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COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**GLOBAL EUROPE: COMPETING IN THE WORLD**

**A Contribution to the EU's Growth and Jobs Strategy**

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## COMMISSION STAFF WORKING DOCUMENT

### **Global Europe: Competing in the World**

*A contribution to the EU's Growth and Jobs Strategy*

**Growth and jobs are at the heart of the Commission's agenda.** They are essential for economic prosperity, social justice and sustainable development and to equip Europeans for globalisation. They are a core criterion by which citizens will judge whether Europe is delivering results in their daily lives.

**One of the specific features of the new Growth and Jobs Strategy has been to underline the external dimension to achieving our goals.** Like the Single Market, the EU's ever greater openness to trade and investment has been a major catalyst of growth inside the Community over the last two decades, significantly contributing to the creation of 25 million jobs in the EU. Open markets are a powerful stimulus to competition, innovation and productivity growth.

**An effective policy to foster competitiveness must link internal and external policies.** Internal policies like competition, research and development, innovation, education, employment, social and cohesion policy exert a strong influence on the capacity of EU companies to compete internationally. The completion of the Internal Market is a critical platform for EU exports. A strong and competitive home market is a pre-condition for the development of strong global players based in Europe. Harmonising regulatory approaches and striving for high-quality rules and practices inside the EU is essential to addressing these issues and effectively defending our interests abroad.

**The primary external focus of our contribution to European competitiveness since the launch of the Doha Trade Round in 2001 has been on achieving an ambitious, balanced and just agreement to liberalise world trade.** That commitment to the multilateral system and the WTO negotiations remains undiminished in spite of the suspension of negotiations in July. The Doha Development Agenda remains our first priority and the Commission is working intensively to restart the Doha negotiation after its suspension in July 2006. Through our trade policies, we also seek to contribute to a range of the Union's external goals, in particular development and neighbourhood objectives. These will remain core functions of EU trade policy. Coherence between the Union's external policies is vital to strengthening the EU's global role.

**The purpose of this Communication is to set out the contribution of trade policy to stimulating growth and creating jobs in Europe.** It sets out how, in a rapidly changing global economy, we can build a more comprehensive, integrated and forward-looking external trade policy that makes a stronger contribution to Europe's competitiveness. It stresses the need to adapt the tools of EU trade policy to new challenges, to engage new partners, to ensure Europe remains open to the world and other markets open to us.

**This Communication also addresses some of the links between the policies we pursue at home and abroad.** As globalisation collapses distinctions between domestic and international policies, our domestic policies will often have a determining influence on our external competitiveness and vice versa. Recognising the need for an integrated, coherent approach to

domestic and to global challenges has been a hallmark of this Commission<sup>1</sup>. But there is more to do to reflect this in the ways we think and work.

## 1. SEIZING THE OPPORTUNITIES OF GLOBALISATION

### 1.1. The global competition challenge

**The changes in the global economic order we witness today are as significant for the world economy and international relations as the end of the Cold War.** Global economic integration is deepening, driven by growing trade and capital flows, deepening financial markets, falling travel and transportation costs, the revolution in information and communications technology and the movement of ideas and people.

**More countries than ever are seizing the opportunities of globalisation.** In the second half of the twentieth century, OECD countries, in particular the United States, Europe and Japan, drove the global economy. In the first half of the 21<sup>st</sup> century, they are being joined by new economic powers, in particular China and India, but also Brazil, Russia and others. China is likely to become the second single largest economy in a few decades. Within a similar timescale India may become the 6<sup>th</sup> largest global economy. China is already the third largest exporter in the world. The development of these major emerging economies is driven in large part by the progressive opening of their economies. This, in turn, is driving the pace of economic change.

**Multinational companies are combining advanced technologies and foreign capital with large pools of increasingly well educated labour in the developing world.** Global supply chains are changing as companies outsource increasingly complex production and services to lower cost economies and knowledge-based sectors grow there. Vertical integration of production – where components of a single product may be sourced in a range of countries – is replacing traditional trade in finished goods. These represent significant changes in how business operates, with profound implications for global economic relations.

**This has created opportunities for growth and development on an unprecedented scale.** It means both new markets and new opportunities of production. It gives us the chance, by sharing our experience, norms and values, to influence the development of emerging global actors and so the future of the world economy.

**But change on this scale also creates concerns.** Its pace and depth is unprecedented. It is driving new pressures on traditional industries and livelihoods; increasing competition for access to markets and raw materials; and putting natural resources and ecosystems, including biodiversity and our climate, under heavy pressure<sup>2</sup>. It has aroused new threats and fears and revived old ones.

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<sup>1</sup> See the EU's renewed Strategy for Sustainable Development, adopted by the Council in June 2006, and the Communication "Citizen's Agenda" and "Europe in the World", adopted by the Commission in May and June 2006.

<sup>2</sup> The groundbreaking *Millennium Ecosystem Assessment*, launched by U.N. Secretary-General Kofi Annan in June 2001 and completed in March 2005, concludes inter alia that over the past 50 years, humans have changed ecosystems more rapidly and extensively than in any comparable period of time in human history, largely to meet rapidly growing demands for food, fresh water, timber, fiber and fuel. It highlights that this has resulted in a substantial and largely irreversible loss in the diversity of life on

**It is true that such rapid changes imply significant adjustments.** But for Europe, the challenge of China and India is more likely to be a race to the top than the bottom. To prosper, European economies must seize these new market opportunities by moving up the value chain. The role of the Commission and of Member States is to help create the environment in which our economies are able to make the most of these opportunities. This requires a clear analysis of our strengths and weaknesses and of the limits, as well as the successes, of our current policies.

**EU industry has key assets for the future<sup>3</sup>.** European manufacturing industry has broadly maintained its share of GDP in volume in the face of globalisation. Its output has increased by 40% over the last two decades. Despite rapid economic change and the emergence of a new range of competitors in particular China, Brazil and India, the EU's position on world markets remains almost unchanged, while the US and Japan have lost ground.

**Analysis shows that this good performance is mainly due to the ability of EU companies to sell products at premium price due to quality, branding and related services<sup>4</sup>.** These "upmarket" products now account for a third of world demand and represent half of European exports, not only in luxury consumer goods, but across the whole range of EU exports, including agricultural products (supported by the evolution of the EU Common Agricultural Policy), intermediary goods, machines and transport equipment. And European producers are among the world leaders in telecommunication, distribution, finance, insurance, transport and environmental services. This reflects a new form of "vertical", qualitative, international division of labour. International trade is no longer about only trading Airbus planes for T-shirts, but about trading increasingly similar goods and services, where European firms prosper because of their products' distinctiveness and quality and the ability of European companies to anticipate new markets. In this range of products, the EU ranks second just behind Japan but ahead of the US, whilst countries like China still lag far behind. This is very important to our ability to sustain European social systems. Building on this ability to sell products at premium price is the only way to uphold our levels of social protection, employment and wages.

**But our position is at risk.** The EU is losing ground in high technology products while countries such as China are rapidly catching up. Maintaining the EU's ability to sell expensive top-of-the-range products is not just a matter of technological advance. The quality of products, their environmental performance including their energy-efficiency, their reputation, their related services, the ability to customise or personalise them, the ability to deliver them in a short timeframe or in a way more suited to consumer's needs are all decisive factors in determining prices, but innovation remains critical to stay top class on each of these<sup>5</sup>. Our investment in science, technology and development is critical.

**We must also consider our external focus.** Here our position is also at risk in the mid to long term because of the geographic destination of European exports, which are strong in countries where demand is static but less well positioned in rapidly growing areas, particularly compared to the Japanese and US exports. We risk missing market opportunities in dynamic areas which account already for half of world import growth.

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Earth, that the degradation of ecosystem services could grow significantly worse during the first half of this century and that this is a barrier to achieving the Millennium Development Goals.

<sup>3</sup> "A new industrial policy: creating the conditions for manufacturing to thrive", Communication from the Commission, COM (2005) 474, 05/10/2005

<sup>4</sup> CEPII (2004), *European industry's place in the International Division of Labour: situation and prospects*.

<sup>5</sup> See also Commission Communication on "Innovation: Breaking Free", September 2006

**This is why change within the European economy is essential to maintaining our competitiveness and social systems.** But we must also recognise the disruptive impacts of market opening for some, particularly for the less qualified and most vulnerable workers. These structural changes are not new, but the speed and depth of the transformations we are seeing pose a new challenge. We have not been successful enough in anticipating the effects of trade opening or ensuring the benefits are passed on to citizens. Textiles are a good example. Although some regions and countries managed the end of textiles quotas relatively smoothly, others did not. And in some, the benefits of lower prices of clothing, as a result of increased trading openness, were not passed on to citizens. While certain Member States have seen large price falls, others have seen price stability and certain markets have even seen price rises.

**It is clear that there are environmental implications to our and our partners economic activities.** In seeking to seize the opportunities of globalisation we should also pursue policies to address the environmental problems associated with it. Such policies will also lead to increased demand for eco-innovations including clean technologies and environmentally-friendly goods and services, thus creating new opportunities for our European eco-industries.

**Based on this analysis, we should build an agenda for action in the months and years ahead.** Our aims should be to influence the forces driving change, to seize the opportunities of globalisation and to manage the risks. This is the challenge that lies at the heart of the Commission's Communication of 10 May 2006, *A Citizen's Agenda for Europe*. The Commission's role, in close co-operation with Member States, the Parliament and others, in leading the EU's trade policy is a unique source of strength for Europe – a role not matched in any other area of policy. But we must ensure that our priorities and methods are adapted to the challenges of the future.

## **1.2. Developing a modern trade policy for growth and jobs**

**Openness to trade is essential for growth and jobs.** It boosts productivity by enabling more efficient allocation of resources; by providing greater opportunities to exploit economies of scale, by exposing the domestic economy to greater competitive pressures, by rewarding innovation and providing access to new technologies, and by increasing incentives for investment. Our openness to others is good not only for the rest of the world, including developing countries, but is also vital in maintaining our leading role in the global economy.

**Europe's prosperity is intrinsically linked to that of other regions of the world, and increasingly to that of emerging economies.** We should reject the temptations of protectionism. Any obstacle to global supply chains could be damaging to our industry since raising the cost of intermediary goods and raw materials would make the EU industry less competitive. More than ever, we need to import to export. Protection raises prices for consumers and limits choice. Protecting import-competing sectors diverts resources away from other, potentially more productive, sectors of the economy – leading to the sub-optimal distribution of economic resources and eventually jeopardising the future.

**In order to keep the EU at the forefront of international competitiveness, we must take a dynamic approach that looks at the position of EU firms in a globalising economy.** This is not about trying to compete where we cannot, but making sure we succeed as a provider of top quality, often highly specialised goods and services in knowledge based economy. Europe should move up the value chain within each and every product and service sector. There is no reason why manufacturing should shift to Asia with Europe left with high value added services and research based innovation only. Competitiveness can be substantially enhanced

through improved innovation, marketing and distribution techniques for all kinds of products, including those traditionally considered unsophisticated and low- or middle-tech. For example, traditional sectors such as textiles or footwear are moving up in the value chain, moving from commodities to speciality products, from mass production to customisation, and are developing new products (textiles or fibres) applications, taking advantage of research-driven innovation and technological development. This also implies maintaining a sufficiently broad industrial base (e.g. special chemicals in the EU can not do without a basic petrochemical industry).

**Trade policy must support excellence and innovation in Europe.** This means better recognition and enforcement of intellectual property rights (IPR). EU investments in creativity, research, design and quality are a unique asset of the EU economy, but are particularly vulnerable to poor enforcement of IPR in a number of regions. It could also be enhanced through international patent harmonisation as discussed in WIPO and informally between industrialised countries, which would contribute to minimising redundancies and delays in the grant of patents. The EU will continue to take careful account of the potential links between IPR and public health and sustainable development. But we should equally take a robust approach to promoting more efficient IPRs internationally and ensuring better enforcement of commitments taken by our partners, especially in major markets such as China, Asean or Korea where our interests are at stake. This is also important to maintaining public support for openness. As we seek to manage economic and social change in some sectors as a result of our openness to trade, we must be committed to promoting and protecting new wealth and job-creating sectors.

**We need to promote our economic interests by activism abroad not protectionism at home.** Addressing barriers in third countries accounts for the bulk of the potential to improve the competitive position of EU industry. The EU is one of the most open markets worldwide. It promotes regulatory transparency, is actively engaged to reduce red tape and provides foreign firms with an open regime of investment and the possibility to participate in public procurement markets. We also impose disciplines to prevent unwarranted limits on access to the EU market (e.g. the EU State aid discipline holds back Member States from using aids as a protectionist tool and promotes transparency concerning the aids granted). Our leading trading partners are less open, sometimes significantly so. The EU stands to gain from the further opening of markets worldwide consistent with the sustainable development of its partners and from deeper interaction between its internal market and the external environment. We must take a robust approach to ensuring that markets are genuinely open and that international rules are applied openly and transparently.

**This means making the case for meaningful commitments from the most advanced fast-growing and competitive emerging economies.** The world trading system is no longer the preserve of the OECD countries. Emerging countries like China, Brazil, Russia and India are reaping the benefits of the increasingly important role they play in world trade. Together they now represent more than 15% of global trade flows and their growth reflects this. China, for example has grown by more than 9% annually in the last ten years, largely thanks to annual export growth of around 25%. The EU is already very open to their exports and is ready to do more. But most emerging countries combine high growth with high barriers against EU exports. Our ability to benefit from these new, emerging markets will be an important benchmark of the contribution of trade policy to jobs and growth in Europe.

Securing real market access in the 21<sup>st</sup> century will mean orientating our trade policies to these new opportunities, focusing on new issues, and developing the tools of trade policy to achieve the types of market opening that matter most in a rapidly changing global economy:

- **Addressing non tariff barriers to EU exports and investments.** Tariffs still matter, in particular in advanced developing countries, and the EU should continue to push for their removal. But tariff reductions are of little use if the market remains closed by e.g. restrictive practices in public procurement, State induced competition distortions<sup>6</sup>, excessive sanitary and phytosanitary (SPS) requirements, the variety of conformity assessment procedures used for the same product or customs controls or if exports are unprofitable due to specific norms which must be adopted. We need to look at the whole operating environment in third countries and reduce the barriers and transactional costs derived from the fragmentation of the productive processes. Regulatory barriers to trade and investment are a major challenge for several key sectors, including services, food, cosmetics, pharmaceuticals, building materials, electronic communications, medical devices and motor vehicles and they are still of direct relevance for chemicals, textiles, tyres, electric and mechanical engineering. Although it is legitimate and necessary to regulate trade in products and services, for instance to protect human health or the environment, this has to be done in a way which is transparent, non discriminatory, justified and proportionate to the ultimate objective. And even then companies might face undue supervisory or regulatory burdens which call for (longer-term) work on equivalence recognition or convergence of regulatory solutions. On the other hand, even in emerging economies, capacity constraints exist; we should therefore be ready to develop technical assistance and cooperation in addition to looking for regulatory reforms.
  
- **Tackling export taxes and restrictions on access to resources** such as energy, hides and skins, metals primary raw materials and scrap as well as certain agricultural raw materials. The dependence of EU industries on imports from third countries means they need better access to raw materials to compete on a fair basis. The EU imports half of its energy needs and this could increase to 70% in the next 20/30 years. For oil in particular imports in 2030 will exceed 90% of our total needs. Dependency on gas, imported mainly from three suppliers, could increase to even 80%. As regards ores and concentrates, the EU imports more than ¾ of its needs in iron ore, bauxite, copper ores or lead ores. And while scrap metals are at the core of EU metals industries' competitiveness, the EU non-ferrous metals industries faces serious problems in gaining access to scrap metals at competitive price because of measures taken by some of the EU's biggest trading partners to secure their own supply of raw materials. Such restrictive measures seriously undermine the competitiveness of EU industry on the domestic market and worldwide – not only in countries which apply the restrictions. Unless they are justified by security or environmental reasons (e.g. sustainable management of natural resources, the Basel Convention on exports of dangerous waste, the Montreal Protocol on substances which deplete the ozone layer, or unilateral export bans for dangerous products that are banned in the territory of a country), all restrictions on access to resources should be eliminated. It is also essential to ensure access to networks, in particular energy.
  
- **Further strengthening the presence of EU companies in third countries through permanent establishment.** A “physical” presence in a foreign country facilitates the access of EU companies to business opportunities; adds predictability to the flow of trade; and consolidates the image of the firm. There is growing evidence that higher investment

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<sup>6</sup> The EU State aid rules allow Member States to grant aids only when this is duly justified by a public interest (market failure or equity objective), thereby holding them back from using aids as a means to protect national companies. In most foreign States there is no similar self-imposed discipline, but also no transparency as to the aids granted. In an increasingly competitive worldwide environment, it is necessary to make sure that European firms don't suffer from unfair foreign subsidisation practices.

leads to an increase in trade flows. As supply chains become increasingly globalised, the ability to invest freely in third markets becomes also more important. Investments need a predictable, transparent, non-discriminatory and secure business climate.

### **Box 1: Delivering better market access in services**

Services are a key variable of the competitiveness equation. They represent 77% of GDP and employment in the EU. This is where EU exports have the highest potential for growth. Because of the linkage effects to the wider economy, gradually liberalising and facilitating international trade in services, in particular more efficient services — in finance, telecommunication, distribution, environmental, transport, construction, professional and business services — is important to improve the performance of the whole economy because they have broad linkage effects. Purchases of services by industry often account for two thirds of industry value-added. Dynamic gains are likely to stem from it: see, for instance, the effect of a service like telecommunications in terms of knowledge diffusion. Liberalisation of services related to trade in goods (transport, logistics, and distribution) is also essential.

EU service producers are strongly competitive on world markets and therefore stand to gain from international market opening. The EU, for example, boasts the three largest firms in construction services worldwide, six out of the top ten global companies in telecommunication services, and similarly in distribution, finance, insurance, transport and environmental services. But they are prevented from providing their services in many parts of the world. The EU should push negotiations in sectors where it has a comparative advantage and where market access is hindered or where few commitments have been made so far by third countries.

Progressive liberalisation of trade in services, based on sound regulatory frameworks, will not only benefit the European economy, but it is also essential to developing economies, where services already make up more than 50% of the total economic output on average. No country can prosper today without efficient services markets, which help countries build up and modernise their infrastructure and foster an environment that is conducive to foreign investment. According to the World Bank, liberalisation of services in developing countries could provide as much as \$6 trillion in additional income in the developing world by 2015, four times the gains that would come from trade in goods liberalisation. The scale of these gains may be overstated (and good governance in the financial, tax and judicial areas may be indispensable complements), but the basic principle is persuasive.

- **Opening public procurement markets.** This is an area of significant untapped potential for EU exporters in advanced and emerging economies. EU companies are world leaders in many areas such as transport equipment, public works and utilities. Many of the EU's major trading partners operate discriminatory procurement practices which impede the fair participation of EU suppliers in national procurement markets. As a result, European exporters see themselves effectively shut out from important exporting opportunities. This is probably the biggest trade sector sheltered from multilateral disciplines as it represents between 10% and 25% of GDP of partner countries. It is vital for sectors such as construction or engineering.
- **Ensuring that positive changes induced by openness are not jeopardized by abuses of fair competition.** The EU uses trade defence instruments to defend European interests against unfair trade. These rules are part of the international trading system. They have proved their value in the past and must continue to do so. We do not seek to roll back the

comparative advantages of our partners, but we will take action where those advantages are topped up by unfair practices such as anti-competitive pricing behaviours or subsidies or other State induced distortions. At the same time, European producers are often adversely affected in third country markets by WTO-incompatible anti-dumping, anti-subsidy and safeguards investigations and measures, which cancel out the benefit of the market access obtained in these countries. We will not hesitate to address these practices through the WTO. Whenever appropriate, we will make use of the multilateral dispute settlement procedures in the WTO and other trade defence instruments, such as countervailing duties to remove foreign practices which unduly distort competition. Generally we will make any effort to ensure that our trading partners respect their international commitments integrally and genuinely. Third countries should have the same high standards as we do in their use of trade defence instruments. Finally, we must ensure that our trade defence instruments effectively serve our interests in an increasingly complex global market.

- **Securing IPR protection.** Market access is of little value if exports are a high-risk business due to lack of IPR protection. IPR violations deprive right-holders of the revenue of their investment and ultimately put at risk the viability of the most innovative and creative companies. The challenge lies mainly in enforcement of commitments in emerging economies. In many countries, IPR rules are satisfactory, but their enforcement presents serious deficiencies. European companies are not always aware of the risk they take by doing business with certain countries and do not know what to do when they find that their equipment is copied (e.g. China). Given the high degree of usurpation of EU geographical indications (GIs) on third markets, the protection of GIs is important for EU exporting interests, including in particular for wines, spirits, beers and other agri-food products.

**Promoting such opening of markets requires developing a whole set of instruments as set out below** (part 2). From a systemic point of view it is clear that our priority should remain to make every effort to make the multilateral approach deliver: it is not only the most effective way of liberalising and regulating world trade; a failure of multilateralism would present a wider risk of increased protectionism and economic nationalism around the world. But we should not hesitate to complement it with the various policies and instruments at our disposal.

#### **Box 2: EU competitiveness and sustainable development**

Our competitiveness depends on three related factors: our internal policies; our openness to trade; and the internal policies and openness of our major trading partners. But these factors do not only determine the competitiveness of Europe. As the world's largest trading power, our policies have important implications for global economic growth and for sustainable development. The growing inter-dependence between economies means that countries all share a stake in each other's prosperity and development. EU competitiveness depends on growing prosperity in our major and future markets. Achieving the Millennium Development Goals such as poverty reduction, protection of natural resources and economic development including in major emerging economies – for instance through improved conditions and wages for labour – is not only about moral objectives – it is also essential to create economic opportunities of the future.

Our agenda for market opening focuses on the major emerging countries and regions which are able to sustain competition, which already draw huge benefit from their integration into the world trading system and whose opening to trade is an increasingly important factor in the prospects for growth around the world.

Middle income countries represent a growing share of EU external trade. Their example shows that our competitiveness is linked with wider development goals including reform processes in these countries. Future agreements with those countries should incorporate commitments on sustainable development, including its social and environmental dimensions.

Through a different set of tools, we also promote development in poorer developing countries. For ACP countries, for example, our trade and sustainable development objectives are pursued through Economic Partnership Agreements. Asymmetric trade liberalisation and attention to sustainability considerations rather than reciprocal trade opening are the objective here. Trade-related technical assistance is a key element for these countries, helping them to grasp trade market opportunities and foster their integration into the world economy.

The EU's commitment to sustainable development through trade is long-established. Increasingly, major emerging economies also bear a responsibility towards these poorer countries. As they grow, so does their role in providing market access to help spur development in other countries. Many emerging countries retain very high tariffs which are holding back export-led growth in their poorer neighbours. This is why agreement on substantial quota free and tariff free access for Least Developed Countries (LDCs) – on the model of the EU "Everything But Arms" (EBA) initiative – to developed country markets and to developing countries in a position to do so is a key policy outcome of the Doha Development Agenda.

### 1.3. Joining up internal and external policies

**The renewed Lisbon strategy sets out a coherent agenda for adapting European economies to the new global environment.** To ensure our domestic rules are adapted to new pressures and opportunities, the *Citizen's Agenda* proposed a fundamental review of the single market. This will examine how the internal market can further help European business to make the changes necessary to compete in the 21<sup>st</sup> century: moving up the value chain in all sectors of the economy, relying increasingly on innovation, specialising and diversifying into new, more productive sectors. But there are other policy initiatives we should pursue now.

**Globalisation is collapsing distinctions between domestic and external policies.** There is an increasingly dynamic and complex relationship between the policies we pursue at home and abroad. We need to reflect this much more in the ways we think and work, internally and externally, breaking down the remaining artificial divisions.

#### a) Ensuring internal policies reflect global challenges

**Internal market rules and policies play a key role in creating a competitive and dynamic Europe.** They are also a crucial basis for seeking to share our rules and practices with our partners around the world. Competition in the internal market is a key driver for the competitiveness of Europe's economy. It makes EU companies continuously innovate, restructure, adapt to technological change and improve their cost basis. State aid rules play an important role by ensuring that market mechanisms are not distorted by undue state interventions. The internal market must take full account of the new environment created by increased openness to trade and investments for EU industry to benefit from the global economy. Effective employment and social policies are a productive factor and contribute to

minimising the costs and maximise the benefits of globalisation<sup>7</sup>. As we focus trade policy more clearly on its contribution to jobs and growth in the EU, so we must ensure our internal policies are sufficiently outward-looking to serve our economic interests<sup>8</sup>.

**Our policy-making process should factor in global competitiveness challenges.** It is not simply about ensuring WTO compatibility of our decisions. The greater the consistency in rules and practices with our main partners, the better for EU business. We must play a leading role in sharing best practice and developing global rules and standards. To do so effectively we must also take account of the external dimension in making our regulatory and other standards. This is not about downgrading our rules. It is about taking an open and flexible approach in setting our rules and seeking to prevent future trade friction – and so support European business –where possible.

**The EU's ability to promote its approach internationally also depends on the degree of harmonisation within the Internal Market as well as on transparent and evidence based policy-making.** The Single Market allowed the adoption of high-quality EU-wide standards which could be shared internationally. For example, Europe enjoyed a key success in the early adoption of the GSM standard for mobile telephony and the development of a globally competitive industry in Europe.

**The globalised nature of certain sectors (e.g. automotives, chemicals, shipbuilding, e-communications, aerospace or capital markets) must also be taken into account when consulting business.** A good example has been the Commission's White Paper on Financial Services Policy 2005-2010 which strongly takes account of the global nature of financial services. The CARS 21 High Level Group is also a good example of cooperation between the Commission, Member States and the industry which resulted in the recommendation to replace 38 EC directives by international rules and to introduce self- or virtual testing of additional 25 directives.

## **b) Equipping people for change**

**Actively managing change is essential to seizing the benefits of globalisation.** Building barriers to keep low-productivity jobs or to perpetuate sectoral structures in Europe would be a recipe for locking people into low wage and ultimately unsustainable jobs. But while the process of market opening is good overall for growth and employment, it brings about transformations which are disruptive for some. This can lead to a form of redistribution that should be addressed for reasons of social justice, economic efficiency and politics. While the costs of change are limited at an aggregate level they are felt strongly in the specific areas they occur. The benefits, while greater, are often less visible, more diffuse and longer-term. This asymmetry feeds opposition to market opening. There are also economic arguments for action. Policies which anticipate change help minimise costs, facilitate and accelerate transitions (for example by limiting duration of unemployment or the scope of wage losses), and ensure that market opening can effectively take place. Social dialogue, supported by public authorities, plays an important role in identifying and mitigating these adaptation needs. Excellent initial education and lifelong learning are important instruments to equip people for change.

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<sup>7</sup> See Commission's Communication on the social dimension of globalisation: the EU policy contribution on extending the benefits to all, 18.05.2004, COM(2004) 383 final

<sup>8</sup> See the Communication from the Commission to the European Council of June 2006 "Europe in the World – Some practical Proposals for Greater Coherence, Effectiveness and Visibility"

**These factors are taken into account in setting trade policy.** Sectors which are weak or vulnerable to international competition receive particular treatment. Transition periods are systematically part of trade agreements to allow for smooth and progressive evolutions. And safeguard clauses shelter EU producers from unexpected changes which lead to large-scale increases in imports (as in the case of steel following US measures in 2002). One of the objectives of the EU new industrial policy is better to anticipate structural changes at the sectoral level<sup>9</sup>. Companies, as well as people, need time, predictability and legal certainty to adapt and evolve.

**c) Ensuring the benefits of trade policy are passed on to citizens**

**European citizens expect to see positive results as a result of economic and structural change.** They want to see the benefits of improved market operation passed on, for the good of citizens and society in general. The case for openness is undermined if its benefits in terms of prices drift away along the supply chain as seems to be the case in certain Member States e.g. in the textiles and clothing sector or if imported products fail to fulfil consumer expectations in safety and quality.

**It is the Commissions responsibility to ensure that the positive effects of trade opening benefit all citizens and are not captured by specific interests.** There may be several reasons for differences in the translation of lower import prices into consumer prices following textiles liberalisation. It is likely that market power exercised by the domestic trade and distribution sectors in some Member States has allowed them to capture at least part of the benefits of trade liberalisation, that regulatory barriers have caused the retail sector to remain fragmented and un-competitive or that rigidities remain as a result of a comparatively slower adoption of new technology in these sectors in certain Member States.

Public authorities also have a key role to play in fighting counterfeiting and piracy in order to have only safe and reliable goods on the market.

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<sup>9</sup> See Commission's Communication on "A new industrial policy: creating the conditions for manufacturing to thrive" (October 2005)

## 2. EXTERNAL COMPETITIVENESS: AN ACTION PLAN FOR EUROPE

### 2.1. Going beyond the current agenda

**The suspension of WTO negotiations on 24 July is a serious missed opportunity for global growth and development.** The EU made significant offers of liberalisation and made clear its willingness to go further in order to secure global agreement. We remain committed to the WTO and ready to resume negotiations as soon as circumstances allow. DDA negotiations still have a lot to provide in terms of tariffs, non tariff barriers (especially export taxes), services, GIs trade and environment issues and rules (especially anti-dumping disciplines and trade facilitation).. But we need to build on the WTO to achieve further market opening. We need in particular to obtain improvements in market access in major emerging countries who maintain large gaps between their bound and applied tariffs which it can be difficult to address in the WTO given the special and differential treatment (legitimately) afforded to developing countries. Whatever the outcome on goods, services, GIs and rules on anti-dumping, some key issues also remain outside the negotiations, either having been removed from the negotiations (investment, public procurement, competition) or because they cannot properly be dealt with adequately at the multilateral level (e.g. regulatory issues, IPR enforcement).

**Existing bilateral agreements or FTAs under negotiations already complement the DDA but are only a partial answer to our needs.** The current geography of EU FTAs mainly covers our neighbourhood and development objectives well, but our main trade interests less well. The content of these agreements also remains limited: they may deliver on market access commitments but even an advanced agreement like the EU-Chile FTA does not present major progress in areas such as IPR, subsidies, SPS or TBT.

**During that time, several of our main trading partners and priority targets have been negotiating FTAs with our competitors** (e.g. ASEAN members with Japan or Korea with the US). Given the nature of certain trade agreements, there is a growing risk of trade diversion detrimental to the EU in the most dynamic countries. Even an ambitious outcome of the DDA will in many cases will not be sufficient to cancel out the resulting protection differential in both tariffs and non-tariff measures. On investment, for example, the US and many of our developing country partners are engaged in negotiating investment bilaterally having refused to do so in DDA. The EU would be putting itself at a disadvantage if we did not seek to improve investment conditions in our bilateral negotiations.

**We face structural difficulties in addressing non-tariff barriers either at multilateral or bilateral levels.** Although non-tariff, behind-the-border issues are increasingly important, they are still largely outside the core business of trade policy. It is more complicated, technically challenging and resource-demanding to detect, analyse and remove these barriers than in the case of tariffs. SPS, TBT and TRIPS agreements in the WTO provide a framework which is essential but not sufficient. Current instruments (e.g. mutual recognition agreements, TBT and SPS notification procedures, international standardisation, and regulatory dialogues) are useful. There has been some real progress on SPS issues and more attention is being paid to IPR enforcement, but this remains insufficient (although we are starting to tackle them more decisively with the neighbouring countries). In many cases, we lack the leverage to push discussions forward. This applies to regulatory issues such as TBT, SPS or IPR but also to other more classic trade issues such as public procurement. In the latter case, the EU is reaping considerable benefits from having one of the most open and competitive procurement markets in the world. However, thanks in large part to this openness, we constantly find it

difficult to obtain satisfactory, reciprocal commitments from our trading partners, be it at multilateral, plurilateral (Government Procurement Agreement) or bilateral level.

**On the internal side, there are already efforts to take into account the international context** (e.g. the role of impact assessments or the development of international regulatory dialogues), but this could be more systematic and international dialogues could take place earlier in the policy-making process..

There have been for a long time mechanisms to manage change but they lack of anticipation's capacity and are not sufficiently related to changes in the international environment. Neither are they properly adapted to absorb unexpected shocks.

Finally, there is no systematic commitment to ensure that the benefits of openness are effectively passed on to citizens.

## **2.2. Delivering a modern trade policy**

This section sets out the core elements of future EU trade policy. These elements will be developed in greater detail in a series of papers in the months ahead.

### **a) Keeping the WTO centre stage**

**The EU and our partners will continue to need a strong and efficient multilateral trading system.** Given its general attachment to multilateral institutions, the EU has a political responsibility and an economic interest to ensure that the multilateral trading system is reinforced. The multilateral rules-based system under the WTO is the most effective means of expanding and managing trade. The multiplier effect of negotiations in the WTO, where the benefits of every concession are extended to all by virtue of the WTO's most-favoured nation obligation, is a unique feature. Most importantly, its almost universal membership ensures that all countries apply and benefit from the same rules. That is essential for developing countries. For economic operators, including European ones, the multilateral system provides fewer distortions, greater effectiveness and simpler rules (especially for SMEs) than any other system. It also provides a unique framework for dispute settlement.

**Our overriding priority remains to achieve an ambitious, balanced and just agreement to liberalise world trade.** As indicated above, the EU is ready to resume negotiations as soon as circumstances in other countries allow. The gains far outweigh anything that can be achieved through bilateral agreements. In the short-term, our objective has been to seek early agreement in the WTO to a package of development initiatives to ensure poorer developing countries are not further disadvantaged by the failure of the WTO as a whole to reach agreement.

**In the longer term, and after the completion of the DDA, WTO members will need to consider the role of the organisation in shaping the world trading system and, in a broader sense, in ensuring "joined-up" international governance.** Important questions in this respect include the balance between liberalisation, rule-making, dispute settlements and monitoring of trade policies. Rules as well as coherence with work in other international forums and multilateral agreements are likely to become key elements. Social and environmental aspects of globalisation will have to be dealt with in an inclusive manner between WTO members. The WTO will have a vital role in ensuring the current wave of FTAs strengthen and do not undermine the multilateral trading system. Rules on FTAs have already been discussed within the DDA but given the importance of this issue for the whole system, it must be part of the post DDA built-in agenda (see box 5 below). The WTO will

continue to provide the right framework for issues such as competition or public procurement where discussions should resume as soon as possible after the completion of the DDA. And we will work to promote more transparency in the area of subsidies. Our ability to do so will depend on the willingness of our partners to engage. The EU cannot – and should not – be the sole pillar of the WTO.

**It is also important to ensure that the WTO functions effectively.** Reforming the WTO's working methods, while desirable, is sensitive for many WTO members. But after the end of the DDA, and subject to agreement among WTO members, the EU will support any review of WTO decision-making designed to examine whether it can be made more effective.

#### **b) A new generation of Free Trade Agreements (FTAs)**

**In parallel to future efforts to revive the DDA, it is necessary to consider our options for achieving additional market access and improvements in the business climate,** particularly in our future major trading partners. A bilateral approach would allow the EU to liberalise tariffs further, to take non tariff measures better into account and to restore a level playing field with our main competitors on major markets. FTAs cannot be a substitute for multilateral liberalisation. Instead FTAs, if appropriately designed, can help drive EU competitiveness, spur wider economic growth and sustainable development and prepare the ground for future global trade rounds. FTAs must be a stepping stone, not a stumbling block for multilateral liberalisation (see box 4).

**FTAs are by no means new for Europe.** For example, they play an important role in the European neighbourhood by reinforcing economic and regulatory ties with the EU. They are part of our negotiations for Economic Partnership Agreements with the African Caribbean and Pacific countries and of future association agreements with Central America and the Andean Community. But while our current bilateral agreements support our neighbourhood and development objectives well, our main trade interests, including in Asia, are less well served. The content of these agreements also remains limited. We should continue to factor other issues and the wider role of trade policy in EU external relations into bilateral trade developments. But in order for trade policy to help create jobs and drive growth, economic factors must play a primary role in the choice of future FTAs.

**The key economic criteria for new FTA partners should be market potential** (economic size and growth) **and the level of protection against EU export interests** (tariffs and non tariff barriers). We should also take account of our potential partners' negotiations with EU competitors, the likely impact of this on EU markets and economies, as well as the risk that the preferential access to EU markets currently enjoyed by our neighbouring and developing country partners may be eroded.

**Based on these criteria, ASEAN, Korea and Mercosur** (with whom negotiations are on-going) **emerge as priorities.** They combine high levels of protection with large market potential and they are active in concluding FTAs with EU competitors. **India, Russia** and the **Gulf Co-operation Council** (negotiations also currently active) also have combinations of market potential and levels of protection which make them of direct interest to the EU. China also meets many of these criteria, but requires special attention because of the opportunities and risks it presents.

#### **Box 3: Criteria for potential FTAs**

Two main economic indicators should frame our decisions:

**(1) Market potential.** The size of the market and its growth prospects are proxies for our current and long-term commercial interest in a country, including investment opportunities.

**(2) Protection against EU export interests.** This covers tariff as well as non-tariff barriers (NTBs), including services, intellectual property, SPS, TBT, public procurement, competition and investment. The role of the latter increases with the lowering of tariffs and they are a key part of the comprehensive EU approach to FTAs. Post DDA (or post accession for partners outside the WTO) protection should be primarily considered. The difference in protection facing the EU and its main competitors on third country markets should also be factored in: the rapid development of third countries concluding FTAs with the EU's main competitors such as the US or Japan carries risks of marginalizing the EU. The higher the level of barriers against EU interest, the higher the risk of trade diversion implied by such FTAs, as demonstrated by the case of NAFTA - which resulted in a substantial loss of market share for the EU in Mexico, but had hardly any impact on EU-Canada trade flows.

Other economic factors to consider include EU economic interest in terms of **access to resources** (such as energy, hides and skins, metals primary raw materials and scrap) in tandem with the need to ensure their sustainable management and the **likely impact on the EU market**.

We should also consider **political criteria** such as human rights record, democratic credentials, regional role, adherence to key multilateral instruments or geostrategic relevance in the context of the EU's Security Strategy.

Finally, we should carefully factor in the risk that the **preferential access** to EU markets currently enjoyed by our neighbouring and developing country partners may be eroded; the **developmental benefits** for our partners including the effects on its regional integration and its integration into the world economy; and the effects on the **multilateral trading system**.

**New competitiveness driven FTAs would need to be comprehensive and ambitious in coverage**, aiming at the highest possible degree of trade liberalisation including far-reaching liberalisation of trade in services covering all modes of supply. Where our partners have signed FTAs with other countries that are competitors to the EU, not least than full parity should be ensured. Quantitative import restrictions as well as all forms of duties, taxes, charges and restrictions on exports should be eliminated. We should also ensure rules of origin are simpler and more modern and reflect the realities of globalisation.

**Future FTAs would also need new ways of addressing non tariff barriers.** The effectiveness of competitiveness-driven FTAs will depend in part on their capacity to tackle non tariff barriers. Our ability to tackle NTBs will differ depending on our trade partners. Regulatory convergence, for example, is more likely to be achieved with neighbourhood partners than others. But these issues must be on the agenda with all our prospective partners. Mutual recognition agreements should be concluded where necessary and useful. The lack of regulatory transparency is often cited by industry as a major problem in almost all the countries with which the EU would have an interest in negotiating FTAs and is at the root of many non-tariff barriers. The problem relates both to the way new regulations are introduced without sufficient consultation and the way in which regulations are implemented on the basis of very broad discretion. Provisions on trade facilitation and technical barriers to trade (TBT) should be key part of any agreement but horizontal disciplines on transparency could be developed beyond, at the very least requiring regulators to announce that they are preparing legislation. This should be combined with some form of horizontal mediation. A specific dispute avoidance / resolution mechanism to tackle difficulties linked to regulatory issues on the model of the SOLVIT mechanism used to tackle barriers to the Internal Market could be envisaged. This should also cover emerging safety problems. More generally, we will need to strengthen monitoring and enforcement mechanisms in bilateral trade agreements so as to make them as efficient as the WTO dispute settlement, and make them accessible to industry.

We should also recognize that our partners can face capacity constraints to tackle these issues and provide the necessary technical assistance to help them to do so.

**We will need to consider also how to extend the possibilities of cooperation instruments aimed at regulatory convergence within new agreements**, notably those involving direct contacts/private agreements between standardisation and conformity assessment bodies with support by the Commission. We should also request and support relevant partner countries to participate in specific international mechanisms of standard-setting/regulatory convergence (e.g. ISO, UN-ECE).

**Future FTAs should also include new provisions for investment, IPR, public procurement and competition.** Our potential partners such as India, Korea and ASEAN seek a very high level of ambition as regards investment which goes well beyond the provisions of current EU FTAs. A new, ambitious model EU investment agreement should be developed in close coordination with Member States. It could be usefully complemented by a dialogue on investment promotion and facilitation. In IPR, new agreements should include a well developed chapter on enforcement of rights along the lines of the EC Enforcement Directive, while fully respecting our commitments in terms of public health and sustainable development. The competition chapter of future FTAs should also be reviewed in order to promote a greater convergence of competition laws and enforcement and ensure that our trade partners refrain from having recourse to aids with a view to protecting their firms from international competition. Finally, new FTAs should also systematically provide for the substantial liberalisation of public procurement markets. We will put in place internal mechanisms to monitor the implementation and results of new FTAs.

**Future FTAs will need to cover sustainable development concerns by addressing environmental and social issues** in addition to economic considerations<sup>10</sup>. They should contribute to the promotion of decent work for all<sup>11</sup>. Building on the Commission's work on trade-related Sustainability Impact Assessments, the Commission intends incorporating environmental and social chapters and clauses covering in particular the necessity not to relax existing standards to attract foreign investment, the importance of enforcement, exception clauses related to the protection of human health and the environment, capacity building and technical assistance, the role of civil society and the public at large in the design, implementation and enforcement of relevant measures. We should also seek to include provisions on good governance in the financial, tax and judicial areas where appropriate.

**These would be the EU's objectives. But a common level of ambition between the EU and prospective FTA partners will be essential to remove obstacles to trade.** Before launching negotiations, the ambitions of both sides must be clearly understood to avoid the risk of negotiations later stalling because of a mismatch of expectations between the two parties. Potential capacity constraints of certain partners (especially in areas such as ASEAN where there are important differences in terms of level of development) should also be taken into account. There is indeed a wide potential for technical assistance and cooperation exists within the framework of cooperation and development programmes. Such exploratory talks have been undertaken or are on-going with Asean, India and South Korea.

**The decision to launch negotiations should be taken case-by-case, based on these economic criteria but also our partners' readiness and broader political considerations. .**

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<sup>10</sup> In line with the specific call by the June 2006 European Council in the context of the renewed EU Sustainable Development Strategy.

<sup>11</sup> Communication on promoting decent work for all: the EU contribution to the implementation of the decent work agenda in the world, 24 Mai 2006, COM (2006) 249 final and SEC (2006)643.

FTA provisions should be an integral part of the overall relations with the country or region concerned. The best way to achieve this within the wider institutional architecture will need to be established on a case-by-case basis.

#### **Box 4: A stepping stone for further multilateral integration**

Ambitious and WTO-consistent FTAs and the multilateral WTO approach can offer mutually supportive means to achieve similar goals. FTAs can build upon WTO rules and its framework for negotiations by going further and faster in promoting openness and integration than is sometimes possible at the multilateral level. The EU's own integration and the broader European experience of FTAs are good examples of how regional integration schemes can be combined with, and help facilitate, increased multilateral openness. The EU has enlarged, integrated and deepened our relations with partners around the globe while taking active part in the WTO and multilateralism at large.

At the same time, FTAs can carry risks for the multilateral trading system. They may leave aside certain developing countries and be a source of trade diversion and preference erosion. FTAs may also complicate trade for economic operators (due to the possible multiplication of rules of origin or divergent regulatory requirements) and increasingly make non-discrimination the exception. The positive impact of FTAs depends on their being comprehensive in scope and providing for liberalisation of substantially all trade and leading to real integration between economies.

The EU has consistently defined its own FTAs to ensure they complement the multilateral trading system and to make them a stepping stone rather than a stumbling block for further multilateral trade opening. New EU FTAs must be fully compatible with WTO rules and aim above all at deep integration, i.e. WTO-plus in terms of width and depth, in order to maximise the mutual and long-term benefits from regionalism. In this regard, it is encouraging that exploratory talks undertaken by the EU show some interest from partner countries in engaging bilaterally with the EU on subjects such as competition, investment or public procurement, which have been difficult to discuss at the multilateral level. In line with our position in the DDA, we should encourage our FTA partners to facilitate LDCs' access to their markets, if possible by granting them duty free quota free access. Finally, as part of the DDA, the EU has sought both improved transparency and clarified disciplines for all FTAs. This is an area where more discussion will be needed in future in the WTO.

#### **c) Transatlantic Trade and Competitiveness**

**The transatlantic trading relationship is by far the largest in the world and the heart of the global economy.** The economic gains from tackling non-traditional, behind-the-border barriers are potentially significant in the EU and US. We have been seeking to do so for some time, most recently through the Transatlantic Economic Initiative, launched in 2005, and a range of regulatory dialogues. Key examples of such cooperation include the Action Strategy agreed in June 2006 to promote the enforcement of intellectual property rights against piracy and counterfeiting, the ongoing work on Regulatory Cooperation and other existing regulatory dialogues such as on Financial Markets. Despite some progress, this has proven to be difficult territory and a further injection of momentum is necessary.

**We must also work together to tackle global challenges.** Our weight in the world economy means that co-operation between the EU and US in addressing areas such as IPR protection will be of great importance.

#### **d) A new relationship with China**

**China plays a very specific role in all the issues addressed in this Communication.** While it should not blind us to wider challenges linked to other emerging markets, China is the biggest single challenge of globalisation in the trade field and a test for our capacity to make globalisation an opportunity for jobs and growth. Europe must get China right, as an opportunity, a challenge and prospective partner.

**China's economic rise is affecting all areas of the world economy and carries significant local and global environmental implications.** China faces considerable challenges in meeting pressing economic social and environmental problems. We must work with China to address these challenges.

**The trade and investment relationship with China provides EU operators with considerable trade opportunities** - and our exports have increased by more than two thirds in the last five years. Investments in China are supporting the competitiveness of European firms. Imports from China translate into wider choices and cheaper prices for citizens. There is important potential for future growth, notably for SMEs, who are increasingly recognising the opportunities of the Chinese market.

**However, the current situation is unbalanced.** As China's exports are booming (China is already the second supplier of the EU) and moving rapidly upscale, China maintains considerable barriers to market access in the form of non tariff barriers. The lack of effective intellectual property protection and enforcement and technology transfers are becoming serious threats to the global competitiveness of EU firms. Chinese firms are supported by a wide array of subsidies and privileged access to the banking sector.

**The Commission will produce a strategy in the autumn on the EU-China relationship.** It is likely to develop a clear roadmap for the coming years to deliver a more balanced relation between the EU and China. It will be fundamental for the future of Europe's competitiveness to develop create real opportunities for both sides. This will require continuing and reinforcing dialogues and cooperation in all policy areas and at all levels, but also to develop a more robust trade policy taking into account the importance of the competitive challenges that China poses for Europe.

#### **d) A focus on IPR protection enforcement**

**The Commission adopted in 2004 a Strategy which set priorities and focussed our resources in order to improve IPR enforcement in third countries.** The strategy proposes that we identify priority countries and implement specific measures in fields like technical assistance, awareness raising, political dialogue, partnerships with private entities as well as with international organisations and countries sharing our concerns. It has delivered in many areas: the Commission has a productive structured dialogue with the Chinese authorities and an IP working group including Chinese authorities and EU right-holders. In parallel, the Commission presence in China has been reinforced; we have launched a joint programme of cooperation on IPR enforcement with the US and have an IP Dialogue with Japan. We have put enforcement on the WTO Agenda, by proposing a detailed assessment of enforcement practices among the WTO membership. We have stepped up our border controls and worked with companies to stop counterfeit and pirated goods at importation and transit. And we have taken steps to raise awareness about violations of all types of IP rights.

**As a result of the Enforcement Survey launched in 2005, the Commission will focus its enforcement efforts on a small set of priority countries.** China, appearing on top of virtually all indicators available, will clearly be the main priority. Other priorities include

ASEAN, Korea, Mercosur, Chile, Russia and Ukraine which present high levels of production, transit and/or consumption of IP infringing goods. The three latter have already committed to adopt the highest standards of IPR enforcement in bilateral agreements with the EU; they need to step-up their efforts and tackle serious deficiencies. We will also work to improve enforcement in Turkey in the context of accession negotiations

**Concrete initiatives to come include** in addition to bilateral customs cooperation the creation of specific IPR dialogues with Russia and Ukraine and the setting up of a new technical assistance programme focused on IPR enforcement in China. Future FTAs will also promote enforcement-enhanced legal frameworks and binding enforcement commitments on IPR in order to reduce IPR violations and the production and exports of fake goods. The Commission will also reinforce its presence in key countries. It will allocate more resources to the support of right-holders, and in particular SMEs, concerning specific IPR problems in third countries. In particular, it will create a one stop shop that will provide information to right-holders about who-does-what in the Commission and even in Member States. Finally, it is considering ways to build awareness of IP issues among EU companies operating in China, in particular.

**d) An initiative to open third countries public procurement markets**

**The Commission is considering presenting in the autumn a proposal for a new external procurement initiative targeting discriminatory procurement practices in the EU's major trading partners.** The aim of this initiative would be to ensure a level playing field for EU suppliers who wish to tender for public contracts abroad. Currently, almost all the EU's major trading partners operate restrictive procurement practices which discriminate *de jure* or *de facto* against EU suppliers.

**The prime avenue for the EU to address these market access issues is by encouraging third countries to negotiate agreements** with the EU. In the absence of multilateral negotiations on procurement, market access can be negotiated either in the framework of the plurilateral WTO Government Procurement Agreement (GPA), or bilaterally as part of comprehensive FTAs. As mentioned above, it is a key ambition for the EU to achieve a substantial liberalisation of procurement markets in future FTA negotiations with emerging countries. To the extent that the Community's trading partners are prepared to negotiate substantial commitments in this field, there is clearly no need for any supplementary action. But the broad openness of the EU public procurement market does not encourage our partners to negotiate reciprocal market access.

**The aim of this new initiative would be to encourage our major trading partners whose own markets are closed to open them.** EU procurement markets are and will remain among the most open in the world. It is crucial for EU prosperity that our own procurement is subject to competitive pressures and that internal barriers that still exist are removed. The policy challenge is to find effective ways of opening up major foreign procurement markets without closing our own. Where the countries concerned have made clear that they do not want to move towards reciprocity, and as a last resort, we should consider introducing carefully targeted restrictions on access to parts of the EU procurement market. In certain limited cases, it may be that greater openness in the procurement markets of major trading partners can only be achieved through the possibility of carefully targeted restrictions on access to the EU (procurement) market.

**This initiative would only be directed at countries operating restrictive procurement practices** which result in discrimination against EU suppliers and whose level of development permits them to stand foreign competition. Such discriminatory policies are often expressed in the form of a total or partial prohibition for EU companies to participate in the procurement

procedure in some third countries or in so-called price preferences in favour of national suppliers. We would consider using these measures in relation to major trading partners where important economic interests are at stake. For the sake of consistency with our development policy, we would not consider introducing restrictions to the EU market against poorer developing countries.

**e) A renewed market access strategy**

**The EU's Market Access Strategy was launched in 1996, after the Uruguay Round, in order to help enforce multilateral and bilateral trade deals and open third countries markets.** It aimed to provide exporters with information on market access conditions as well as a framework to tackle barriers to trade in goods, services, intellectual property, and investment. The Market Access Database was created to help implement this strategy. It has proved useful in informing business and policy makers about market conditions and barriers to trade, but has not lived up to its full potential to provide a systematic and visible focus on eliminating the barriers.

**A communication on the re-shaped Market Access Strategy will follow in early 2007.** It is likely to focus on identifying and prioritising sectors and markets where the removal of trade barriers would create the greatest gains for EU exporters. The renewed strategy may identify key markets and key barriers to tackle with specific instruments. It should lead to a regular review, announcement of priorities and reporting on progress made.

**It may imply a new approach, both within the Commission and beyond.** Strengthened cooperation with Member States and industry/exporters in tackling obstacles to trade for European enterprises would be essential to making the renewed strategy work. Concentrating our resources and reinforcing them on the ground in our major trade partners would help to tackle barriers which are increasingly creating problems on the enforcement side. Our ability effectively to pool and mobilise our resources will determine the level of ambition we are able to set. We will need to invest in technical expertise, centralise and co-ordinate our tools better. The renewed Strategy would incorporate the relevant EU trade policy instruments, either existing or newly developed as outlined in this Communication. We should also draw on the experience of existing negotiations to identify what works and what does not when seeking to remove more complex barriers.

**Box 5: Responses to small and medium enterprises' special needs**

While they constitute a key asset of the EU economy, small and medium enterprises (SMEs) find it more difficult than multinational enterprises to access third markets, due to their limited capacity to cope with non-tariff barriers. Several initiatives in this Communication will support them in their efforts to enter emerging economies' markets e.g. the focus on regulatory issues in the renewed market access strategy or in our future FTAs. Systematic inclusion of trade facilitation provisions in our future FTAs will also directly benefit SMEs as transaction costs are deadweight costs disproportionately felt by them. SMEs are also the main target of our efforts to support right-holders concerning specific IPR problems in third countries. More generally, a strengthened IPR enforcement strategy stands the potential of boosting SMEs competitiveness. Finally, SMEs would directly benefit from our efforts to reconcile EU regulatory approaches with those of its partners.

## f) An appropriate use of trade defence instruments

**Trade defence instruments are part of the multilateral system and help ensure that the benefits of openness are not undermined by unfair pricing, trading practices or subsidisation.** We need to make sure that others apply high standards in their use of trade defence instruments and international rules are fully respected.

**We also need to make sure our instruments are effective and adapted to the changes in the global economy.** Do they allow us to take account of the wide range of interests thrown up by globalisation, where manufacturers in the EU may compete with distributors which have outsourced production, and where citizens and other manufacturers expect the benefits of wider choice and lower prices? Suppliers produce in more than one country, often both inside and outside the EU. And goods assembled in one country often contain parts produced in another.

We need to consider whether our instruments allow us to take account of this wide range of European interests. The Community interest test, for example, has traditionally focussed mainly on the balance between consumer/user interests and those of producers. We may need to take other elements into consideration. These include the situation of Community producers who have outsourced certain steps of the value chain - often the only way to sustain fierce international competition and so help secure jobs and create growth in Europe. It also includes the impact on distribution services in the EU - in particular as far as transparency and predictability of trade policy measures are concerned - and the possible social impact of our measures.

**Current trade defence instruments contain a degree of flexibility but might need to be reviewed in light of the new challenges posed by globalisation.** The Commission will continue to collect views from experts and stakeholders in order to throw fresh ideas into the debate. It will lead to a Green paper to be published in December 2006.

### 2.3. Placing the global dimension at the heart of EU policies

#### a) Placing EU policy making in an international context

**As the effects of globalisation make themselves increasingly felt and our trade policy adapts to a changing global context, so all our policies need to take greater account of the external challenges we face.** Our objective should be to ensure greater consistency in rules and practices between the EU and its main developed and emerging partners. This is already part of our agenda for better regulation in the EU, but there is more we can do. International cooperation on regulatory issues is a key part of this. It is an important means of sharing our practices with our partners and influencing the development of global standards. It reduces unnecessary differences in regulatory approaches and improves the international regulatory climate through "upstream" cooperation while achieving better quality regulations. In doing so, it minimises the compliance cost of regulations for business. Experience has shown that informal international regulatory dialogues with key regulators in third countries can be highly effective in identifying potential spill-over effects of regulation in each other's jurisdictions, and in seeking mutually acceptable solutions, while taking into account the differences in the respective legal and regulatory structures and backgrounds. In many areas, the Commission has already active and constructive regulatory dialogues, in particular with the US e.g. the informal EU-US Financial Markets Regulatory Dialogue.

**Regulatory convergence is, however, far from being achieved with several key partners, and we should continue to improve it.** An effective dialogue with third countries as regards

regulatory issues requires flexibility, trust and understanding of each other's approach. As we expect our partners to be open to our market access and regulatory concerns, so we need to be open to their concerns. We should be prepared to further improve our level of transparency, prior information, opportunity to comment, and to react to any questions and concerns our partners may have. Sharing our experience, practice and expertise to reduce regulatory friction eventually contributes to promoting our model at the international level.

**International research cooperation is an important element of these efforts** and will benefit from more support under the 7<sup>th</sup> Framework Programme for research and development (2007-2013) than under any previous Framework Programme. Most of the work to be supported is applied research, aimed at problem-solving and innovation-seeking in a wide range of industries and services. Joint research on regulatory cooperation will include innovative medicines, advanced pharmaceutical therapies, industrial safety and particulates in nanomaterials. Collaborative research on standards, measurements and testing will be undertaken, facilitating European exports in external markets (e.g. research to establish agreed plant protocols overcoming SPS obstacles).

**The EU needs to reinforce its position in international organisations for its voice to be heard.** For instance, accession by the Community to full membership in the International Maritime Organisation (IMO), as recommended by the Commission in 2002, would ensure optimal conditions for the application of its external competence in this area. We should also support EU's participation to international private standard bodies, encourage them to take into account the global context and support the participation of developing and emerging countries in their activities. It avoids an excessive fragmentation of international markets and helps addressing the specific needs of these countries.

#### **Box 6: EU external energy policy, competitiveness and climate change**

**Energy policy can significantly contribute to the EU competitiveness**, notably through the opening up of markets, an enhanced security of internal and external energy supplies and focus on energy efficiency and the use of renewable energy sources. The Commission's Green Paper on a European Strategy for Sustainable, Competitive and Secure Energy of March 2006 addresses the challenges of the new energy landscape, i.e. urgent investment needs, rising import dependency, the concentration of energy reserves in a few countries, increasing demand and prices, the climate change challenges, the uncompleted internal energy market, etc. As the impact of climate changes in all our objectives, including growth, becomes ever clearer, we will need to use all available tools to encourage energy efficiency, the use of renewable energies including bio fuels, low emission technology and the rational use of energy in Europe and globally. A key element the Commission's Green Paper, welcomed by recent European Councils, is a call for a more coherent and strong energy policy which strengthens in particular its external dimension. In particular, there is an opportunity for Europe to become a world leader in environmental technologies as demand of rapidly developing economies such as China, India and Brazil, is growing.

**The EU will complete its internal energy market with a view to establish an open and competitive energy market**, based on competition between energy companies which should gradually look at EU-wide rather than national markets. This will contribute to Europe's overall security of supply. The EU needs to achieve a sustainable, efficient and diverse energy mix, with a view to tackling both climate change, security and competitiveness problems. This should include looking at all energy sources, including renewable, fossil fuels with carbon capture and geological storage, and nuclear energy, which offer business opportunities for the leading EU industry in these sectors notably to export their technologies to third

countries. Energy efficiency questions are particularly important as well as the need to develop new energy technologies and renewable energy which are key to improve security of supply, sustainability, rural development and industrial and technological competitiveness.

**The EU is re-defining its external energy policy to enable it to play a more effective international role in tackling common problems with energy partners worldwide.** In this context, the June European Council supported a number of proposals from the Commission in this area and called, inter alia, for the development of strategic partnerships with key energy producers, transit countries and consumers; the extension of the EU internal energy market to its neighbours; and the integration of EU energy objectives into trade policy. Some key trade-related objectives of the external energy policy are: (1) Promoting transparency and improved governance in the energy sector through energy partnerships with third countries, the objective being to create mutually beneficial, open, transparent, non discriminatory and stable legal conditions for energy investment and trade. (2) Improving the climate for European companies' investments in third countries and opening up the production and export of energy resources to EU industry. (3) Improving conditions for trade in energy through non-discriminatory transit and third party access to export pipeline infrastructure. (4) Improving production and export capacities in producer countries and developing and upgrading energy transportation infrastructure in producer and transit countries. (5) Promote an international agreement on energy efficiency; boost the development of renewable energies including bio fuels, low emission technology and rational use of energy worldwide. This ambitious approach on renewable energies and energy efficient technologies also represent important business opportunities for EU companies as world leaders of energy efficient technologies and therefore the use of renewable energies and the deployment of energy efficient technologies should be encouraged at multi-lateral level.

**At the same time, tackling global climate change will need market and trade based solutions, delivering sustainable and efficient greenhouse gas emission reductions.** The EU is on the forefront of this global carbon market propelled by the EU's groundbreaking emissions trading scheme for greenhouse gases. Encouraging international carbon trade<sup>12</sup> represents significant opportunities for EU companies leading in the markets of low carbon technologies and in developing world-wide carbon markets

**Trade policy has a key role to play in this context.** There are a number of trade-related questions on which we will want to work with our third partners (transit, investment, access to networks, increased production and trade in biofuels in the EU and abroad as well as trade in the energy services sector) and we should also use or propose to amend as appropriate WTO rules. Trade in environmentally friendly products should be encouraged and the EU should promote the use of best available technologies both in bilateral and multilateral trade agreements. The links between trade policy and climate change in particular will require further examination.

**We must also make sure that competition policy contributes to creating the right international environment for Europe's industry.** The Commission has to rely on different tools to protect European businesses and citizens from the harmful effects of global cartels, monopolies and restrictive practices. This may be achieved through unilateral application of our merger and antitrust enforcement tools to restrictions of competition with effects inside

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<sup>12</sup> The EU greenhouse gas emissions trading system already supports trade through the link with the Clean Development Mechanism and Joint Implementation, two project based emissions trading instruments under the Kyoto Protocol.

the EU. But in addition it is necessary to share (the European model of) competition policy with other jurisdictions and to promote the convergence of approaches to competition policy to ensure that the competition policies of third countries do not have the effect of raising new barriers to trade.

**The Commission is therefore strengthening co-operation with other jurisdictions in the area of antitrust and merger control.** Bilaterally it is co-operating with the world's major competition authorities in the fight against international cartels, in order to facilitate the exchange of evidence and lower the risk of conflicting decisions. The EU has concluded competition specific bilateral co-operation agreements with its major trading partners. The Commission is evaluating whether this co-operation can be further intensified. Multilaterally the Commission has to take and maintain intellectual leadership in international venues such as the International Competition Network (ICN) or the OECD, which provide a useful forum to spread best practices and to foster cross-border convergence and co-operation. The Commission is also taking into account the global environment when setting its competition rules for maritime or air transport.

**As far as State aid rules are concerned, the Commission launched last year a comprehensive reform aiming at introducing a more refined economic approach to better assess the impact of aids also in a globalised context,** thereby responding to the repeated call of the European Council for less and better targeted aid. With a view to address the market failures that prevent Europe from reaching the full potential of its capacities, the proposed rules introduce ground-breaking new measures for innovation and facilitate risk capital. The reform also foresees a set of measures that will simplify the regulatory framework and speed up the decision-making process. Overall, the reformed State aid discipline will contribute to improve Europe's capacity to reap the potential gains from globalisation by promoting the achievement of the Lisbon goals and by preventing Member States from granting aids that simply protect companies from international competition.

We will also make trading easier for companies at home, modernising EU customs by revising the Customs Code and introducing e-customs.

#### **b) Anticipating and managing change**

**We need to offer imaginative help with adjustment, public policies that support change and help change to happen<sup>13</sup>.** We need active labour market and education policies to help unemployed people back into work quickly and to equip people for change. We need to go beyond general approaches and seek systematically to anticipate future changes. The regional dimension is particularly relevant in this respect. Transition costs are disproportionate in those regions that have underdeveloped and non-diversified economies.

**The EU's new generation of cohesion policy programmes for 2007-2013 provide opportunities to anticipate and prepare for changes linked to globalisation.** These opportunities must be seized. The partners concerned - the national and regional authorities and the Commission - should ensure that they create a sound basis for investment in new activities and in the re-training of the workforce. Adjustment to changes induced by the Single Market was the key reason for the inception of cohesion policy at the end of the 80's. The adjustment to changes induced by international trade opening and the division of labour, which are of similar significance, should now become a key component of it.

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<sup>13</sup> "Restructuring and employment - Anticipating and accompanying restructuring in order to develop employment: the role of the European Union ", Communication from the Commission, COM(2005) 120, 31/03/2005

**Whatever our efforts to anticipate and manage change, there will always be unexpected trade shocks which will provide adverse effects for some workers.** Again the new generation of cohesion policy programmes for 2007-2013 make it possible to set resources aside for unforeseen events arising over the period – such as trade-induced restructuring. The newly established European Globalisation Adjustment Fund (€500 millions a year) will also provide a swift answer to one-off, clearly defined problems resulting from restructuring and changing global trade patterns. It will cover training, relocation of workers and outplacement (the costs of action to help find a new job).

**c) Addressing obstacles to the passing on of prices to citizens**

**The Commission will examine how price decreases as a result of trade opening are passed on to citizens, including in the textiles sector.** More analysis of the reasons that may explain such divergences between trends in import prices and retail prices is needed before any action is considered. The Commission will put in place systematic monitoring of import and consumption prices before considering further action.

**It is in particular the aim of competition policy to fight agreements restricting competition and the abuse of dominant positions in a market.** Competition policy is thus ensuring that markets operate as efficiently as possible and deliver favourable outcomes for citizens. It could also be linked to Internal Market issues. Member States have an important role in ensuring the benefits of openness are passed on. The UK Fair Trading office major inquiry into competition in the retail sector is an example of what can be done. It is also the case of structural reforms in this sector as foreseen by Spain and Greece in their Lisbon National Reform Programmes.

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## CONCLUSION

Ensuring Europe's competitiveness in the global economy by removing barriers to trade will require new priorities and new approaches in trade policy, together with high-quality EU rules, and stronger links between the two. It will need to be an integral part of the wider Lisbon strategy. It will require stronger co-operation within the Commission and with Member States, industry and others, in line with the proposals on coherence in the Commission's Communication "Europe in the World".

The principal, substantive means of achieving our goals remains through the system of multilateral negotiation. That is why Europe remains strongly committed to multilateralism. The world trading system based on the WTO is essential in providing predictability, stability and other essential conditions for global growth. We shall need to pursue new opportunities, sharpening our efforts to open markets and tackle trade distortions within the multilateral system and through bilateral initiatives. We will seek to create the conditions for open and fair global competition and to share our rules and standards with our partners.

**Box 7: In the months ahead the Commission proposes:**

**Internally we will:**

- Make sure that **internal policy proposals, while furthering European standards, fit with global competitiveness challenges.**
- Make sure the **benefits of trade opening are passed on** to citizens by monitoring developments in import and consumer prices.

- **Equip people for change** through the new generation of cohesion policy programmes and the European Globalisation Adjustment Fund.

**Externally** we will:

- Maintain our **commitment to the Doha Trade Round** and the WTO as the best way of opening and managing world trade.

- Make proposals on priorities in trade and investment relations with **China** as part of a broad strategy to build a beneficial and equal partnership.

- Launch a second phase of the EU **IPR enforcement** strategy.

- Make proposals for a **new generation of carefully selected and prioritised FTAs**

- Make proposals for a **renewed and reinforced market access strategy**

- Propose measures to open **procurement** markets abroad.

- Conduct a **review of the effectiveness of our trade-defence instruments.**

This is an ambitious agenda designed to sharpen the contribution of trade policy to growth and jobs in Europe, to contribute to the liberalisation of global trade and to complement other external policy objectives of our trade policy, in particular development and neighbourhood objectives. It will be a central element in judging the effectiveness of European trade policy in the months and years ahead.