



Trade in the 21st century: The challenge of regulatory convergence

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Ladies and gentlemen,

Early trade agreements were simple in their aims. The trade part of the Methuen Treaty of 1705 between the UK and Portugal, and the Franco-British Trade Treaty of 1860, the world's first true free trade agreement, were essentially about tariffs.

Cobden and Chevalier, who negotiated the second of those treaties, managed to do it in a month. So they might not be very impressed by the length of time it takes us to negotiate a trade deal nowadays.

But they would, no doubt, be impressed by the scope of a negotiation like the Transatlantic Trade and Investment Partnership. Because it not only includes tariffs but also services, procurement, investment, sustainable development and, of course, regulation, our subject this morning.

TTIP aims to go further than any other trade policy agreement on that issue. It's an ambitious goal: It's technically complex, since a regulation is not a tariff whose trade impact is numerically obvious. And it's politically complex, since the issues at stake in a regulation on the environment or health or safety, for example, go far beyond economics. And we must advance on the economic front while maintaining our standards and our right to set them.

But it's a challenge that's worth tackling.

Why? For three reasons.

First, because open markets are vital for Europe's future prosperity.

Second, because unnecessary differences between different countries' regulations -- and I stress, the unnecessary differences -- are a significant barrier to the benefits of open markets. Reducing incompatibilities means more growth and more jobs.

Unnecessary differences impose additional costs because they create duplications in product development, testing and manufacturing. These are important for all companies but particularly for smaller ones, for whom such fixed costs can be a deciding factor in whether or not to export.

Third, because although it's a challenge, our prospects look good. History shows that regulatory convergence is possible. And we've been making significant progress in recent years. "Regulatory

coherence" – a concept embracing a series of tools to reduce unnecessary regulatory incompatibilities – is doing just that.

The first step in the logic is obvious to anyone who cares to look at our economy today and economists' projections for the future.

Today, our exports support over 30 million jobs in the European Union. Consumers gain from the cheaper prices and greater choice that imports bring. And companies who import make their products and provide their services more efficiently. Two thirds of what we import is raw materials, energy, parts and components.

In the future, trade is only going to become more important. Digital and communications technologies are making more and more parts of the economy tradable. And as emerging economies become developed economies they will become bigger traders, providing larger markets for our products and new innovative products of their own. This is one of the reasons why 90% of future global growth is projected to happen outside Europe's borders.

So if we are going to continue to have an economy that provides for our people, open markets must be at the heart of our strategy.

The second step in the logic of regulatory convergence is also clear. In the 21st century, whether markets are open depends not only on what happens at the border but on thousands of individual policy choices made all across government.

Among the most important are the regulations designed to protect consumers, rules to protect the environment, and rules to protect the stability of the financial system, as well as many other public policy interests.

All of these rules have a primary objective: to solve a problem for people. But they also affect trade:

- The way we define which foods or other products are safe and which are dangerous determines what kind of goods can be legally sold.
- The rules we establish to decide who is a qualified lawyer or architect determines who can offer those services.
- The rules we set that decide what products are polluting and what products are environmentally friendly do the same.
- And the way we guarantee financial stability also affects how open or closed that market is.

Each of these decisions requires a government to balance its potential economic, social and environmental impacts.

Thankfully, in the European Union we place a very high priority on all three, meaning our rules guarantee high standards while facilitating growth and allowing us to be a highly open market, as the world's largest importer.

This is not, however, always the case. All too often, countries make regulatory choices that, intentionally or otherwise, fail to strike this balance between their different objectives.

And that includes choices that unnecessarily restrict trade. Particularly in the European Union and the United States, regulators often pursue similar objectives and aim for similar levels of

protection. But because they do this in parallel, with little interaction, they end up with technically different ways to achieve the same objective. These technical differences are the focus of TTIP.

Let me be clear, sometimes governments make different choices because their people have different views and priorities. That is a fact of the world that we must respect. Regulatory coherence does not focus on those questions.

But where there are simple technical differences we must act, Because they have unnecessary negative consequences for people here in Europe. Because lost export opportunities are also lost opportunities for export jobs.

And that is why the challenge of regulatory convergence is on our agenda today.

But as I've said, it is a considerable challenge. And some may question whether it's possible to overcome it.

I say the answer is yes.

First, because we know it's possible to find ways to deliver high standard regulation that also promotes trade.

In reality, we've been doing regulatory convergence for a long time, from the creation of the metric system to the European Single Market.

And the idea of regulatory compatibility is deeply embedded in the World Trade Organisation. One of its founding principles is the idea of national treatment, which means that no government policy measure – including regulation – should explicitly discriminate against imports.

The WTO's agreements on Technical Barriers to Trade, Sanitary and Phytosanitary Measures and the General agreement on Trade in Services go into much more detail. These rules have helped both keep markets open and guide high quality regulation.

The second reason I'm optimistic is because we in the European Union have made such progress ourselves.

Our agreements have always included strong rules that mirror the WTO's approaches. In recent years, however, we have made a serious attempt to go further towards tackling regulatory barriers to trade.

By the far the most ambitious are the deep and comprehensive free trade agreements with Ukraine, Moldova and Georgia, where our partners adopted significant parts of the EU acquis. These types of deal, however, are clearly linked to the fact that these countries are our neighbours. Like the European Economic Area, they reflect a unique relationship.

But we also have precedents from further afield. Let me give you two examples of several we could choose from:

First, our agreement with South Korea was a very significant step forward.

- It set up dialogues and committees to encourage regulators to avoid unnecessary differences between future regulations.
- Both sides committed to good regulatory practices like transparency, international standards where possible, public consultation.
- We established contact points to answer questions on regulation and solve problems that may arise.

- We removed several specific sectoral barriers for electrical and electronic equipment, pharmaceuticals, and most ambitiously, cars.

- And all of this was based on a clear affirmation that both side would keep their right to regulate in the public interest

And it has worked. EU exports to South Korea are up by a third since the entry into force of the agreement. Exports of cars are up by 90%.

Second, we have taken a further step forward with the EU-Canada agreement, or CETA. Of course we are still polishing this deal, and it will have to be thoroughly examined by the European Parliament and Member States if before it's approved. But it has some good examples of what can be done:

- It creates a forum for cooperation between regulators.

- It makes trade easier by making conformity assessment easier. That's the way companies prove that their products comply with regulation and standards, by the way. The agreement also sets up tools to increase cooperation between standards-setting bodies, which will help things even more.

- It creates a new system to recognise professional qualifications for services provider, like architects and engineers.

- It makes clear that all future regulations on services should be fair, transparent and non-discriminatory.

- And again it is based on from the premise that the right to regulate in the public interest is fundamental and that both sides remain free to choose their own levels of regulatory protection in future, while encouraging cooperation.

Taken together these provisions will be a significant part of the major benefits we can expect from CETA.

That brings us up to the present day. So where are we now?

We continue to pursue regulatory compatibility in all the EU's free trade agreements. It will be important in our deals not only with Japan but also with Vietnam.

But clearly, it is particularly important in TTIP, where we are trying to take a further significant step forward on regulatory compatibility in trade agreements.

What should this entail? Let me outline the EU's approach:

We're first looking horizontally, as we tend to do in Brussels, at the way regulation is made in general:

That means good regulatory practices like impact assessment and stakeholder consultations, which we want to do better.

It also means improving cooperation between regulators, including by setting up a high level regulatory cooperation body to ensure transparency, accountability and prioritisation of work.

And it means encouraging the use of international standards and reducing burdensome procedures for conformity assessment.

Second, TTIP involves, working the existing regulation that applies to nine different economic sectors, including cars, pharmaceuticals, medical devices, engineering and financial services. That

will create significant new trading opportunities for the millions of Europeans who work in these sectors.

And again what is absolutely clear, all across the board, from the horizontal to the sectoral, is that nothing is intended to lower standards of regulatory protection. Both the EU and the United States want to keep our high standards where we have them and set new high standards together when we agree on them. Where we do not agree we will go our own way.

Of course this negotiation is still going on, as is the public debate about it. But I firmly believe that we can deliver an outcome that will improve people's lives on both sides of the Atlantic – and simultaneously break new ground on what a trade deal can do on regulation.

What then comes next?

One thing is clear, the challenge of regulatory convergence is going to become more rather than less important over time.

As tariffs continue to come down around the world we will become more aware of the impacts of regulatory choices on trade.

Moreover, as global value chains and connected technologies link us more closely together regulatory choices made in all the other parts of the world will affect us more.

Finally, we are likely to see an explosion in regulation in the coming decades, because of the success of emerging economies. People start to demand stronger safety and environmental protections when their basic needs are being met. We are already seeing this in China. That is good news, but the more complex and stringent the regulatory regimes of emerging countries become, the more they are likely to affect Europeans economically.

In short, it's very much in our interest that regulation around the world is of the highest quality, and that it's made in transparent open ways that don't lead to discrimination.

That will mean that our trajectory of increasingly effective regulatory cooperation will have to continue.

TTIP itself will be a tool to help that process. Because closer regulatory cooperation between the EU and the US under TTIP could give a push to international regulation and standards. If the US and the EU agree on an high-standard approach the chance of it being adopted by others is much higher.

But that will only be the beginning. We will also need to work on that in our bilateral contacts, by promoting international standards and transparency. And we will need to explore what can be done through the WTO.

We will certainly still face challenges. Regulation will still be technically complex. And we will still need to jealously guard our regulatory sovereignty.

But if we are willing to work with both ambition and caution. I am confident we will find a way through.

Thank you very much for your attention.