with our key partners, or as part of FTA or similar negotiations, but much remains to be done. We will urge our major trading partners to join and promote the use of

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<sup>11</sup> See footnote 9.

<sup>12</sup> Cf. EU proposal contained in WTO paper G/IT/W/28 dated 15 September 2008.

<sup>13</sup> Staff Working Paper "Trade as a driver of prosperity", chapter III.2 "Non-tariff regulatory barriers on goods".

existing sectoral regulatory convergence initiatives such as the UN-Economic Commission for Europe (ECE) regulations on automobiles, and to participate actively in the development of international standards or common regulatory approaches in a broad range of sectors. Indeed experience shows that it is much easier to tackle potential barriers *before* regulatory practices become entrenched, both in well established EU industry sectors such as automotives, machine tools and chemicals, but particularly in rapidly emerging sectors such as online services or biotech.

- Of course, quite a few third countries recognize the advantages of the EU's system of regulation for the Single Market and have adapted their own rules accordingly. In an ever more global economy, however, our own rulemaking must be increasingly sensitive to the international context and of the need to help our businesses remain competitive. Indeed, the link between external trade opening and internal market reforms is often a two-way street, given that in both cases we are aiming to reduce the cost of unnecessary regulatory barriers that hamper the flow of goods, services and investment. We need to do more to leverage the effectiveness of internal and external policies and thereby enhance Europe's competitiveness in the global market place<sup>14</sup>. The Commission will examine how to strengthen the mutual links between internal and external regulatory actions and to explore how to improve coordination between the two in areas like government regulation and international standards, with a particular focus on future legislation. These issues are also discussed in the Commission Communication "Towards a Single Market Act".<sup>15</sup>
- We should also ensure that the **temporary movement of people** to provide services<sup>16</sup> contributes to making our service providers and investors more competitive, both in the EU and abroad. Bringing in the most highly qualified people from around the world is essential to enable our companies and our research centres to remain at the cutting edge of innovation. Likewise, our companies need to be able to move European managers and experts to their establishments abroad. We must offer the same treatment to our partners' firms, if we want to continue benefitting from their investment in the EU – and the jobs that go with it. In this respect, the proposed Directive on conditions of admission of third country nationals in the framework of an intra-corporate transfer should help create a stable and open environment for third country intra corporate transferees in the EU.

## 2.2. Inclusive growth in the EU and abroad

While we benefit from globalisation, people in Europe are clearly concerned by some of the potential consequences, notably on employment<sup>17</sup>, while also demanding policies offering more opportunities for developing countries.

- Trade **openness creates more jobs overall**, but because stronger growth requires a shift of resources towards the best performing sectors, it may cause job losses in some sectors. So market opening has to be accompanied by policies that equip people to adapt to these changes. Whilst it

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<sup>14</sup> See Competitiveness Council Conclusions: "Priorities for the Internal Market in the next decade", 4.12.09, §§ 6 and 14.

<sup>15</sup> COM(2010) 608, 27.10.2010.

<sup>16</sup> This is called "Mode 4 services liberalisation" in the WTO jargon.

<sup>17</sup> According to Special Eurobarometer survey 357, 30% of those who considered they were not currently benefiting from international trade, attributed this to unemployment effects. Respondents thought that creating jobs in the EU should be the first priority for EU trade policy.

is the responsibility of Member States to put in place the right flanking social, educational and labour market policies, the EU contributes additional support through a number of instruments (including structural funds). One of the instruments is the **European Globalisation Adjustment Fund** (EGF). By extending and simplifying the EGF, the EU could do more to help those losing their jobs in different sectors to adjust and re-train, so as to cushion the impact of certain major disruptions in Member States.

- Inclusiveness is just as important outside the EU's borders. We are committed to promoting sustainable development, international labour standards and decent work also outside the EU. Of course, integrating developing countries into the global economy helps poverty eradication and fosters better working conditions. This is the EU's approach with **Economic Partnership Agreements** with African, Caribbean and Pacific countries: fostering development by promoting regional integration, creating opportunities for trade and investment, and improving economic governance.
- In early 2011, we will propose a reform of the EU's "**General System of Preferences**". This will, inter alia, aim to focus the benefits on those countries most in need and on those which effectively implement international labour standards and principles of human rights, environment protection and good governance.
- In 2011, the Commission will adopt a **Communication on trade and development**. This will reflect in a broad sense on how our trade policy can best serve development, such as for example the special and differential treatment granted to developing countries, the support to trade-related reforms, and the removal of structural impediments to their integration into global trade. In addition, this Communication will include suggestions on how trade can help third countries hit by **natural disasters**, such as the earthquake in Haiti or the recent floods in Pakistan.

### 2.3. Sustainable growth in the EU and abroad

Trade policy should continue to support green growth and climate change objectives, in particular reduced carbon emissions. We need to ensure that our industry is able to compete in the sustainable economy of the future, including in the fisheries and agriculture sectors which will see further reform.

- On **climate change**, our priority remains a global agreement, where reduction goals are set for all countries. Trade policy's support for action against climate change should be pursued through the elimination of barriers to trade in environmental goods and services<sup>18</sup>. The Commission remains of the opinion that the option of border adjustment measures raises a number of issues, as set out in the recent Commission Communication<sup>19</sup>.
- More broadly, trade policy should continue to **support and promote green growth** around the globe in other areas, such as energy, resource efficiency and biodiversity protection. We will also continue to give particular attention to the **implementation of sustainable development chapters** in our trade agreements, and to close cooperation with civil society.

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<sup>18</sup> See footnote 13.

<sup>19</sup> Commission Communication COM(2010) 265 of 26 May 2010: "Analysis of options to move beyond 20% greenhouse gas emission reductions and assessing the risk of carbon leakage".



- The **sustainable and undistorted supply of raw materials and energy** is of strategic importance for the competitiveness of the EU economy. This is clearly emphasized by a large number of business and civil society contributors during the public consultation. A number of governments outside the EU are developing industrial policies that create supply bottlenecks and other distortions. In its 2008 raw materials strategy paper<sup>20</sup>, the Commission set out a comprehensive approach to secure supply of raw materials for EU companies in various policy fields, including trade policy. The Commission is preparing a new Communication by the end of 2010 on the implementation of the strategy and the way forward. We will use current trade rules to the maximum, pursue the establishment of a monitoring mechanism of export restrictions, negotiate rules in ongoing bilateral negotiations and further explore multi- and plurilateral disciplines, e.g. an OECD agreement based on "best practices". This approach and our dialogue with third countries on this matter must continue to be fully in line with development objectives of poverty eradication and good governance – but it is worth pointing out that restrictions placed on the supply of raw materials often cause serious damage to other developing countries. So we must address this.
- On **energy**, we will use both our bilateral and multilateral negotiations to include trade provisions that will help us to diversify energy supplies (also in the interests of energy security), free transit, and promote trade in sustainable energy where barriers in third countries impede the rapid development of the EU's renewable energy industry.

### 3. Updating the negotiating agenda to boost growth

The first part of this Communication and the supporting papers explain how trade policy can contribute to growth. It constitutes the external dimension of the Europe 2020 strategy. Our priority in trade policy must now be to gain better access to the largest and fastest-growing economies in the world, and in particular, through ambitious trade agreements.

#### 3.1. Concluding Doha, and building on the multilateral rules-based system

Despite the slow progress, completing the Doha Round remains our top priority. The potential benefits are simply too important to ignore. 2011 represents the next best opportunity to conclude an ambitious, balanced and comprehensive agreement to which *all* major players make significant contributions and from which *all* players, big and small, could benefit. Doha represents a potentially sizable boost to the world economy. World trade could increase by over €300 billion a year and world income by more than €135 billion<sup>21</sup>.

The successful conclusion of the Doha negotiations would confirm the central role of multilateral trade liberalisation and rule-making. It would also confirm the WTO as a powerful shield against protectionist backsliding – one of the crucial differences between today's crisis and that of the 1930s. We will make better use of, and advocate strengthening, the surveillance and monitoring capacity of the WTO. This could involve enhanced peer review, transparency and multilateral scrutiny of trade policies in order to stem possible protectionist tendencies, enforce existing trade agreements and disciplines and improve trade practices in third countries. We will also continue to

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<sup>20</sup> COM(2008) 699, 4.11.2008 "The raw materials initiative – meeting our critical needs for growth and jobs in Europe", and COM(2010) 614, 27.10.2010 " An Integrated Industrial Policy for the Globalisation Era - Putting Competitiveness and Sustainability at Centre Stage".

<sup>21</sup> CEPIL, "Economic Impact of potential outcome of the DDA", Final Report commissioned by the European Commission, February 2009.

give priority to further accessions. Finally, we will aim to strengthen the unique dispute settlement system of the WTO. This requires beefing up the judicial nature of the process and endowing the WTO secretariat with more resources for that purpose.

There is a long-term systemic benefit in strengthening the WTO as a central institution to address the challenges of global economic governance alongside other actors such as the G20. So we will set up a group of eminent persons from developed and developing countries to obtain independent recommendations to help shape our European view on the future agenda and functioning of the WTO post-Doha.

### 3.2. Completing the on-going Free Trade Agreements (FTA) negotiating agenda

The Global Europe agenda of an ambitious new generation of bilateral trade agreements with important trading partners is a tough undertaking. Some emerging economies already represent a significant and increasing share of world trade. In framing our level of ambition, we will continue to take account of the differing levels of development of our trading partners. But this agenda is the right course for Europe to follow, and it has started to bring results.

This is a significant and highly challenging agenda, not least because these new trade agreements go beyond import tariffs, whose importance has diminished, addressing regulatory barriers in goods, services and investment, intellectual property rights, government procurement, the protection of innovation, sustainable development (i.e. decent work, labour standards and environmental protection) and other important issues.

But the benefits should be substantial. On the assumption that all these ongoing negotiations are successfully concluded:

- about half of the EU's external trade will be covered by free-trade agreements;
- the average tariff faced by EU exports would fall by around one half (to about 1.7%) and the average EU import tariff by nearly a fifth (to 1.3%)<sup>22</sup>; and
- taken together, these various FTAs should, as part of future trade policy's contribution to growth, add up to 0.5 % to EU GDP in the longer run<sup>23</sup>.

We have successfully concluded FTA negotiations with Korea, as well as with Peru, Colombia and Central America. Talks with the Gulf countries, India, Canada, and Singapore are at an advanced stage. We reopened important negotiations with the MERCOSUR region. Completing our current agenda of competitiveness-driven FTAs remains a priority. We should make good use of fast-growing regional trade in East Asia and pursue our strategic economic interests in that region, inter alia by linking into the rapidly growing network of free-trade areas in that region. We will therefore seek to expand and conclude bilateral negotiations with ASEAN countries, beginning with Malaysia and Vietnam, and to deepen our trade and investment relations with the Far East.

In parallel, and to help establish an area of shared prosperity with Europe's neighbourhood, we will continue to pursue Deep and Comprehensive Free Trade Agreements (DCFTAs) within the

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<sup>22</sup> Staff Working Paper "Trade as a driver for prosperity", Section III.1, it refers mainly to tariffs on industrial products.

<sup>23</sup> See Staff Working Paper "Trade as a driver for prosperity", Section II.

respective frameworks of the Eastern Partnership and the Euro-Mediterranean Partnership, offering the prospect to countries in the region of participating in the internal market once the conditions are met. This remains a powerful agent of change via regulatory convergence and the removal of tariff and other barriers, carried out in parallel with the negotiation of Association Agreements, to provide economic integration in a context of political association.

Concluding this agenda, in short, would greatly improve the way in which we do business with the rest of the world.

### 3.3. Engaging our strategic economic partners on trade, investment and regulatory convergence

In September, the European Council identified enhancing trade with the EU's strategic partners as a crucial objective, calling for concrete steps to "*secure ambitious Free Trade Agreements, secure greater market access for European business and deepen regulatory cooperation with major trade partners*". However, it recalled as well that these partnerships must be "*two way streets based on mutual interests and benefits and on the recognition that all actors have rights as well as duties*"<sup>24</sup>.

Because of their economic size and potential, as well as their influence on the global economy, our trade policy needs to pay particular attention to the US, China, Russia, Japan, India and Brazil. For different reasons, our economic relations with these countries have a strategic dimension for the EU. We must now make them even more of a major priority. We are in the middle of ongoing and intense negotiations with India for an FTA. We will transform our relationship with Brazil when we conclude the recently re-launched negotiations for an EU-Mercosur Association Agreement.

The state of and prospects for our relationship with the other four strategic economic partners is set out below.

The **US** is by far the EU's largest trade and investment partner. In spite of occasional disputes, trans-Atlantic trade and investment proceeds with more freedom than almost anywhere else in the world. The biggest remaining obstacles lie in the divergence of standards and regulations across the Atlantic, even though we have very similar regulatory aims. The stakes involved are high, as illustrated by a recent study suggesting that removing only half the non-tariff barriers from trade with the US would result in a 0.5% increase in EU GDP<sup>25</sup>. The Transatlantic Economic Council gives us a good forum for political guidance to a complex array of different regulatory dialogues etc. In this way it can help bring about regulatory convergence. Our priority should be squarely on the avoidance of future barriers, and in particular in the innovation, energy efficiency and hi-tech sectors, a point which comes out clearly in our public consultation exercise.

**China** is the EU's second largest trading partner. It is a source not only of low price consumer goods but also of key inputs for our manufacturing industries. It is also a fast growing market for our exports. However, our trade with China remains well below potential. Important market access barriers persist - in standards and regulations, services, investment and public procurement, as well as insufficient enforcement of IPRs, an opaque standardisation system, burdensome certification procedures and industrial policy measures aimed at import substitution, forced transfers of technology and granting local producers preferential access to raw materials. The EU has challenged a number of these measures in the WTO and bilaterally, and will continue to do so.

<sup>24</sup> European Council Conclusions, 16 September 2010, §4.

<sup>25</sup> See Ecorys (2009) "Non tariff measures in EU-US trade and investment" available at [http://trade.ec.europa.eu/doclib/docs/2009/december/tradoc\\_145613.pdf](http://trade.ec.europa.eu/doclib/docs/2009/december/tradoc_145613.pdf)

In the more comprehensive framework provided by the High Level Economic and Trade Dialogue, we will advocate policies that are more in line with market economy rules and seek to address the sources of the current major imbalances.

**Japan** is eagerly seeking economic integration with its main trading partners, including with the EU. Yet, while tariffs in Japan are generally low, regulatory obstacles to trade in goods, services, investment and public procurement remain high<sup>26</sup> and are perceived as being as insurmountable as ever. Japan's capacity to demonstrate that these barriers can be removed is the key condition for closer economic integration between the EU and Japan. The issue is currently being examined by the High Level Group (HLG) set up at the last EU-Japan summit.

**Russia** is our most important near neighbour. It is also the second largest destination for EU exports, the third largest source of EU imports globally, and the biggest energy provider for many Member States. Russia's integration into the WTO remains a crucial short-term objective for EU trade policy, also a point clearly made by many respondents in our public consultation. It would be the single most significant measure to anchor Russia into the global system and it would give a boost to the modernisation and diversification of its economy. In the meantime, the bilateral agreement under negotiation between the EU and Russia to replace the current Partnership and Cooperation Agreement would help to achieve a more effective, stable and predictable trading environment, and should provide better balance in our respective rights and obligations. As we are leaving the crisis behind us, Russia should for instance remove the unilateral tariff increases imposed since 2007.

We will step up our cooperation with these countries especially through the different fora that have been created for that purpose. We will evaluate later if these fora are up to the sizeable challenge we face in developing our trade and investment links with these countries, noting in particular the importance that the European Council has attached to this issue.

#### **4. The enforcement and implementation agenda**

The EU must step up our efforts to enforce our rights under bilateral and multilateral agreements to prise open markets that are illegally closed. Proper enforcement of trade rules is an indispensable pillar of trade policy. It ensures that trade agreements on paper can be translated into concrete results for people and companies on the ground. This is particularly relevant for Small and Medium Sized Enterprises (SMEs). This concern with even-handed enforcement is reflected in public opinion<sup>27</sup>.

At the **global level** the Commission will continue to pay particular attention to trading partners' actions in the recovery from the economic crisis, an initiative that was welcomed by participants in our public consultation. The G20 commitment in 2008 (renewed and extended in scope in 2010 until the end of 2013) not to introduce protectionist measures plays an important political role in this respect, and has been largely, though not universally, respected, by partners. We will continue to monitor compliance carefully and report regularly. We call upon our G20 partners to take action to reverse and roll back the trade restrictive measures introduced during the global financial crisis. In addition, we will act vigorously against any protectionist tendencies that may harm our interests.

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<sup>26</sup> Copenhagen Economics (2010) "Assessment of barriers to trade and investment between the EU and Japan" available at <http://ec.europa.eu/trade/analysis/chief-economist/>.

<sup>27</sup> According to Special Eurobarometer Survey 357, EU citizens thought that one of the key trade policy priorities for the EU should be to ensure that the same rules are applied everywhere in the world.

We have already targeted especially harmful measures (e.g., the Buy National policies which have sprung up since the economic crisis in several countries) and sought their withdrawal. Beyond that, we must push hard for **systematic implementation** of all trade agreements, monitoring implementation by our partners closely and enforcing our rights including through dispute settlement and use of the EU's Trade Barriers Regulation where appropriate.

As regards **bilateral agreements**, we will prioritise the implementation of free-trade agreements, particularly in respect of the regulatory component and non-trade barriers. This will start with the EU-Korea free-trade agreement, which includes ambitious commitments notably on regulatory issues, which can be enforced through expeditious dispute settlement or mediation.

The **Market Access Strategy (MAS)** will remain a key element of our enforcement activities.<sup>28</sup> Our partnership with Member States and business has allowed us to create market access teams in third countries and in Brussels. The contributors to our public consultation confirmed that MAS has brought very good concrete results in removing third country trade barriers and improving market access conditions for EU companies on the ground. Concerted action by the Commission, Member States and business contributed to lifting barriers for a wide range of sectors and third countries with a very significant export potential. Recent examples include strict labelling requirements for textiles in Egypt, inspection requirements for animal products in Ukraine, import licensing for tyres in India (where barriers due to strict certification requirements remain to be lifted however), certification procedures for toys in Brazil or market access conditions for mail delivery from Canada.<sup>29</sup> In line with our aim of stronger enforcement activities, we will look to set up additional market access teams in half a dozen third countries and reinforce the existing 33 teams with a particular focus on monitoring the implementation of free trade agreements. We will also cooperate with third countries with which we share common market access concerns on a case by case basis. Finally, and as announced in the Europe 2020 Communication, we will produce an annual trade and investment barriers report which will monitor trade barriers and protectionist measures in third countries. It will trigger appropriate enforcement action, with the possibility of "naming and shaming" third countries.

We will also work with major partners in order to strengthen and better co-ordinate **consumer safety** actions by market surveillance authorities.

In 2005, the Commission proposed legislation on **origin marking for imported end products** to provide more information for consumers. Early adoption by the Parliament and Council would level the playing field vis a vis third countries in this domain.

Particular attention will be paid to **international customs cooperation** in the framework of bilateral agreements and in the World Customs Organisation. Efficient customs procedures reduce compliance costs for traders, facilitate legitimate trade, and help us to address rising security, safety and IPR risks.

It is vital that intellectual property linked to EU goods, services and FDI be adequately protected. In order to strengthen IPR enforcement and streamlining procedures, we are reviewing the rules for customs taking action at the EU border. We will also review our 2004 strategy on the enforcement

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<sup>28</sup> See report "Implementing the Commission Communication: Global Europe - A Stronger Partnership to Deliver Market Access for European Exporters", of 18 April 2007.

<sup>29</sup> See "Implementing the Market Access Strategy - Annual Report 2009", available online at [http://trade.ec.europa.eu/doclib/docs/2010/march/tradoc\\_145851.pdf](http://trade.ec.europa.eu/doclib/docs/2010/march/tradoc_145851.pdf)

of **intellectual property rights** in third countries to respond to new challenges. To safeguard and enhance their competitiveness in the knowledge economy, our companies and right holders need more effective protection and enforcement of intellectual property (IP), including geographical indications, across foreign markets, especially in emerging economies. In this context, further harmonising IP rules within the EU would enhance the Commission's capacity to negotiate on behalf of the EU stronger IP commitments with our key trading partners. In negotiating FTAs, the IPR clauses should as far as possible offer identical levels of IPR protection to that existing in the EU while taking into account the level of development of the countries concerned. The Anti-Counterfeiting Trade Agreement (ACTA) aims to establish a comprehensive international framework – a catalogue of "best practices" – that will assist its members to effectively combat the infringement of IPRs. When agreed and implemented, ACTA will effectively introduce a new international standard, building on the WTO TRIPS agreement.

Our commitment to open trade depends on fair competition between domestic and foreign producers based on genuine comparative advantages. We protect EU production from international trade distortions or disruptions, by applying **trade defence instruments** in compliance with WTO rules. We will apply these instruments to new forms of distortions such as subsidisation of strategic sectors, including where third countries use export restrictions to confer indirect benefits to downstream industries. We will continue to apply our rigorous legal and economic standards and expect our trading partners to do likewise. We will support EU businesses if third countries use trade defence instruments in an unfair way, including, where appropriate, by raising these issues in the WTO. In the light of the changes brought about by the Lisbon Treaty and/or the future results achieved in the Doha Round under the 'Rules' chapter, we will explore whether and how to further update and modernize our trade defence instruments.

Absent or ineffective competition and state aid rules in third countries limit market access for EU exporters. The EU therefore has a strategic interest in developing international rules to ensure that European firms do not suffer in third countries from unfair subsidisation of local companies or anti-competitive practices. A multilateral set of rules adopted in the WTO framework would be the best outcome. However, many key issues can also be addressed through bilateral agreements.

We will do more to address the concerns of **SMEs** recognising for example in trade defence that they often face real problems with cost-intensive trade defence investigations either as importers, users, complainants or exporters. In addition, the Commission will present in 2011 a Communication on possible support measures to help SMEs that want to develop their international activities.

We will also enhance the **role of EU Delegations as contact points for EU business abroad** and, where appropriate, create specific business support structures in third countries.

## **5. Public consultations and impact assessment**

Consultations with civil society and key stakeholders, as well as with the European Parliament and our Member States, have provided useful inputs to the preparation of this paper<sup>30</sup>. For example, we have received 302 contributions from 37 countries, including 23 Member States, which have been summarised in a separate document.

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<sup>30</sup> See report and individual replies at [http://trade.ec.europa.eu/consultations/?consul\\_id=144](http://trade.ec.europa.eu/consultations/?consul_id=144)

We remain committed to consulting interested parties when drafting policy and proposing action. Consultation with civil society is a fundamental part of our policy-making and we provide feedback to those who have responded to our public consultation processes, where this is feasible. This is already partly achieved by regular Civil Society Dialogues on trade: regular, structured meetings on trade policy issues of interest to a wider audience which promote an active and inclusive participation of civil society in our trade policy-making process.

We will step up a gear in embedding impact assessments and evaluations in trade policy making. This includes carrying out impact assessments on all new trade initiatives with a potentially significant economic, social or environmental impact on the EU and its trading partners, including developing countries. We will pay particular attention to wide consultation and involvement of civil society in the sustainability impact assessments that we carry out during trade negotiations. Once negotiations are concluded and before signature, we will prepare for the Parliament and Council an analysis of consequences of the proposed deal for the EU. Finally, to help monitor the impacts of existing EU trade agreements, we will be carrying out ex post evaluation on a more systematic basis.

## **6. Trade and external relations**

Our aim is for the EU to play a role in foreign affairs and global management commensurate with our economic weight.

Trade policy has its own distinct economic logic and contribution to make to the external action of the Union. Trade and trade policy reinforce the EU's international influence and concerted action at EU level should pursue and support EU economic interests in third countries. So the Union's trade and foreign policies can and should be mutually reinforcing. This applies to areas such as development policy and the application of UN sanctions, but also to creating the right incentives within, inter alia, our trade and political relations with third countries or through specific trade instruments such as the General System of Preferences or FTAs, to encourage our partners to promote the respect of human rights, labour standards the environment, and good governance, including in tax matters. Other tools of external action, such as EU Delegations abroad, should help accomplish our trade agenda and support our companies abroad. Another example of the interaction between trade policy and external action is our **export control system** for dual-use goods which serves a foreign security policy goal. Although strong progress has been made over the last 20 years toward the creation of a fully fledged EU export control system, differences between national implementing measures in the EU risk undermining the benefits of the Single Market and the common commercial policy. Reforms being undertaken in this area by the EU's partners, including by the US, clearly demonstrate the economic significance of the export control area and the need for a renewed effort to strengthen the competitiveness of EU exports while ensuring the highest possible levels of security. We will continue to develop export control measures aimed at simplifying and making more transparent the business environment for EU exporters, which at the same time contribute to strengthening international security efforts. We will bring forward a Green Paper to consult on the functioning of the current system and possible areas of reform.

## **7. Conclusions**

This Communication sets out how we intend our trade and investment policy to contribute to the objective of sustained economic growth which should create more jobs and safeguard our welfare state. This will require a strong commitment from all stakeholders, EU institutions and Member States.

In summary, we will:

*1. Pursue our negotiating agenda:*

- aim to conclude the Doha round of negotiations as a matter of urgency, and at the latest by end 2011;
- set up a group of eminent persons from developed and developing countries to obtain independent recommendations to help shape our European view on the future agenda and functioning of the WTO post-Doha;
- aim to make significant progress with ongoing bilateral trade negotiations, launch new trade negotiations with ASEAN countries and propose self-standing investment negotiations with key partners;
- pursue negotiations with the EU's neighbours towards the ultimate aim of concluding Deep and Comprehensive FTAs bringing all neighbours gradually closer to the Single Market.

*2. Deepen our strategic partnerships*

- set out in more detail how we plan to upgrade our relationship with strategic partners to address the issues that are an obstacle to better functioning markets in the 21<sup>st</sup> century and review how far we have come by the end of 2012;

*3. Take trade policy forward*

In 2011 we will:

- make a legislative proposal for an EU instrument to help secure and increase symmetry in access to public procurement markets in developed countries and large emerging market economies;
- conclude the debate with Member States and the European Parliament on a new investment policy for the EU;
- present our views on how to develop the mutual supportiveness of internal and external market opening, in particular in goods and services regulations;
- adopt a Commission Communication on trade and development and a legislative proposal to reform the Generalised System of Preferences for developing countries;
- adopt a Green Paper seeking to improve our export control system;
- present a Communication on possible support measures to help SMEs that want to develop their international activities;

*4. Enforce our rights*

- review our strategy on the enforcement of intellectual property rights in third countries as well as our customs regulation on IPR enforcement at the EU border;

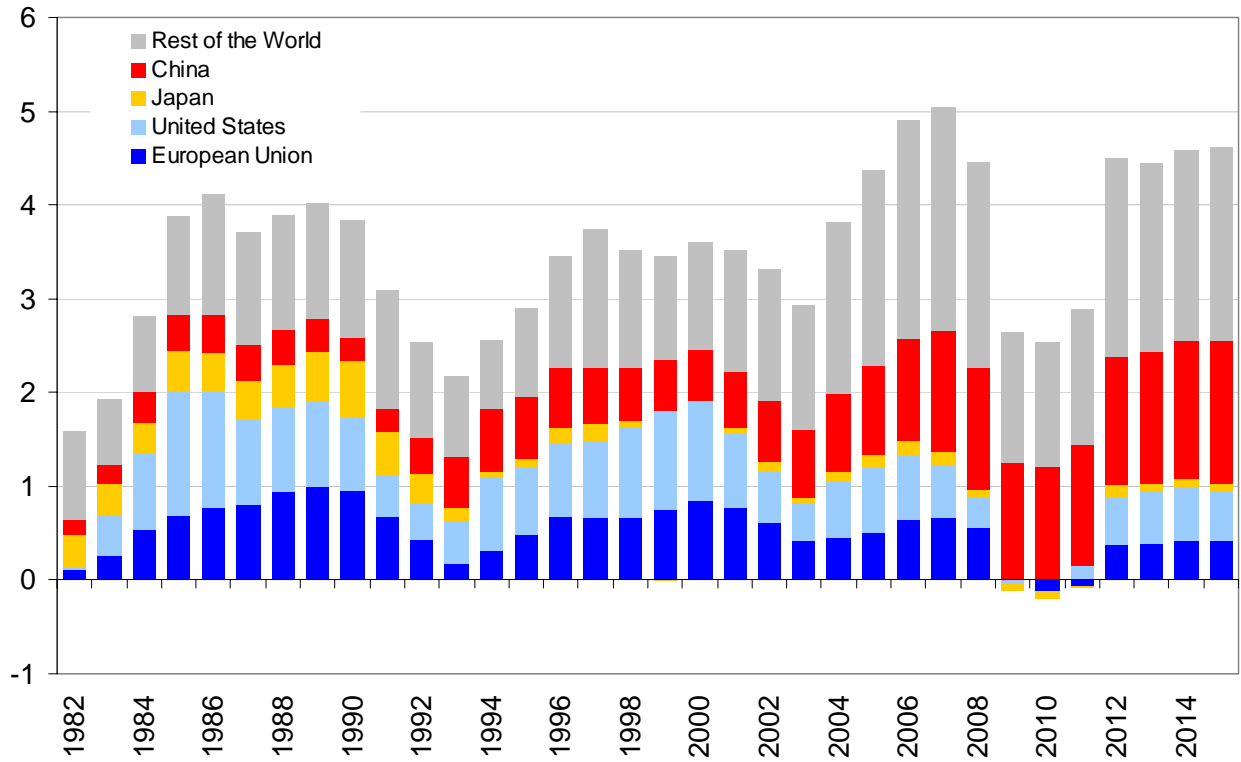


- produce from 2011 onwards an annual trade and investment barriers report for the Spring European Council as our key instrument to monitor trade barriers and protectionist measures and trigger appropriate enforcement action.

## ANNEX

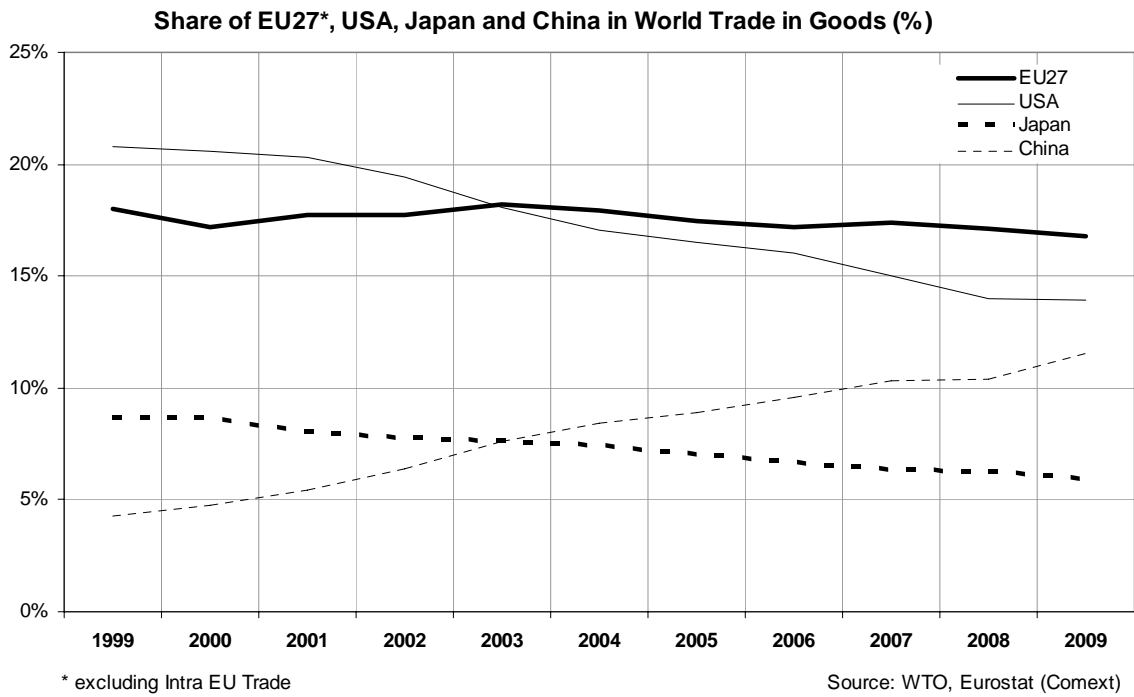
Figure 1

Contributions to global GDP growth, PPP basis  
(percent, three-year moving averages)



Source: IMF World Economic Outlook October 2010

Figure 2



**Table 1: Status of EU FTAs and their share of EU trade (%)**

Regions and FTA status		Industrial products*		Agricultural products**	
		Imports (%)	Exports (%)	Imports (%)	Exports (%)
<b>Operational FTAs</b>		<b>22.3</b>	<b>27.7</b>	<b>24.3</b>	<b>29.1</b>
Chile, Mexico, South Africa	Developing country FTAs	2.5	3.4	5.7	2.2
Andorra, San Marino, Turkey, Iceland, Liechtenstein, Norway, Switzerland	EFTA and customs Unions	14.6	15.9	11.6	14.6
Caribbean ACP	EPAs	0.3	0.3	1.0	0.6
Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Occupied Palestinian Territory, Tunisia	Mediterranean countries, FTAs	4.0	5.9	4.5	7.9
Albania, Bosnia and Herzegovina, Croatia, Former Yugoslav Republic of Macedonia, Montenegro, Serbia	Western Balkans, Stabilisation and Association Agreements	0.9	2.2	1.5	3.7
<b>FTA negotiations concluded but not yet applied, on-going and planned FTA negotiations</b>		<b>21.8</b>	<b>25.6</b>	<b>56.2</b>	<b>26.2</b>
Bolivia, Ecuador, <i>Peru, Colombia,</i>	Andean Community	0.4	0.6	5.3	0.4
Brunei Darussalam, , Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam	ASEAN	5.4	4.6	9.8	4.2
<i>Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama</i>	Central America	0.2	0.4	2.8	0.4
Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates	Gulf Cooperation Council (GCC)	2.0	5.3	0.3	5.1
Argentina, Brazil, Paraguay, Uruguay	MERCOSUR	1.5	2.5	20.9	1.5
Armenia, Azerbaijan, Canada, Georgia, India, <i>Korea,</i> Libya, Moldova, Syria, Ukraine	Other FTAs	10.0	9.1	7.2	8.0
ACPs less Caribbean	EPAs	2.3	3.2	10.5	6.6
<b>No FTAs</b>		<b>55.8</b>	<b>46.7</b>	<b>19.5</b>	<b>44.7</b>
Australia, China, Japan, New Zealand, Russia, United States	Major trading partners	50.3	38.6	16.6	35.8
<i>Rest of the world (~ 70 countries)</i>		<i>5.5</i>	<i>8.1</i>	<i>2.9</i>	<i>8.9</i>

Source: European Commission. Note: \* HS25-99. \*\* HS01-24. Note: concluded FTA negotiations but not yet applied FTAs in italics.

**Table 2: Estimated tariff equivalents of services barriers (in %)**

	Telecom	Constr	Trade	Transport	Finance	Business services	Other
Developed Countries	24	42	31	17	34	24	26
Asia	33	25	17	8	32	15	17
Eu25	22	35	30	18	32	22	27
USA	29	73	48	14	41	34	7
Developing countries	50	80	47	27	57	50	34
Total mean	35	58	38	21	44	35	29
Max	119	119	95	53	103	101	54

Source: DG TRADE/ CEPII. Based on gravity modelling of services trade flow data.

**Table 3: Trade costs of NTMs in the US and the EU (in % tariff equivalent)**

Sector	NTM costs in the EU	NTM costs in the US
Chemicals	23.9	21.0
Pharmaceuticals	15.3	9.5
Cosmetics	34.6	32.4
Electronics	6.5	6.5
Office & communications equipment	19.1	22.9
Automotive	25.5	26.8
Aerospace	18.8	19.1
Food & Beverages	56.8	73.3
Metals	11.9	17.0
Textiles & clothing	19.2	16.7
Wood & paper products	11.3	7.7

Source: Ecorys (2009) "Non-Tariff Measures in EU-US Trade and Investment – An Economic Analysis"

Note: These tariff equivalents of non-tariff regulatory measures have been derived from a dedicated industry survey by means of econometric methods.

**Table 4: Public procurement market in key trading partners<sup>φ</sup>**

	<b>EU</b>	<b>US</b>	<b>Japan</b>	<b>Canada</b>	<b>Korea</b>	<b>Brazil*</b>	<b>Argentina*</b>	<b>India*</b>
<b>Total Public Procurement market</b> (in bln €)	2088	1077	565	225	106	133	15	64
<b>(% of GDP)</b>	16%	11%	18%	22%	14%	13%	8%	8%
<b>Total Public Procurement above GPA threshold</b> (in bln €)	370	279	96	59	25	42*	3.7*	20*
<b>(% of GDP)</b>	3%	3%	3%	6%	3%	4%*	2%*	2.5%*
<b>PP offered to GPA</b> (in bln €)	312	34	22	2	15	na	na	na
<b>(% of above threshold PP market )</b>	84%	12%	23%	3%	60%	na	na	na

Source: European Commission estimates.

φ Comparable data for China is not available.

\* Not GPA members. European Commission estimates of potential public procurement market subject to commitments if the countries were to join the GPA.