TRADE POLICY

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Centrum für Europäische Politik

MAIN ISSUES

Objective of the Communication: A new strategy for foreign trade and foreign investment is to create more growth and jobs.

Parties affected: Companies, consumers, employees.

Pros: Trade with third countries is to be liberalised, in particular through the removal of non-tariff barriers, and foreign investment is to be facilitated.

Cons: The Commission's primary objective is to open up new sales markets for European companies. It thereby ignores the benefits of increased and cheaper imports. Moreover, export surpluses do not create new jobs in the long run.

CONTENT

Title

Communication COM(2010) 612 of 9 November 2010: **Trade, Growth and World Affairs – Trade Policy as a core component of the EU's 2020 strategy**

Brief Summary

► **Background and objectives**

– With a new strategy for foreign trade and investment, the Commission wishes to foster economic growth, increase the purchasing power of consumers and create new jobs by 2015. This strategy is to constitute "a crucial element of the external dimension of the Europe 2020 strategy" [COM(2010) 2020; see CEP Policy Brief] for sustainable growth and more jobs.

– The Commission believes that the increased liberalisation of trade and investment practices through free market access in third countries would generate the following advantages:
  - Economic growth:
    - The Commission expects a 1% increase in the EU's gross domestic product (GDP) by 2020, provided the Doha Round of the WTO and ongoing bilateral negotiations with trade partners of the EU are finalised.
    - Trade boosts EU growth because it fosters efficiency and innovation and increases foreign demand for EU goods and services. Consequently, the EU needs "to seize the opportunity of higher levels of growth abroad, especially in East and South Asia".
    - The ability "to invest abroad" enables firms "to grow globally".
  - Consumer benefits:
    A greater choice of goods and services from third countries should enable European consumers to save an average 600 Euros per year.
  - Labour market:
    "More and better paid jobs" should be created in the EU and abroad through more trade and foreign investments from European companies "both at home and abroad". The Commission estimates that more than 36 million jobs in the EU depend, directly or indirectly, on trade.

– However, the Commission does refer to the fact that trading benefits can often be used only under the condition that structural reforms are accomplished (cp. Accompanying Document SEC(2010) 1269).

– Trade policy should in principle support "green growth" and "climate change objectives". In so doing, a "sustainable and undistorted supply" of raw materials and energy in the EU is to be ensured.

► **Adjustment costs**

– Trade openness leads to a "shift of resources towards the best performing sectors". Thus job losses can be created in other sectors.

– Adjustment is to be facilitated by:
  - national and European "strategies for social and labour market policy" and
  - "by extending and simplifying" the European Globalisation Adjustment Fund (EGF).

► **Opening of foreign markets and overcoming regulatory barriers**

– For the Commission, it is particularly important that foreign markets be further opened for services, investments and public procurement.

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– The Commission wishes to extend access for European companies to public procurement in industrial and major emerging countries:
  - through a legislative proposal scheduled for 2011, with which a level of openness in the procurement markets of third countries is to be achieved that matches that of the EU,
  - by emphasising this issue in bilateral negotiations and negotiations on WTO agreements regarding public procurement (Government Procurement Agreement – GPA.

– Regulatory barriers ("non-tariff trade barriers") constitute a key problem within international trade and for investments abroad. The development of international standards and testing and certification practices and their acceptance are therefore to be fostered before national standards prevail. This is to be implemented, for instance, through better regulatory cooperation with third countries.

► **European investment policy**
– The Commission would like to see a "comprehensive European investment policy" for the direct investments of European companies in third countries, in order to "better address the needs of investors from all Member States".
– In particular it wishes to:
  - take into account defined standards for the liberalisation of investments and the protection of investments in ongoing and future negotiations with third countries and, to this end, first update negotiating directives with Canada, Singapore and India (p. 5);
  - examine the conclusion of stand-alone investment agreements e.g. with China (p. 5, 16).
– The Commission wishes to conclude the debate with Member States and the European Parliament on a new investment policy for the EU in 2011 (p. 16). To this end, it has published the Communication "Towards a Comprehensive European International Investment Policy" [COM(2010) 343].

► **WTO negotiations and bilateral agreements**
– By the end of 2011, the Commission wishes to finalise WTO negotiations on the liberalisation of world trading as part of the Doha Round. According to a survey launched by the Commission, world trade could thus increase by over 300 billion Euros per year.
– Bilateral free trade agreements are to be advanced. Talks with India, Canada, Singapore and the Gulf states are currently underway. Negotiations with the Mercosur region (South America) have been reopened. Negotiations with ASEAN countries (Southeast Asia) should be initiated.
– With "strategic economic partners", in particular with the USA, China, Japan, and Russia, the Commission seeks to strengthen trading and investment relationships in future. These countries have a strategic relevance "because of their size and potential, as well as their influence on the global economy".
  Along with the USA and Japan, non-tariff barriers from trade are to be removed, in the first place through regulatory cooperation.

► "**General System of Preferences**"
– In 2011, the Commission wishes to reform the EU's General System of Preferences (GSP) for developing countries. The GSP grants custom privileges to developing countries exporting to the EU.
– In particular, it wishes to focus "the benefits on those countries most in need" and therewith set incentives for observing human rights, for complying with labour standards and implementing environment policy.

► **Protection of intellectual property rights**
– The Commission intends to revise their strategy on the enforcement of intellectual property rights in third countries as well as the custom regulation on the enforcement of such rights.
– Free trade agreements should contain protective clauses equal to those used in EU protection. International anti-counterfeiting trade agreement (ACTA) serves to establish a catalogue of "best practices", in order to combat the infringement of intellectual property rights.

Policy Context

The Communication has been published together with two accompanying documents: a report on the progress made through trade liberalisation in the past years ["Progress achieved on the Global Europe strategy 2006-2010", SEC(2010) 1268], and a Working Document on trade serving as a tool for more growth and jobs ["Trade as a driver of prosperity", SEC(2010) 1269]. A public consultation on the subject was held from 2 June to 6 August 2010. The Commission has summarised the submitted contributions within a final report.
In its final conclusions of 16 September 2010 the European Council called for "concrete steps to secure ambitious Free Trade Agreements, secure greater market access for European business and deepen regulatory cooperation with major trade partners".

Options for Influencing the Political Process

Leading Directorate General: DG Trade

ASSESSMENT

Economic Impact Assessment

Ordoliberal Assessment

Removing trade barriers promises advantages to both companies and consumers. Export-oriented companies benefit from larger sales markets and cheaper intermediate products (more than two thirds of all imports are intermediate products). Consumers benefit from cheaper consumer goods and a broader range of products. Moreover, international competition increases the pressure for innovation and efficiency among national companies. Consequently, the benefits resulting from a liberalisation of trade are rooted in both increased exports and increased imports. Therefore, it is reasonable to pursue a balanced trade policy whose aim it is to facilitate both exports and imports.

The Commission's new trading strategy is focused too narrowly on the opening of new markets for goods and services, i.e. on exports.**The positive effects of increasing imports**, namely lower prices for consumer goods and industrial intermediate products as well as incentives for innovation and efficiency, **are hardly taken into consideration**. Therefore, in calling for improved access for European companies to public procurement in third countries the Commission ignores the fact that the EU would benefit even from a unilateral opening, as public services could then be provided more cheaply.

The EU should also be taking a more balanced approach to multilateral and bilateral negotiations on the removal of trade barriers. Opportunities for eliminating import duties are provided by, amongst others, the clothing industry, fish products and many agricultural goods. In the meantime, however, the EU already seems to be willing to reduce agricultural duties as part of the Doha round of trade negotiations.

Focusing on the removal of non-tariff trade barriers in multilateral and bilateral negotiations **is appropriate, as non-tariff trade barriers now incur higher costs than** customs fees, import quota and other **tariff trade barriers** in many industries. **This holds particularly true for trade with services,** as here almost only non-tariff barriers exist. At the same time, it needs to be taken into account that non-tariff trade barriers occur through, amongst other things, various health and consumer protection measures and technical standards. A complete elimination of such trade barriers is therefore neither desired by society nor economically reasonable. Far more **appropriate is, however, the solution proposed** by the Commission **to develop international standards before national standards are established,** thought his is naturally only possible where new products and processes are affected.

Through the intended improvements to international protection of intellectual property rights, innovation profits are increased. Consequently, the willingness for innovation in European companies is heightened.

Impact on Growth and Employment

The Commission is right to emphasize that the removal of trade barriers leads to economic **growth and jobs. However, it conveys the wrong impression that this is rooted in the opening of new sales markets** in third countries (S. 2 and 3). It is true that increased exports create jobs in exporting companies, but this in turn means with flexible exchange rates an inevitable increase in imports from third countries. Companies exposed to strong import competition will therefore shed jobs. **Such a change in the production structure**, induced by trade, leads to work and capital being used more efficiently and thus finally **leads to an increase in** the gross domestic product and **jobs**.

Besides, positive growth and employment effects are created if European companies focus on specialisation and make better use of economies of scale. In addition, increasing competition from imports increases competitive pressure in general and thus serves to promote efficiency and innovation.

The changes in the production structure, induced by trade, cause adjustment costs, in particular through cutting jobs in companies exposed to an intense import competition. Therefore job insecurity grows through the liberalisation of trade. Notwithstanding, the strategies proposed by the Commission for social and labour market policies as well as the development and simplification of the European Globalisation Adjustment Fund (EGF) should be rejected. **Public promotion of training measures is not necessary, as both the unemployed and – in view of the shortage of skilled workers – companies have enough incentives to participate in such measures without state aid**. Should this not be the case in some Member States, the framework conditions should be amended so as to create such incentives. Moreover, there is always the risk of deadweight effects inherent in state support measures.

Impact on Efficiency and Individual Freedom of Choice

Through the liberalisation of trade, competitive pressure is increased in the EU. This leads to companies increasing their efficiency, e.g. through innovative production processes. Moreover, consumers benefit from cheaper goods and services.

Impact on Europe as a Business Location

The quality of Europe as a business location grows as trade barriers are dismantled, for trade not only intensifies the competition on the goods markets, but also the competition for mobile production factors, especially capital. This is all the more true as the Commission wishes to facilitate direct investment of European companies abroad. It fosters competition between locations for investments in which also Member States of the EU must prove their worth. If they wish to be successful, they must create an environment that is favourable to investment and entrepreneurship.

Legal Assessment

Legislative Competence

The EU is exclusively competent in common trade policy (Art. 3 (1) lit. e, Art. 206 sqq. TFEU). With the entry into force of the Treaty of Lisbon this also includes legislation in the field of foreign investment.

Subsidiarity

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Proportionality

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Compatibility with EU Law

Incompatibility currently not evident.

Conclusion

The new trade strategy of the EU is focused too one-sidedly on the opening of new sales markets, i.e. in increased exports. The positive effects of increased imports are hardly taken account of. Besides, export surpluses are not possible in the long run and can therefore not create new jobs. The Commission should pursue a more balanced approach. Focussing on the removal of non-tariff barriers to trade is appropriate. This also applies to the development of international reforms before national standards are established. The removal of trade barriers changes the employment structure. The public promotion of training measures, however, is not necessary, as both the unemployed and companies have enough incentives to participate in such measures.