



Dealing with Challenges through Global Trade

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Ladies and gentlemen,

Das wichtigste zuerst, frohes Neues Jahr an euch alle!

I hope 2016 will be a happy one for you, your friends and your families.

Working in European affairs, I've been in Strasbourg, just across the border many times.

But this is my first visit to Karlsruhe and I'm delighted to be here. Because Karlsruhe is a seat of justice, a seat of culture, a seat of education and innovation, of enterprise and employment.

And also because it's always inspirational for me as the European Union's Trade Commissioner to visit cities on the Rhine - a river which has been centre of European commerce for centuries. Last week I was in the Netherlands where it reaches the sea, and connects Europe with the wider world.

I would like to thank the Badem Wurttemberg Chamber of Commerce and Industry for inviting me to speak today. But more importantly, I'd like to thank them for dedicating this event to international trade policy.

Because, as the Rhine reminds us, trade is a core part of how Europe connects with the world. It's part of Europe's history. It's part of our identity.

The European Union itself is nothing less than the world's most important free trade agreement.

And here in Germany, trade has long been at the centre of your economy and society, from the middle ages right up to the present day.

These are important reasons to focus on trade policy. But there is another one too: There is a major debate going on in Germany and in fact all across Europe about trade and trade agreements.

More than at any time in decades, the value of open markets is being questioned and discussed.

As a measure of the intensity of feeling, some 150,000 people took to the streets during joined a protest in Berlin last year against the Transatlantic Trade and Investment Partnership, or TTIP, negotiations with the United States and our trade agreement with Canada, known as CETA.

I believe the majority of European people see these and other trade agreements as an opportunity. And certainly all EU national governments continue to support an open approach to trade and investment.

But it's clear that we have an intense debate. And that the long term consensus that has existed about the benefits of trade for Germany and the European Union overall is being called into question.

It's clear too that trade is not the only area of politics where new turbulence exists.

We are living through a period of economic uncertainty, of uncertainty on the international front, and underlying it all an uncertainty of identity in a changing world.

As a result, many European people are asking new and often difficult questions of their political leaders. Trade is just one of these areas.

Sadly, all too often we see extreme views, opposed to open societies and economies, dominating discussions and suggesting answers that would lead to an inward-looking, intolerant decline.

That poses a clear challenge for those of us who believe in openness:

Not simply must we make the case for trade as we have done in the past. But we must listen to and engage with critics; take their point of view seriously; and provide a new approach that keeps the best of the old with a more relevant approach for today.

What are the questions being asked and concerns being raised?

The first concern is about **economic security and opportunity**.

Since the financial crisis of 2008 the world economy - in different places at different times - has been unstable. For many years that instability was kept at bay from this country. But even here in Germany, though forecasts remain positive, thankfully, growth is weaker than in the past. Just under 2 million people remain unemployed.

In addition, the structure of the world economy is changing. Technology creates new opportunities but also new challenges of adaptation. The emerging economies of the East and South also bring a mix of hope and new competition. And even if today many of those markets look weaker today than for many years, the long term trend of catching up with the developed seems likely to continue.

All of this has made people concerned about their economic future and the future of their families. There is a fear that for the first time in several generations, children will have a lower standard of living than their parents.

A **second concern is about values**. As Europeans living today we are lucky enough to live in societies where our human rights are protected by the law, where food is safe, our environment is protected and where we have a strong social safety net.

This is because a set of common European values underlies our approach to government. We believe in the rule of law, in human rights, in high standards of regulatory protection and in strong social protection.

Many people today see these values under threat - partly from instability or the changing structure of the global economy. Partly from specific policies of governments - it's certainly a big part of the debate on trade.

A **third concern is about stability**. We have also been lucky to live in a period of relative international stability over the last six decades. But today, that is not the perception that most people have. Whether they are concerned about terrorism, the refugee crisis, a more hostile Russia or the stormy politics of the Middle East, to name just a few of our international challenges...

... people do not feel as secure as they did in the past.

The **final concern has to do with the accountability of government**.

Part of this is increasing public scepticism about politics in general. In global surveys, governments are routinely ranked behind businesses, non-governmental organisations and the media when it comes to deserving trust.

Part of it flows from our hyper-connected world, which means that our challenges - and the solutions to those challenges - are more international than ever before.

In the European Union we work together as 28 partners. And we aim for the same kind of ordered cooperation at the global level.

I am proud of the role that the European Union played this December, at the Climate Conference in Paris and at the World Trade Organisation Ministerial Conference in Nairobi. We need functioning European and international organisations if we want a functioning world.

But an unfortunate consequence of deeper international cooperation is that the political action appears distant from voters' control. People have a weaker sense that they have a say in decisions taken at European or international level. That contributes to the worry that politics does not address their real concerns.

These are the kinds of issues that Europe and all levels of government need to be addressing.

What can trade policy do?

First trade policy can support **economic opportunity and security**.

This has always been the primary goal of an open trade policy and it remains so today.

Open markets mean opportunities for our exporters. In the European Union over 30 million jobs depend on our exports to the rest of the world.

It's worth comparing that to the 22 million people unemployed in in the EU today.

And it's also worth noting that 7 million of those export jobs are in Germany. That means one in every 6 jobs in this country depends on exports to countries outside the European Union!

Given 90% of global growth is going to come from outside the EU in the future, we need to make sure our companies can compete on world markets. That's what trade agreements try to do.

Let me give you an example. Not far from here in Trier, there is a small company called Saar-Mosel-Winzersekt. They've been making wine since 1983 and employ 14 people. They sell their wines at home and abroad. And trade policy has helped them do that.

In July 2011 a new free trade agreement between the European Union and South Korea came into effect. According to the company themselves, it lowered the cost of their wines on the South Korean market by between 5 and 10%.

This has allowed them to expand. In the two years before the agreement entered into force they sold fewer than 3000 bottles there. Last year, they sold more than 30,000 bottles! As a result they have taken on new staff here in Germany.

This example shows two things.

Trade deals work. In fact EU exports to South Korea have increased by 55% overall since the agreement entered into force.

Furthermore, exports are not all about big companies. One third of Europe's exports by value are by small and medium companies like Saar-Mosel-Winzersekt. That includes over 600 000 European small and medium sized enterprises who employ over 6 million people in communities all across the European Union.

But we can't just think about exports. We also need to bring our view of the economic benefits of trade up to date.

Today, goods and services are made along value chains that cross borders. So a product exported from Germany to the United States will likely contain imported components and raw materials. That could be from just across the border in France for example. Or it could be from further afield like Vietnam. Inputs could even come from the United States, be used here in Germany with the final product before crossing the Atlantic again.

Moreover, the inputs will not just be goods. The exporting company will also buy services - digital services perhaps, or design or legal advice and certainly transport and logistics. In fact over half of EU exports - when measured by the value we add here - are made up of services.

Our future trade deals need to take account of these realities. They have to cover the full range of potential barriers to trade and investment - exports and imports, goods and services, including digital services.

Our goal must be to make the EU the best platform in the world for connecting to global value chains. That's why we are working on more than 20 agreements with more than 60 countries right now.

The second concern trade can address is **the consistency between our actions and our values**. The lack of a politics based on values is one of the reasons people have become cynical about government. That's why I have great personal admiration for the stance that Chancellor Merkel has taken on the refugee crisis.

So even if trade must continue to focus on delivering economic results it must also be in tune with our values and, where it can, help promote them around the world.

That means making sure that trade agreements do not get in the way of how we implement European values at home. This has been a major concern of those who oppose TTIP and CETA. It's a concern that we have listened to and taken on board.

And that's why the Commission has made a clear pledge in our recent communication on trade policy – *Trade for All*, released in October. We have said, in black and white:

- No trade agreements will ever lower the levels of consumer, environmental or social and labour protection we decide on in Europe.
- Nothing in trade deals will limit the EU's right to make new policies in the public interest.
- And if ever a trade deal did make a change to the levels of protection the EU offers its citizens, that change can only be upward.

We have also, again based on listening to the public's concerns, completely revamped the EU's approach to investment protection.

In TTIP we have proposed to the United States a new Investment Court System for resolving disputes between investors and states.

It protects investment against unfounded discrimination. But it also makes a clear break with the past:

- protecting the right to regulate;
- eliminating any risk of conflicts of interest;
- and making sure there is a possibility to appeal rulings.

It is a system that the public can trust. It also allows the EU to take a global lead on reform and opens the way toward our medium term goal: an international investment court.

The chapter on investment in our agreement with Canada was negotiated before the current TTIP reforms.

But it also meets many of the public's concerns. It has language on the right to regulate in the public interest, on complete transparency of the arbitration process, on a code of conduct for arbitrators and it has a reference to a future appeal mechanism.

A re-opening of the CETA negotiations is not in our interest. It would risk unravelling the agreement. But I believe that considerable fine-tuning can be done during the current legal scrubbing process. I hope we will make targeted adjustments that could largely meet any remaining concerns.

These changes will, I hope, help show that trade policy does not threaten the our European model when it comes to social issues or regulation. Rather, it is fully protected - and even better protected thanks to our close dialogue with the public.

Trade policy can also do more when it comes to values. The European Union is the world's largest importer of goods and services. That means that the footprint of the choices European consumers make is enormous. It is also complex - thanks to the global value chains I mentioned earlier.

If you buy a smartphone, you are probably aware that it has most likely been assembled somewhere in Asia.

But many of its parts will likely be made from tin or other metals that are mined in Eastern Congo. Many of the mines in that region have for many years been a target for different rebel groups. The revenue from the tin mine - and therefore from the smartphone - can fund extreme violence by the rebels. On top of this, the mine very likely doesn't guarantee the safety of workers who may be just children themselves.

This is just one example - we could also look at working conditions in Bangladesh or illegal logging in Latin America or South East Asia.

European trade policy cannot solve these serious social and environmental problems. But it can be a positive influence.

For example, we have specific initiatives targeted at all three of these examples - conflict minerals, labour rights in Bangladesh and illegal logging. They set up positive incentives for better behaviour by companies.

We also include chapters in our free trade agreements on trade and sustainable development. Here, both sides commit to respect international principles on labour - like the right to form trade unions and bans on forced labour...

... and the environment - like rules on the transport of hazardous waste and preserving biodiversity.

And we have a scheme, known as GSP+ in which we give special tariff cuts to developing countries that commit to core international agreements on human and labour rights, the environment, and good governance. Thirteen countries are now covered.

Projecting values is also a strand of the intense public debate about trade: many would like to see us go further than we have so far.

Here again, we have listened to criticism and are making changes.

In the *Trade for All* communication of last October we have committed to step up our work on the link between values and trade:

- We improve implementation of all the existing initiatives and use international organisations like the G7 to broaden the coalition behind our approaches.
- We will include new provisions to combat corruption in our trade deals.
- And we are going to work to support fair and ethical trade schemes, for instance by helping raise awareness of the issue in the EU and with our trading partners.

All of this overlaps with trade's response the third of the major public concerns that trade can help address: **global stability and security.**

Let me be clear here: I'm not for a minute suggesting that trade can bring peace to the Middle East or solve the refugee crisis.

But it is a fact that open markets and greater security are complementary.

Dense economic ties between countries connect people, encourage understanding and raise the costs of war.

By keeping markets open, and opening them further, we are helping spread peace as well as prosperity.

Here again the EU itself the best example. Europe's economic integration is also the most ambitious peace process the world has yet seen, as the Nobel committee recognised in 2012.

More concretely perhaps, trade supports development.

And when people can put food on the table, when they see opportunities for themselves and their children, they do not have time to focus on old rivalries.

Moreover, when there is a chance for economic success at home, that is one reason less for having to leave the country to support your family.

Europe's trade policy supports this kind of development in different ways:

The European Union was instrumental in agreeing a development-friendly outcome at Decembers WTO Ministerial Conference in Nairobi. The deal is focused on outcome for developing countries, including a new commitment get rid of trade distorting export subsidies in agriculture.

We also offer easy access to our market for products from all developing countries. And we offer completely free access to our market for the poorest countries in the world. That's part of the reason why the EU accounts for over half of the exports of a country like Bangladesh.

We also have a wide range of trade agreements with developing countries where we seek to increase trade flows in both directions - gradually and carefully

And the European Union is also the world's largest provider of aid for trade. By targeting EU support at projects that will boost the capacity for trade, we provide long-lasting development prospects. This is one of the best ways, over the long term, to boost global stability and security.

Finally there is the concern **about government accountability**. How can trade policy help with that?

Here it's very important to listen to what people are saying. Because those who are critical of trade agreements like TTIP and CETA see this as a central issue.

They have argued that trade agreements are not negotiated in an open way. And that this lack of transparency means that negotiators are not accountable to the people.

This is a serious charge. All government action needs to be accountable to the people. If not, the system isn't working.

There are mechanisms to ensure democratic control of trade policy. The European Parliament - democratically elected by the people of Europe - has a full veto on any trade agreement and closely monitors the negotiations as they happen.

The 28 democratically elected national governments also follow negotiations closely and have to approve any deal before it goes into effect.

These arrangements have been in place for many years. But that does not mean they are sufficient. And the charge of a lack of transparency is serious.

That's why, in the last year, we have taken major steps to open up trade agreements to public scrutiny.

We have made TTIP the most open bilateral free trade negotiation in the world:

- We consult closely with civil society organisations - organising meetings with civil society them before and during each negotiating round. In fact TTIP negotiators stop what they are doing for a full day during each round to listen to presentations from stakeholders and tell them the latest state of play.
- Commission representatives are also travelling all across Europe to talk to people who have concerns or interest in this deal. I myself have visited 17 Member States in the last year. And this is my fifth visit to Germany.
- In unprecedented move, we have also decided to publish online the text of EU negotiating proposals to the US. That means that anyone who is interested can see the exact legal provisions that the EU is putting on the table - and scrutinise them in detail.
- Finally we have made sure that national governments - including parliaments - as well as the European Parliament have the access to documents that they need to follow the negotiations in detail.

In October - again in the Trade for All communication - we decided that these TTIP best practices on transparency should be applied to all EU trade negotiations.

Ladies and gentlemen,

We live in complicated times. Our societies all across Europe face difficult choices.

This is no less the case for trade than for any other area of policy.

Some would have us close off from the world altogether.

Some would have us slow our pace of action, leaving the world to pass us by.

Some want just the status quo.

But I believe that any of these courses of action would be wrong.

The European economy depends on trade and trade and investment. In future it will do so even more. We need to put ourselves in a position to compete.

Europe is also a global leader. We have a responsibility to engage with the world both to improve lives and to provide stability and security.

And the European Union is a democracy. We have a responsibility to our citizens to respond to their concerns. We need to adapt trade policy to take those concerns into account.

I believe that the approach to trade that I have outlined does all of the above.

But it won't happen just by saying it.
Trade deals are complicated.

As you know, this city of Karlsruhe has a unique design. Its avenues radiate out from the palace at the centre. And a series of streets in concentric circles link those avenues together.

It's so unique in fact that this city has given its name to a way of measuring distance in advanced geometry.

What is known as the *Karlsruhe metric* assumes that objects can only move along radial lines and then around concentric circles.

Basically, in the Karlsruhe metric, you don't take the shortest route between two points.

Well the same goes for trade negotiations! They are always longer and more complicated than you might think.

So if we want to get all of the benefits from trade that I have been talking about we will have to work for it.

Those who have real concerns need to engage with us in government so we can understand them and take them on board where possible.

Those of us in government need to keep negotiating but also keep listening. As long as I am Commissioner. I promise you we will.

But what is equally important is that those who support this open trade agenda are ready to make their support public.

We need strong voices showing how trade helps communities at home and abroad.

We need you - in short - to get out and make the case.

I hope we can count on your support.

Thank you very much for your attention.