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Trade, Growth and World Affairs

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

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I. Introduction

This paper provides an overview of progress achieved to date on the objectives set out in the Global Europe Communication and draws a number of conclusions for defining the EU's future trade strategy. It responds to requests made in the public consultation on the EU's new trade policy, where it was suggested that the new trade policy should start from an evaluation of the Commission's present strategy.

The Global Europe Communication in 2006 defined the key competitiveness-related elements of the EU’s trade policy pursued by the first Barroso Commission. It set out an integrated approach, linking the internal and external aspects of the EU’s competitiveness. It stated that Europe should pursue internal policies that promote the EU's external competitiveness. Competitiveness is determined fundamentally by productivity growth and the evolution of costs. Many factors and domestic policies are key determinants of competitiveness. Trade and foreign direct investment (FDI) can also play a major role in this regard *inter alia* by promoting a more efficient use of EU economic resources, transfer of technology, providing cheap intermediate inputs and access to fast-growing markets abroad. Global Europe called for the EU to remain open to trade and investment, advocating greater openness and fair rules in other markets. It also underlined the importance of sustainable trade by incorporating provisions relating to labour standards and environmental protection in new trade agreements.

Global Europe recognised that openness is no longer simply about tariffs. Core aspects of the EU’s internal market are intrinsically linked to its external negotiation agenda. Securing real market access in the 21st century means focusing on new issues and developing the tools of trade policy to achieve the types of openness that make a real difference. Global Europe advocated taking greater account of the external impact of the EU’s internal policies, and, in particular, their impact on Europe’s competitiveness. These internal drivers of competitiveness were also reflected in the negotiation objectives of the Commission’s multilateral and bilateral external agenda under Global Europe, which included tariffs and non-tariff barriers as well as rules-based areas such as public procurement, services and investment, access to resources and energy, intellectual property rights (IPRs), competition policy, sanitary and phytosanitary measures (SPS), and sustainable development.

In operational terms, Global Europe’s main innovation was that, while reaffirming the EU’s commitment to the multilateral system and the Doha Round, it ended the *de facto* moratorium on launching new free trade agreements (FTAs). As a result, a series of more economically-orientated negotiations were launched with Korea, India and ASEAN in 2007 and Canada in 2009. Negotiations with Mercosur were re-launched in 2010. Priority was also given to other important economic partners (e.g. the Gulf Cooperation Council, GCC) with whom the Commission has been negotiating FTAs. It should be kept in mind when evaluating progress on Global Europe that trade policy is a slow delivery process that requires careful planning: It takes about five years to launch, complete and implement FTA negotiations and more for multilateral negotiations.

Based on this analysis, Global Europe proposed eight specific areas of action, progress on which is assessed in the following sections:

1. The WTO Doha Development Agenda (DDA)

2. Launch of new competitiveness-driven FTAs

3. Transatlantic trade and competitiveness
4. China
5. IPR enforcement
6. Renewed Market Access Strategy
7. Public Procurement
8. Review of the Trade Defence Instruments

This is not an exhaustive list of all EU trade policy priorities or activities during the Barroso I Commission. The Global Europe Communication had sought to focus on the subset of trade policy initiatives that would be most relevant for this overarching external competitiveness objective. Several important trade policy instruments in their own right, such as the Generalized System of Preferences (GSP), were deemed less important for the EU's own competitiveness. Consequently, Global Europe did not cover at length issues such as the important contribution that EU trade policy makes to sustainable development in developing and least developed countries (LDCs), the promotion of human rights and labour standards, whether through unilateral trade preferences or within the Economic Partnership Agreements.

Given the importance of the contribution trade policy can make in these other areas, the current report will also cover briefly the progress made on this front since 2006.

II. Progress achieved to date on the areas identified by Global Europe

1. Doha Development Agenda (DDA)

The Global Europe Communication stated that a strong multilateral trading system was the most effective means of increasing and managing trade for the benefit of all. It identified the successful conclusion of the DDA as the EU’s top priority. Following the launch of Global Europe, the Commission with its WTO negotiating partners made good progress in the Doha Round, bringing it close to a conclusion on modalities in the WTO Ministerial Conference in July 2008. However, trade ministers were unable to reach a final agreement on all details to be included in the package, and further negotiations were required.[1]

The main single issue that prevented WTO members from reaching an agreement on the Doha Round modalities in July 2008 was the special safeguard mechanism that developing countries could use in the event of a significant surge in imports of agricultural products. However, from the second half of 2008 onwards, the main obstacles were tied to external factors, such as uncertainty over the consequences of the economic crisis on various sectors in WTO member economies, which prompted policy makers to take a more defensive stance.

[1] Modalities refer essentially to the specific numerical targets, various flexibilities and other parameters that would define specific commitments (tariff cuts and reduction of agricultural subsidies) WTO members would need to undertake on industrial and agricultural products as part of the Doha negotiations. In other areas on the DDA agenda (various WTO rules and further liberalization of trade in services, for instance) negotiations are less advanced.

Elections and changing governments in some key WTO members also led to re-positioning in the negotiations.

There is currently a lack of clarity regarding the level of ambition needed to make a Doha Round agreement acceptable to all parties. WTO Members therefore need to reach a general understanding on key issues of ambition, balance and reciprocity before engaging in further negotiations to address the outstanding issues. This is likely to require high-level political guidance. It is still possible to conclude the Doha Round in 2011, provided that WTO members have the political will to fully engage in the negotiations. Agreement among the G20 members will be key in this respect.

Trade is an essential part of any strategy designed to boost long-term growth and employment. As a multilateral initiative, the Doha Round has by far the greatest potential for creating new opportunities for exports and improvements to welfare. A strong multilateral trading system can also deliver considerable systemic benefits to European businesses, who will find it easier to take long-term decisions on the basis of stable and predictable trade rules. Therefore, Europe has made significant contributions to the Doha Round negotiations with a view to reaching an economically ambitious, but development-friendly multilateral trade agreement. For instance, the DDA draft modalities, which are recognised as a basis for negotiations, foresee inter alia minimum average cuts of 54% and 38% to EU bound tariffs for agricultural and industrial products, respectively, and to reduce its overall trade distorting subsidies for agriculture by 80%. The EU has also forcefully argued for more liberalisation in services, and for substantial reductions in non-tariff barriers.

The benefits of a rules-based multilateral trading system were clearly demonstrated during the financial and economic crisis. Thanks to WTO disciplines and peer pressure among WTO members, with a few exceptions, borders were maintained as open as before the crisis and trade remained "part of the solution" to the global crisis. However, the global economic crisis has also shown with greater clarity that existing WTO disciplines on issues such as government procurement and sectoral subsidies have proved to be inadequate. This clearly points to the need to ensure that the WTO system and multilateral trade rules become well-equipped to deal with important trade policy issues for the future.

2. Launch of new FTAs

2.1 Overview

Global Europe applied new economic criteria to the launch of FTAs, focussing on partners with high market potential (economic size and growth) and significant economic benefits from removing tariffs and non-tariff barriers (e.g. due to high existing barriers). Potential interaction or conflicts with the EU’s multilateral (WTO) agenda and other countries’ negotiations were also taken into account. This led to the launch of FTA negotiations with Korea (in ratification process), India (potential to close by early 2011) and ASEAN countries. Following the slow progress made under the pure region-to-region approach with ASEAN, negotiations now progress on a bilateral track. Negotiations are underway with Singapore and there is increasing momentum to progress with other countries. Canada is the latest country with which FTA negotiations are underway, launched in summer 2009.

In addition, a number of other types of negotiations (e.g. Mercosur, GCC) predate the launch of Global Europe. Several ongoing bilateral trade negotiations are are not covered by the Global Europe approach. Nonetheless, they have an important role to play in achieving the objectives set out in Global Europe. The two annexed tables show the scale of our trading relations and of the trade deals currently negotiated, based on current trade levels.

2.2 Korea

Negotiations with South Korea were launched in May 2007. After eight rounds of talks over two and a half years, the negotiations were successfully concluded and the FTA was initialled in October 2009. The legal instruments to apply and implement this FTA were agreed with the Council in September 2010 and are currently under discussion with the European Parliament. The objective is to have the agreement provisionally applied in mid-2011.[2]

The EU-Korea FTA is the first FTA the EU has negotiated with an Asian country and is the most comprehensive free trade agreement negotiated by the EU so far. It will eliminate 98.7% of duties in trade value for both industry and agriculture within 5 years. The remaining portion of tariffs will be almost entirely eliminated over longer transitional periods, with the exception of a limited number of agricultural products. In addition, sectoral annexes on electronics, motor vehicles and parts, pharmaceuticals, medical devices and chemicals have been negotiated to tackle non-tariff barriers. The FTA contains separate chapters covering trade remedies, technical barriers to trade, sanitary and phytosanitary measures, customs and trade facilitation. The Agreement includes also a chapter on services, foreign direct investment (FDI) pre-establishment, e-commerce and the related schedules of commitments, which go significantly beyond both parties' commitments under the General Agreement on Trade in Services (GATS) and comply with Article V GATS. There is also a chapter on Current Payments and Capital Movements.[3]

The FTA provides for far reaching commitments to rules governing competition, including state aid, intellectual property, enforcement and public procurement. It also incorporates stronger and binding horizontal provisions on regulatory transparency concerning mutual trade and investment.

The FTA also includes a dedicated protocol on cultural cooperation, which sets a framework for policy dialogue and exchanges regarding cultural activities. This includes setting up an implementation structure that is independent of the FTA, notably a separate committee and a specific dispute settlement mechanism. Lastly, a comprehensive Trade and Sustainable Development chapter covering social and environmental issues was negotiated, providing an important benchmark for future FTA negotiations. This chapter contains a number of substantial provisions to ensure compliance with relevant domestic legislation and international agreements, sets out areas for potential future cooperation and establishes a new monitoring mechanism involving civil society through a Civil Society Forum.

The EU-Korea FTA opens up a fast growing East Asian market for EU exports. According to available estimates, the EU will improve its position in several industries (chemicals, machinery, other manufactured and food products) as well as in specific services (e.g.

[2] The FTA complements a revised framework agreement for EU-Republic of Korea's relations which was signed in May 2010.

[3] See for instance "EU-Korea Free Trade Agreement: 10 Key Benefits For The European Union", December 2009, available online at http://ec.europa.eu/trade/

business, insurance and transport services).[4] This FTA is an ambitious agreement, which can be used as a benchmark for future FTA negotiations.

2.3 India

Concluding an ambitious agreement with India remains a key priority. The EU is India's most important trading partner but exports from the EU to India remain below potential, amounting to just 2.5 % of total EU exports in 2009.

Negotiations were launched in June 2007 and nine rounds have been held since. The shared ambition is to conclude negotiations swiftly. An ambitious FTA is estimated to provide considerable economic benefits to both parties.[5] However, a few key issues are still outstanding including tariff negotiations, where coverage still needs to be improved, public procurement and services, where both sides aim to create substantial new market access, including in mode 4 services trade. Trade and sustainable development is also proving a challenging subject where significant progress is still required.

Other areas where both sides still need to find a way forward include intellectual property (including geographical indications), regulatory issues and non-tariff barriers, such as Technial Barriers to Trade (TBT), sanitary and phytosanitary measures (SPS) and sectoral non-tariff barrier (NTB) issues.

At present, India enjoys relatively good market access for goods to the EU under the GSP. In turn, India maintains fairly high tariffs and some peaks in areas particularly important to EU industry (such as cars, wines and spirits) and significant non-tariff barriers in other sectors important to EU exporters. Like in other bilateral negotiations, the different level and profile of existing trade barriers at the outset of the negotiations is a challenge.

2.4 ASEAN

The ten ASEAN countries[6] as a group are the EU's third largest external trading partner, with two-way trade in goods and services amounting to some €175 billion in 2008. EU exporters of manufactured and agricultural goods and service providers in many sectors see significant growth opportunities in the dynamically growing ASEAN markets, many of which are currently protected by high tariff and non-tariff barriers. Following Member States' authorisation to negotiate, 'region-to-region', FTA negotiations with a group of seven (out of ten) ASEAN countries were launched in 2007. Until March 2009, nine negotiation rounds had been held. However, progress in these region-to-region negotiations was slow, and both sides agreed to put negotiations on hold in March 2009. One difficulty in the region-to-region negotiations arose from significant structural differences within ASEAN, which meant that existing levels of liberalisation and negotiation objectives differed widely among countries in the group.

In December 2009, EU Member States gave the green light for the Commission to hold FTA negotiations with individual ASEAN countries. The purpose of these bilateral FTAs is to

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[4] For further details on the economic benefits estimated to arise from the EU-Korea FTA see, for instance, "The Economic Impact of the Free Trade Agreement (FTA) between the European Union and Korea", available online at http://trade.ec.europa.eu/doclib/docs/2010/may/tradoc_146174.pdf

[5] See for instance the "Economic Impact of a Potential Free Trade Agreement (FTA) between the EU and India" (April 2007), available online at http://ec.europa.eu/trade/analysis/chief-economist/.

[6] Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

serve as building blocks for the long-term objective of an agreement within the regional framework. The preliminary assessment of an ambitious FTA between the EU and ASEAN points to significant economic benefits and a boost in the GDP growth rate in ASEAN countries.[7] Negotiations with Singapore, which focus strongly on services and non-tariff barriers, began in the spring of 2010 and have already created incentives for other ASEAN members to follow suit. FTA negotiations with Malaysia were launched in October 2010 and Vietnam has also given a political signal that it is ready to engage in bilateral FTA negotiations. There is also some interest in other ASEAN countries, such as in Thailand and in Indonesia, where a Joint Vision Group has been established. The door remains open for other ASEAN countries to join. It is ultimately for the ASEAN countries to make their own assessment and express their readiness to engage in a comprehensive FTA with the EU.

2.5 Canada

Negotiations with Canada on a 'Comprehensive Economic and Trade Agreement' (CETA) were launched in May 2009. Given that Canada is economically the most developed partner with which the EU has been negotiating a trade agreement so far, it is the understanding of both sides that, in order to succeed, the process needs to achieve a high degree of liberalisation, not only in goods, but also in services, investment and government procurement. The negotiations also need to lead to an agreement that is very comprehensive in scope and in coverage of regulatory issues. These objectives must be achieved whilst fully upholding and operationalising the shared principles of sustainable development.

The first round of negotiations took place in October 2009. During the first three rounds, it was generally possible to considerably narrow down the differences to the key issues where the positions of both sides diverged most, and on which the negotiators now focus. No specific chapters have yet been closed, but the discussions are very advanced in certain areas. Both sides anticipate finalising the negotiations in 2011.

Based on the economic criteria for new FTAs set by Global Europe, Canada forms part of a second tier of countries immediately following those identified as priority partners. The country has the fourth highest GDP among the EU's trading partners and is of strategic importance for EU industry, not only because of its natural resources but also because of its strong capacity in research and development. In addition, Canada is the fourth largest investor in the EU (by inbound FDI stocks). In line with other FTAs with developed economies, around half of the gains for the EU are expected to derive from liberalising trade in services and another 25% from full tariff elimination. Additional positive effects will arise from the opening of provincial procurement markets to European operators and from enhanced disciplines in areas such as intellectual property rights or competition.[8] Furthermore, Canadian trade is highly focussed on its NAFTA partner the United States. There are thus potential gains for EU industry from competing with US exporters on a more level playing field.

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[7] For a CGE analysis of a comprehensive FTA between EU and ASEAN see the "Economic Impact of a Potential Free Trade Agreement (FTA) between the EU and ASEAN" (April 2007), available online at http://trade.ec.europa.eu/doclib/docs/2007/may/tradoc_134706.pdf

[8] For a comprehensive economic analysis of the EU-Canada trade potential see the joint study "Assessing the costs and benefits of a closer EU-Canada economic partnership", carried out by the Government of Canada and the European Commission, available at http://trade.ec.europa.eu/doclib/docs/2008/october/tradoc_141032.pdf

2.6 Mercosur

Mercosur was identified as a priority objective by the Global Europe Communication. FTA negotiations between the EU and Mercosur were launched in 1999, but stalled in 2004. They were re-launched in May 2010, following an informal dialogue during which Mercosur and the EU gave concrete indications regarding their readiness and willingness to negotiate an ambitious FTA. The negotiations are of great economic interest to the EU, due to the high tariffs applied in Mercosur, which is the EU's 8th largest trading partner, and the high amount of EU investment in the region. Key factors for a successful negotiation include Mercosur's ability to meet EU expectations for a high level of ambition and the EU's ability to table a sufficiently attractive offer on agricultural market access.

After a first round of negotiations in July in Buenos Aires and a second one scheduled in October in Brussels, both sides are committed to conclude these negotiations without delay.

2.7 Gulf Cooperation Council (GCC)

The GCC is the second largest regional grouping with which the EU is engaged in FTA negotiations. The GCC region is composed of six high per capita income countries with strong demand for a range of products from high value-added goods to agricultural products. The GCC is a major energy supplier to the EU and thus key to the EU's energy security. Negotiations on a comprehensive FTA covering trade in goods and in services, investment, public procurement, intellectual property rights, competition, technical barriers to trade, sanitary and phytosanitary measures, as well as trade facilitation have been ongoing since 2002, when the GCC countries created a customs union. By 2008, agreement had been reached on most negotiation chapters. Talks have nonetheless been suspended since December 2008. The main outstanding issue is the treatment of export duties under the FTA.

2.8 Russia

As the EU's third largest trading partner, Russia continues to be a key strategic partner. A deepening of EU-Russia trade relations would have positive economic effects on both parties. Following adopting the Global Europe Communication, negotiations began in 2008 on a new bilateral agreement between the EU and Russia to replace the current Partnership and Cooperation Agreement. The aim regarding trade and investment is to achieve a more effective, stable and predictable trading environment and to seek closer integration where possible. However, the negotiations on the trade and investment provisions are proceeding extremely slowly. Recently Russia has shown renewed engagement in its efforts to join the World Trade Organisation, which had been delayed and complicated by the customs union between Russia, Belarus and Kazakhstan. The Commission is working closely with Russia in order to achieve accession to the WTO as soon as possible.

The EU-Russia bilateral trade relations have been rendered more problematic since the introduction by Russia in 2009 of extensive protectionist measures, including tariff increases. Although the measures were presented as a temporary reaction to the global economic crisis, the tariff increases were eventually consolidated in a new common external tariff with Belarus and Kazakhstan as part of the creation of a customs union. As the main trading partner of the three countries, the EU bore the brunt of the impact of this decision. By the end of 2009

Russia was responsible for around 75% of all EU exports facing increased border protection worldwide.[9]

2.9 European Neighbourhood FTAs

The Commission has continued negotiating with countries in its neighbourhood (the Euromed/ Eastern Partnership area). These negotiations provide partner countries with the perspective of bilateral Deep and Comprehensive Free Trade Areas (DCFTA) as part of framework Association Agreements. The EU is the leading trading partner for nearly all of these countries. DCFTAs can support the socio-economic development of these countries by underpinning domestic reforms and enhancing partial integration with the EU's internal market for trade in goods and services. To meet these goals, DCFTAs should be negotiated only with countries that are already members of the WTO, and once they are ready to negotiate and sustainably implement the consequent commitments. Building on WTO membership, an intermediate objective is to have in place the new generation of bilateral agreements, including DCFTAs, and to ensure that the partner countries have made very substantial progress towards alignment to the existing trade acquis. In 2020, and in view of the requests already made by our ENP partners, a close review should be made to decide on the first group of countries with which we could either start negotiations on limited accession to the EEA, or establish a sort of ENP-EEA. Building on WTO membership, an intermediate objective is to have in place the new generation of bilateral agreements including DCFTAs, and to ensure that the partner countries have made very substantial progress towards the alignment to the existing trade acquis.

Negotiations with **Ukraine** began in spring 2008. For **Armenia** and **Georgia**, negotiating directives were adopted in May 2010 and both countries are addressing a set of key recommendations to improve their administrative capacity, legislation and implementation in a number of critical trade areas. Only when the two countries have made sufficient progress in implementing these recommendations, the Commission will propose launching negotiations on the DCFTA part of the Association Agreements. A preparatory process aiming at assisting Moldova in meeting the necessary conditions for the start of the DCFTA negotiations is also ongoing, while in this case negotiating directives are still to be prepared and adopted. Neither **Azerbaijan** nor **Belarus** are covered by any preparatory process at this stage as their accession to the WTO is still pending.

In the Euromed area, trade relations with Mediterranean partners are governed by a set of Association Agreements in the context of the Barcelona Process, which mainly cover trade in goods. The network of Association Agreements is likely to be completed in 2010, with Syria as the last piece. These agreements are being completed by negotiations covering trade in services and the right of establishment, dispute settlement and agriculture. The EU-Euromed partnership is complemented by South-South economic integration, which the EU strongly supports. Initial successes include the Agadir Agreement (Tunisia, Morocco, Jordan and Egypt), which came into force in 2007, and the free trade agreements concluded by Israel and Turkey with other Southern Mediterranean partners[10].

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[9] Lucian Cernat and Nuno Sousa "The impact of crisis-driven protectionism on EU exports: The 'Russian doll' effect", 9 January 2010, available online at http://www.voxeu.org/index.php?q=node/4464

[10] Israel has concluded FTAs with the Palestinian Authority, Turkey and Jordan. Turkey has concluded FTAs with Morocco, Tunisia, Jordan, Egypt, Syria, the Palestinian Authority and Israel

Though Libya is not formally part of the Euromed area, negotiations on a Framework Agreement between the European Union and Libya, including a deep and comprehensive free trade area (DCFTA), were launched in November 2008.

2.10 Latin America

Two additional FTA negotiations with Latin American countries have followed a region-to-region approach, with varying degrees of success. While they mainly focused on development, both provide for a high degree of liberalisation, not only for goods but also for services and investment. They also contain provisions to tackle non-tariff barriers through regulatory convergence and trade facilitation, and provisions on IPR (including geographical indications), trade and competition, good governance regarding taxation and a whole set of rules on sustainable development.

The Association Agreement with six Central American countries (Costa Rica, Guatemala, Honduras, Nicaragua, Panama and El Salvador) was concluded in May 2010. In March 2010, negotiations for the Multi-Party Trade Agreement (MPTA) with Peru and Colombia were concluded successfully, while negotiations with Ecuador are still pending and uncertain in the case of Bolivia.

The Central American FTA and the Colombia and Peru MPTA highlight both the benefits and drawbacks of the region-to-region approach. On the one hand, if successful, as with Central America, it gives EU industry access to a larger market under consistent conditions and it enhances intra-regional trade for the partner country. On the other hand, the regional partners often represent relatively loose groupings (compared to the EU), that sometimes find it difficult to coordinate and agree on common positions. Complex intra-group dynamics can lower the level of ambition as negotiating partners settle for the lowest common denominator. In these cases, introducing a bilateral dimension to the negotiation can yield better results, as demonstrated by Colombia and Peru.

2.11 Economic Partnership Agreements

The EU has also made great efforts in negotiations towards Economic Partnership Agreements (EPAs) with ACP[11] countries, with the primary objective to foster development by providing them with preferential access to the EU market, in compliance with WTO rules, and by improving economic governance and supporting regional integration. The state of play of the EPA negotiations can be summarised as follows:

- The EU-Caribbean EPA was signed in October 2008 and provisionally applied from December 2008 (when the WTO waiver to the EU's system of unilateral preferences under the Cotonou Agreement ended). The CARIFORUM region includes 15 countries: Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, the Dominican Republic, Grenada, Guyana, Jamaica, Saint Lucia, Saint Vincent and the Grenadines, Saint Kitts and Nevis, Suriname, and Trinidad and Tobago. Haiti signed the Agreement on 10 December 2009. The EPA is not yet applied by Haiti pending its ratification, which has been delayed due to the earthquake in early 2010.

- Apart from the Caribbean, negotiations on a comprehensive agreement were not completed with any other regional group before 2008. The EU therefore negotiated a

[11] A group of 79 African, Caribbean and Pacific countries, see http://ec.europa.eu/development/geographical/regionscountries_en.cfm

series of interim EPAs to maintain and improve their access to the European market and to ensure compliance with WTO law. These agreements are:[12]

- Central Africa: An agreement with Cameroon (other countries in the region finally decided not to join the interim agreement but to carry on with full EPA negotiations). The agreement with Cameroon was signed in January 2009.

- East Africa (EAC): A regional agreement with the East African Community (Kenya, Uganda, Tanzania, Rwanda and Burundi) was initialled in 2007 but has not yet been signed.

- Eastern and Southern Africa (ESA region): A regional agreement with Comoros, Madagascar, Mauritius, Seychelles, Zambia and Zimbabwe (but with individual market access schedules). Madagascar, Mauritius, Seychelles and Zimbabwe signed the agreement in August 2009.

- Pacific: A regional agreement with Papua New Guinea and Fiji (but with individual market access schedules). Papua New Guinea signed the agreement in July 2009 and Fiji in December 2009.

- Southern Africa (SADC region): A regional agreement with Botswana, Lesotho, Swaziland, Mozambique and Namibia. All but Namibia signed the interim agreement in June 2009.

- West Africa: The agreement with Ivory Coast was signed on 26 November 2008. The European Parliament approved it in March 2009. An agreement with Ghana was initialled in 2007 but has not yet been signed.

Since the interim EPAs were signed, some headway has been made in all regions in discussing the comprehensive regional agreements, though progress is mixed. In some regions, the Commission plans to give negotiations a final push to conclude in 2010, but in others the negotiations will continue beyond this year.

2.12 The 'Global Europe' Issues in FTA negotiations

Overall, the FTA negotiations launched under the economic criteria defined by Global Europe have made good progress. Nonetheless, progress on some negotiating objectives beyond tariffs set out by Global Europe has been more mixed. These objectives, which were identified as crucial for securing real market access in the 21st century, included non-tariff barriers, access to resources and energy, services and investment, intellectual property (IPR), public procurement and competition policy.

On <u>non-tariff barriers</u>, the Korea FTA is a good reference point for future agreements, especially where tariffs are low but significant regulatory barriers remain. The FTA includes sectoral annexes on electronics, motor vehicles and parts, pharmaceuticals, medical devices and chemicals to tackle non-tariff barriers. The FTA also contains separate chapters covering

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[12] For details on EPA negotiation schedules and member countries of the various ACP regions see http://ec.europa.eu/trade/wider-agenda/development/economic-partnerships/negotiations-and-agreements/ .

trade remedies, technical barriers to trade, sanitary and phytosanitary measures (SPS), customs and trade facilitation.[13]

Services continue to be a key part of the EU economy and an area with potential to increase overall EU exports. At the same time, access to imported services supports the EU industry's competitiveness, since three quarters of services imports are inputs for other activities.[14]

Progress has depended largely on individual negotiation dynamics. While improved market access for services providers is a key active interest of the EU, its scope for offering trading partners access to its own market could still be improved by a deeper integration of the EU's internal market for services. Nevertheless, the commitments on market access for services included in the Korea FTA go significantly beyond both parties' commitments under the General Agreement on Trade in Services (GATS). The same applies also to the agreement with six Central American countries.[15] Similar levels of market opening are targeted in other ongoing Global Europe FTA negotiations, especially with Singapore and Canada.

Further progress in extending services trade liberalisation, including regulatory aspects, will require a close interface between Single Market policies for services and, on the external front, agreement on specific conditions to be met on a case-by-case basis, ensuring a certain level of approximation of rules and regulatory systems.

Concerning the raw materials supply strategy, the Commission has compiled an inventory of existing export restrictions imposed by trading partners, which will be updated on a yearly basis.[16] Disciplines on export restraints were tabled in various negotiations, bilateral and multilateral. Notably, a full ban on export restraints was included in the EU-Korea FTA. Export restraints are also the principal remaining obstacle towards conclusion of an FTA with the Gulf Cooperation Council (GCC). This highlights the Commission's commitment to limit harmful export restraints and ensure that the policy on raw materials is consistent in different trade agreements. Finally, the Commission has lodged a complaint with the WTO's Dispute Settlement Body against China in relation to its export restrictions on various raw materials.

Provisions on energy production, transportation and price distortion are included in agreements with resource-rich countries and strategic energy transit countries, such as the ongoing FTA negotiations with Ukraine and Libya, the new agreement with Russia, as well as WTO accessions.

The Global Europe Communication also calls for stronger provisions on competition in FTAs to ensure that European firms do not suffer in third countries from subsidies to local companies or anti-competitive practices, which can have similar effects to more traditional trade barriers. The Commission has thus consistently advocated including binding rules on competition and state aid rules in FTA negotiations following Global Europe. The Korea FTA makes major advances in competition policy, particularly concerning subsidies. This is particularly significant as it contains provisions that prohibit the most distortive types of

[13] For a more detailed description of the specific features of the EU-Korea FTA in these areas see http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/korea/ .
[14] Miroudot, S./ Lanz, R./ Ragoussis, A: "Trade in intermediate goods and services", OECD 2009 TAD/TC/WP(2009)
[15] Costa Rica, Guatemala, Honduras, Nicaragua, Panama and El Salvador
[16] See http://trade.ec.europa.eu/doclib/docs/2010/june/tradoc_146207.pdf for an overview.

subsidies.[17] In addition, the agreement contains transparency provisions according to which the parties must report annually on the total amount, types and sectoral distribution of subsidies. Similar provisions on transparency of subsidies can also be found in the FTAs with Central America and Colombia & Peru.

Following the Global Europe Communication, the Commission has also developed a comprehensive approach to trade and sustainable development, i.e. cooperation in areas related to decent work, labour standards, environmental protection and Corporate Social Responsibility, accompanied by a monitoring mechanism involving social partners, NGOs and other stakeholders. A relevant chapter has been included into the FTA with Korea and since then the Commission has continued including it systematically into other negotiated FTAs. This approach has been appreciated by the European Parliament and other stakeholders.

Intellectual property rights (IPRs) and public procurement are assessed in sections 5 and 7 below.

3. Relations with the United States

The main Global Europe results have been the establishment of the Trans-Atlantic Economic Council (TEC) and resolution of two important disputes over beef hormones and bananas. Nevertheless, the TEC has yet to realise its full potential. Its success and the US' engagement are likely to be agenda driven, but disputes (notably Airbus-Boeing, but also poultry and GMOs) may complicate the EU-US trade dialogue. However, the percentage of trade covered by disputes (less than 2%) is very small. Following the Global Europe agenda, cooperation with the US has been stepped up in areas such as jointly addressing market access and IPR enforcement issues with China and Russia.

The TEC, which was launched in 2007 by German Chancellor Merkel, US President Bush and Commission President Barroso, is the political body that oversees and deepens economic integration between the EU and the US. The main objectives are to (i) achieve greater coherence of EU and US regulation to improve conditions for business and tackle (potential) non-tariff barriers to trade and investment and (ii) discuss strategic and economic issues in relation to third countries. The ultimate aim is to create an integrated transatlantic marketplace.

The TEC provides a high level forum to give technical cooperation projects the necessary political momentum to accelerate progress. The TEC Framework covers issues such as regulatory cooperation, investment, intellectual property rights, innovation, secure trade and financial markets. Although the TEC was for a long time bogged down in its – largely unsuccessful – attempts to set up a transatlantic dispute settlement body, it should become a powerful mechanism to enhance EU-US economic cooperation.

The TEC is the bilateral EU-US high level forum in which economic issues can be discussed in a systematic and coordinated manner. It is therefore a key element of the EU's 2020 strategy. However, it is noteworthy that, overall, more progress has been made on regulatory and other non-tariff issues under the FTA negotiations than under regulatory dialogues outside the FTAs, such as those with the United States and Japan**.** One reason is the EU's very limited scope to make regulatory changes, which implies that concessions have to be made in

[17] In addition to subsidies prohibited under the WTO, the EU-Korea FTA also bans unlimited guarantees and restructuring aid in the absence of a restructuring plan in so far as they adversely affect international trade by the parties.

other negotiation areas. Cross-cutting compromises are not possible when negotiations focus solely on regulation.[18]

Alternative solutions, such as increased use of mutual recognition and international standards (where available) should thus be explored, particularly in relations with large partners, such as the United States and Japan. This may also require flanking measures under EU Internal Market legislation to ensure consistency with such international agreements.

4. China

Global Europe recognised China as, simultaneously, an opportunity, a challenge, and a prospective partner for making globalisation work for jobs and growth. While irritants have continued to affect the EU-China relationship, a long-term partnership with China is more important than ever. Notwithstanding the trade deficit, China has become be the fastest growing market for our exports of goods and services and an important destination for EU investment, increasingly contributing to the global competitiveness of European firms.

Since 2006, significant work on specific barriers has been undertaken. A number of barriers were addressed in the context of the global market access strategy, notably improving the situation for innovative products developed by foreign pharmaceutical companies. Pressure from the EU and others led Chinese authorities to slow down or change initiatives that would have worsened the conditions for European business in key areas such as government procurement and in the ICT sector. Disputes brought to the WTO with regards to financial information services and car parts were successfully resolved, and in the absence of progress on China’s export restrictions on raw materials, the EU decided to take the issue to the WTO in June 2009.

Negotiations on a range of trade issues continue in order to update the 1985 trade agreement as part of a broader Partnership and Cooperation agreement. However, there is a clear gap between China's and the EU's ambitions, and negotiations are progressing with difficulties.

A significant development since Global Europe has been the establishment of the EU-China High Level Economic and Trade Dialogue (HED). The creation of a broad platform encompassing all key economic and trade issues has given the relationship a boost. Due to its level (Vice Premier) and significant participation and buy-in from key Chinese Ministers and European Commissioners, the Dialogue holds significant potential as a key component in managing the bilateral economic relationship to provide real political impetus in strategic matters and to resolve irritants.

The key objective for the EU is to ensure that China returns to a path of reforms and creates a true level playing field for foreign economic operators, while addressing systemic issues (e.g. rebalancing the economy and overcapacity fuelled by subsidisation). In the short term, this requires increased focus on a number of areas. One is investment, including whether investment negotiations could potentially increase market access. Another is procurement where it is essential to ensure better reciprocity. China's accession to the GPA is a key priority

[18] In addition to the TEC, the EU and US are engaged in sectoral regulatory dialogues in different policy areas of transatlantic importance, such as on financial markets regulation. These dialogues create useful fora to address regulatory issues with a view to eliminating barriers and preventing the emergence of new ones. They also serve to promote equivalence findings with EU acquis and work towards international standards. This and such dialogues with other third countries have also become crucial to promote coordinated approaches on G20 work on financial market reform, following the financial crisis.

for the EU. IPR remains another priority area where stronger enforcement and cooperation on patents will be critical for European interests and the problems faced by the EU's innovative companies in China. Also the question of Chinese standards will be in focus to ensure compatibility with international standards.

To this end, a number of new initiatives have been launched. These include negotiations on a bilateral cooperation agreement on the protection of geographic indications, a new IPR taskforce to address key issues for the future such as patent quality, enhanced customs cooperation on IP rights enforcement and a taskforce on investment to explore ways to foster bilateral investment cooperation.

Furthermore, regulatory dialogues are in place in a number of policy areas (such as financial markets, public procurement and IPR) which address regulatory barriers and create useful fora to discuss new regulatory developments or other topics of mutual concern.

Going forward, China is set to remain the biggest opportunity and a challenge for EU trade policy. China continues its rapid development as now the second largest national economy in the world and the EU’s second biggest trading partner. Not least at a time when other economic centres in world struggle to lead the global economy forward, it is essential for Europe to be part of this development and to increase our economic cooperation with China.

5. IPR protection and enforcement in third countries

In the knowledge economy, European companies (and other right holders) rely heavily on intellectual property rights (IPR) to compete effectively in third-country markets. For their part, as they develop, emerging economies increasingly benefit from the growth in research, innovation and investment that IPR brings. Therefore, the protection and enforcement of IPR was addressed under the Global Europe agenda. Progress was made notably through the enhanced implementation of the ***Strategy for the Enforcement of IP Rights in Third Countries*** adopted by the Commission in 2004.

Since the adoption of Global Europe, the Commission has stepped up its work in this field, through a number of initiatives:

a) **negotiating IPR provisions in bilateral trade and other agreements.** For example, the Korea, Peru, Colombia and Central America FTAs include detailed provisions on effective protection and enforcement of IP rights. A similar approach is being followed in ongoing FTA negotiations with India, Mercosur and Singapore and in non-preferential cooperation agreements with China and Russia;

b) inclusion of geographical indications (GIs) in all trade agreements – IPR chapters for all relevant FTAs contain provisions for effective protection and enforcement of the EU's policy on GIs;

c) negotiating with a group of like-minded countries[19] the ***Anti-Counterfeiting Trade Agreement*** (ACTA), to tackle the growing international trade of IPR-infringing goods. ACTA will focus on cooperation between enforcement authorities, adoption of best practices and more effective legislation standards;

[19] Australia, Canada, the European Union, Japan, Korea, Mexico, Morocco, New Zealand, Singapore, Switzerland and the United States.

d) monitoring **the implementation of the IPR clauses included in existing FTAs** to ensure that EU right-holders are properly protected abroad;

e) reinforcing **specific 'IPR dialogues'** with certain key partners, such as China, Russia and Ukraine and launching new ones with Argentina and Mexico, to tackle specific problems raised by EU right holders. In the **particular case of China**, the Commission intensified its cooperation with the Chinese authorities in areas of particular relevance to European industry in the context of the EU-China IP Working Group and also in areas of mutual interest, such as by creating an IPR Task Force on patent quality. A China IPR SME Helpdesk was also set up to help European SMEs protect and defend their IP rights in the country[20];

f) promoting the **debate on IPR enforcement**, often in cooperation with the US, Japan and Switzerland at the World Trade Organisation's **TRIPS Council**;

g) expanding **technical assistance initiatives** to third countries with enforcement and providing support in particular to EU small and medium-sized enterprises (SMEs) operating in these countries;

h) promoting IPR in **other international fora,** such as the G8, the Organisation for Economic Cooperation and Development, the World Intellectual Property Organisation, the World Customs Organisation, the World Health Organisation and other United Nations agencies;

i) ensuring that the international IPR framework is fully compatible with, and actively contributes to, the promotion of essential innovation-related areas such as **public health, biodiversity protection** and **climate change**;

j) engaging in **customs cooperation** on IPR enforcement with our main trading partners such as the US, China and Japan.

In order to re-define its priorities, the Commission recently launched the *3rd Survey on IPR protection and enforcement in third countries*. Like the previous surveys concluded in 2003 and 2006, this consultation of stakeholders will allow the Commission to re-assess the main trade-related IPR problems for European right-holders and to update its list of 'priority countries'.

Lastly, in 2010, an evaluation of the 2004 *Strategy for the Enforcement of IP rights in Third Countries* was launched, to ascertain whether any adjustments are necessary. Notwithstanding the results of the study, which will be available before the end of the year, one issue to take into account in the revised Strategy is IP protection, to ensure that enforcement and the legal framework corresponds to future needs, in technological and economic terms.

6. Renewed Market Access Strategy

A major and visible aspect of Global Europe has been the renewed Market Access Strategy (MAS), a new cooperation initiative in Brussels and on the ground in key markets between the Commission, Member States and business to address the key barriers that hold back EU trade. Many non-tariff barriers to exports were identified by Member States and business associations as among the most harmful obstacles to trade. In sectors like the agri-food sector, they not only add to the cost of trade but they can even close markets entirely. They range

[20] http://www.china-iprhelpdesk.eu/

from discriminatory taxes on drinks in India and the Philippines to unnecessary inspection requirements in Ukraine, restrictions on exports of hides and skins to India, and textile labelling requirements in Egypt. Member States can now systematically communicate a consistent message in their contacts with third countries, ensuring that the EU speaks with one voice. The progress achieved in dealing with individual barriers under the MAS is testament to the importance and legitimacy of trade policy.

The Market Access Strategy helps European companies, including SMEs, access third country markets by providing information on market access conditions (free online Market Access Database — MADB: www.madb.europa.eu) and removing market access barriers. The new strategy has led to many concrete results where barriers were removed, in over 30 cases in 2009 alone.[21]

Operational implementation of the strategy includes:

- Setting up appropriate structures: The partnership structure involving the Commission, Member States and business has worked very well and is crucial to the success of the MAS.

- Prioritisation: Identification of 203 key barriers for 32 main export markets. These barriers are constantly updated and constitute the main benchmark for future MA action.

Crisis-monitoring: Thanks to the existing MAS structure, the Commission was able to provide crucial input for the WTO and G20 initiatives to prevent protectionist backlashes following the financial crisis. Six crisis monitoring reports were provided as input to the WTO monitoring process and to the crisis-related barrier removal action plan. The reports helped develop a shared analysis of the situation and mount peer pressure against protectionism.

The MAS has thus become an important pillar of EU trade policy, alongside the negotiating agenda. The Europe 2020 strategy provides further impetus for the MAS, namely an annual trade and investment barrier report on '*identifying ways to improve market access and regulatory environment for EU companies*'.

7. Public Procurement

The potential global welfare gains from more competitive public procurement markets remain substantial. Government procurement accounts for 16 % of EU GDP and can be as high as 20-30 % in developing and emerging countries. Hence, access to public procurement markets not only provides new market opportunities for EU businesses, but it also gives tendering authorities better value for tax payer's money by widening the scope of eligible bidders.

One focal point has been the WTO Government Procurement Agreement (GPA), where the EU's proposals to extend the membership and the coverage (entities and services) of the GPA have so far made little progress. Except for Taiwan, which joined the agreement in 2009, no new members have joined since 2006.

In parallel, the Commission addressed this issue in Global Europe and subsequently convinced several trading partners to include government procurement chapters in FTA

[21] As such, the market access strategy works alongside other existing preventive mechanisms such as the Agreement on Technical Barriers to Trade (TBT Agreement) and the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement),

negotiations since 2006, including rules on market access and transparency. Substantive provisions on public procurement were included in the EU-Korea FTA, the EU-Iraq PCA and in the agreements with Central American and the Andean Community countries. In the case of Korea, the FTA opens to EU suppliers Build-Operate-Transfer (BOT) contracts (e.g. large infrastructure projects, such as toll motorways and bridges) from all central and sub-central entities committed by South Korea under the GPA.

Work on public procurement has mainly focused on FTA negotiations, where this remains a sensitive area for many partners. One of the factors behind this limited progress was the openness of the EU procurement market, which has the side effect of limiting the incentive for negotiating partners to offer reciprocal access to their own market for EU operators. The comparative openness of the EU market led the Commission to introduce in Global Europe the idea of a dedicated instrument to obtain better negotiating leverage in countries where the EU sees its own access curtailed. At the time, however, there was limited support among Member States for adopting this approach and a specific instrument has not yet been put in place.

This problem has become more acute during the economic crisis and the recent adoption by some key trading partners of ‘buy local’ provisions. The Global Europe experience and the Commission’s ongoing efforts suggest that one approach could be for the EU to consider taking a more robust stance with trading partners whose markets remain closed to EU suppliers, in a bid to trigger momentum and engage our trading partners in this area.

8. Review of the Trade Defence Instruments

Global Europe called for an update and modernisation of the trade defence instruments (TDI), started by a Green Paper at the end of 2006. However, lack of consensus among Member States has stalled the process since the end of 2007. A number of practical improvements to bring greater transparency to the Commission’s work were nevertheless agreed in summer 2009, including new on-line case information.

Despite the TDI reform being postponed, the Commission, Member States and stakeholders have identified transparency as an aspect of the EU’s TDI system to be improved. Thus, after intensive consultation, in mid-2009 the Commission and EU Member States agreed on ways to improve transparency in TDI. The measures proposed (e.g. a much greater range of up-to-date information on the TDI website, specific assistance to SMEs, simplified TDI questionnaires, improved non-confidential files, improved disclosure to interested parties in TDI proceedings and an enhanced role for the Hearing Officer) can be taken without any legislative changes and are now being implemented. Full implementation is scheduled for early 2011.

In addition, all key TDI aspects listed above have been integrated in a Total Quality Management strategy (‘TQM’), which encompasses a wide range of issues. The Commission is in regular contact with all stakeholders and is open to assessing the scope for making further improvements to existing trade defence instruments. To increase the general acceptance of the Commission’s trade defence instruments, they must be applied transparently and efficiently. There is also the multilateral aspect (Doha round) which must be duly taken into account in any reform — we must avoid our efforts being portrayed as unilateral disarmament.

Overall, the EU has been a moderate user of TDI since the start of Global Europe. Less than 1% of the EU's imports are affected by TDI at any given moment. The measures used have targeted unfair practices by trading partners, while limiting any trade distortions (e.g. through use of the lesser duty rule).

III. Conclusions and lessons learned

Global Europe provided a clear vision for the role of trade policy in promoting the EU’s global competitiveness. Numerous respondents to the public consultation on the EU's future trade policy indicated that they considered Global Europe to have set the right priorities and focus, and that it remained to a large extent valid today. Global Europe underlined the EU’s commitment to multilateralism and the Doha Round and launched a number of new initiatives, including bilateral FTA negotiations, new platforms for dialogue with Europe’s two largest trading partners, the United States and China, and cross-cutting initiatives on IPR, public procurement, TDI and market access.

- The Doha Round made good progress following the launch of Global Europe, and WTO members came very close to reaching an agreement on key building blocks of a DDA package in 2008. However, the onset of the financial crisis in 2008 and changes to key WTO members’ governments have kept a successful conclusion of the DDA out of reach.

- Meanwhile, the FTA negotiations launched under the economic criteria defined by Global Europe have made good progress. The signed EU-Korea agreements, as well as the agreements with Central America and Colombia/Peru provide benchmarks for future FTAs in terms of tariff elimination and coverage of many non-tariff barriers and regulatory issues, especially where tariffs are low but significant regulatory barriers remain. The FTAs also address issues such as trade and sustainable development.

- In the field of transatlantic trade and competitiveness, the main Global Europe results have been the establishment of the Trans-Atlantic Economic Council (TEC) and resolution of two major disputes, beef hormones and bananas, the latter contributing also to the Doha Round and strengthening the multilateral trading system in general by solving the longest ever WTO trade dispute.

- In the EU’s trade relationship with China, progress on updating the 1985 Partnership and Cooperation agreement (PCA) remains slow, but the annual High Level Economic Dialogue has rejuvenated the relationship. Overall, the EU-China trade relationship has continued to flourish and generate significant benefits for both partners. The main challenge for EU trade policy remains to ensure that the relationship is placed on a sustainable footing for balanced growth, which will require addressing a range of market access barriers and IPR problems faced by EU firms in China.

- IPR enforcement under the Global Europe agenda has largely been addressed by bilateral negotiations as well as customs co-operation activities. The most visible IPR initiative at present is the plurilateral negotiation between developed countries of the Anti-Counterfeiting Trade Agreement (ACTA).

- The renewed Market Access Strategy under Global Europe has helped European companies access third country markets by providing information on market access conditions (MADB) and removing market access barriers. Individual successes are often small scale, but they have been numerous and each involves real businesses and jobs. Lastly, thanks to the existing MAS structure, the Commission was able to provide crucial input to the WTO and G20 initiatives to prevent protectionist backlashes following the financial crisis.

- Progress on public procurement has focused on the Commission's FTA negotiations, where it remains a sensitive issue for many partners. The EU's level of openness sometimes reduces its counterparts' incentives to reciprocate, despite the vast potential for savings for taxpayers by making public procurement markets more competitive.

- Member States did not reach a consensus on the major reform of trade defence instruments (TDI) proposed by Global Europe. Instead, the Commission took steps to streamline its TDI procedures to optimise transparency and accessibility for EU industry and affected third-country firms.

Notwithstanding the progress made since 2006 in accomplishing the Global Europe agenda, important experiences have been acquired and lessons learned, which will feed into the EU's future trade strategy.

The region-to-region versus country-to-country approach

The Commission initially pursued a region-to-region approach in several FTA negotiations as a first-best option because of the advantages it brings for EU exporters and partner country industries and consumers. If successful, a region-to-region FTA provides EU industry with access to a large market based on consistent conditions and enhances intra-regional trade at the partner's end. The Commission continues to pursue this approach, for instance in the case of the Mercosur and GCC negotiations. However, in other negotiations the regional counterparts sometimes represent groups that are substantially less integrated than the EU. Internal coordination and agreement on common positions among members is a constant challenge. Complex intra-group dynamics can lower the level of ambition as negotiating partners settle for the lowest common denominator. In these cases, a bilateral approach can often yield better results. This led the Commission to conclude bilateral trade deals with some Latin American countries and to re-launch negotiations with ASEAN countries on a one-to-one basis, starting with Singapore. By aiming for consistency in each bilateral FTA, a subsequent consolidation of bilateral deals at the regional level remains possible and indeed desired.

Improving leverage in trade negotiations

The size of the EU's market provides significant leverage in bilateral trade negotiations. At the same time, the EU is an open economy not only in terms of average tariff rates, but also in several non-tariff areas that are of substantial value to the EU economy, such as public procurement, services and investment. The same applies to certain provisions in the EU's TDI regime, which can dilute enforcement outcomes compared to other jurisdictions. This openness generates substantial welfare gains for EU businesses, consumers and tax payers. However, already having an open market can reduce the EU's leverage in negotiations as it reduces partners' appetite to reciprocate. Any strategy to encourage trading partners to make further concessions (for example by threatening to temporarily reduce the EU's level of openness) would need to be designed carefully, to avoid precipitating overall protectionist tendencies and welfare losses. The same can be said about the unilateral trade concessions through the GSP scheme for countries like India. Any top-level economic decisions must be taken carefully because the costs and benefits of policy initiatives are borne by different stakeholders. A ‘tactical’ market closure decision may therefore turn out to be difficult to reverse in practice.

The interaction between the internal and external dimensions of competitiveness needs to be reinforced

Trade negotiations seek to generate the same types of welfare gains that underpin the EU’s internal market. Trade liberalisation with external partners can never go beyond the level of openness within the internal market. This limits FTA deals in areas where the internal market is not yet complete.

Particularly in the field of services, new acquis and future initiatives to deepen the internal market would be extremely helpful in trade negotiations on services, where the EU often cannot move beyond binding its existing levels of liberalisation in FTAs, which in turn limits its ability to obtain improved market access for its own services industry. Initiatives such as the Services Directive provide new market opportunities to an industry which has become the cornerstone of the EU economy and an area of European comparative advantage with the potential to increase EU exports. At the same time, access to imported services supports the EU industry’s competitiveness. Any move to deepen the internal market for services would therefore also pay dividends externally.

Other areas in which internal market rules can complicate access to external markets are rules-based negotiations, such as product standards and SPS. A greater readiness to accept international standards whilst preserving an equivalent level of protection could significantly strengthen the EU’s bargaining hand and help it secure new market opportunities for EU businesses. Conversely, the EU should step up its efforts to promote its own rules as a basis for international regulations.

The need to tackle non-tariff barriers through deep and comprehensive FTAs and other bilateral mechanisms is reflected in the fact that virtually all EU trade agreements now cover non-tariff measures and beyond-the-border regulatory issues in various ways, from open-ended regulatory cooperation projects to binding agreements on mutual recognition. A challenge for the coming years will be to find a way to more effectively tackle regulatory issues. This will again require careful consideration of internal and external market dynamics.

ANNEX

Table 1: EU Trade with FTA/ bilateral negotiation partners (2009)

	Exports (Mio euro)	% of total Trade	Imports (Mio euro)	% of total Trade	Balance (Mio euro)
Extra EU	**1.094.519**	***100,0***	**1.199.266**	***100,0***	**-104.747**
MEDA (excl EU and Turkey)	69.489	***6,3***	49.469	***4,1***	20.020
GCC	57.745	***5,3***	21.769	***1,8***	35.976
ASEAN	50.201	***4,6***	67.844	***5,7***	-17.643
India	27.486	***2,5***	25.387	***2,1***	2.099
Mercosur	27.220	***2,5***	35.145	***2,9***	-7.924
Western Balkan Countries	25.455	***2,3***	11.176	***0,9***	14.280
Canada	22.431	***2,0***	17.777	***1,5***	4.654
SADC	22.258	***2,0***	21.716	***1,8***	542
South Korea	21.519	***2,0***	32.075	***2,7***	-10.556
West Africa	19.224	***1,8***	16.900	***1,4***	2.324
Ukraine	13.902	***1,3***	7.872	***0,7***	6.030
Libyan	6.471	***0,6***	19.996	***1,7***	-13.525
Andean Community	6.048	***0,6***	9.253	***0,8***	-3.205
Central Africa	4.719	***0,4***	5.210	***0,4***	-491
Cental Amer avec Panama	4.211	***0,4***	4.578	***0,4***	-367
Easten and South Africa	3.610	***0,3***	2.722	***0,2***	888
Caribbean	3.266	***0,3***	3.996	***0,3***	-730
EAC	2.731	***0,2***	1.881	***0,2***	851
Pacific	460	***0,04***	951	***0,1***	-491

Source: EUROSTAT (Comext, Statistical regime 4)
World excluding Intra-EU27 trade; European Union: 27 members.

- Agreements marked with an asterisk are signed and in force. The South Korea agreement has two asterisks as it has been initialled, but is not yet adopted. Interim EPAs have been agreed with a number of partner countries, but only the Caribbean full agreement can be considered 'adopted' at this stage.

- This table highlights the volume of negotiations in which the Commission is engaged and the fact that many agreements cover no more than 1-2% of the EU's external trade. As a reference for comparison, Table 2 shows the EU's top 10 trading partners in 2009 (in goods).

Table 2: EU trade in goods with main partners (2009)

	Total Trade (Moi euro)	% of total Trade	Exports (Mio euro)	% of total Trade	Imports (Mio euro)	% of total Trade	Balance (Mio euro)
Extra EU	**2.293.517**	***100,0***	**1.094.229**	***100,0***	**1.199.288**	***100,0***	**-105.059**
USA	364.002	***15,9***	204.468	***18,7***	159.534	***13,3***	44.934
China	296.382	***12,9***	81.633	***7,5***	214.749	***17,9***	-133.117
Russia	180.761	***7,9***	65.481	***6,0***	115.280	***9,6***	-49.799
Switzerland	162.045	***7,1***	88.292	***8,1***	73.754	***6,1***	14.538
Norway	106.167	***4,6***	37.515	***3,4***	68.651	***5,7***	-31.136
Japan	91.790	***4,0***	35.947	***3,3***	55.843	***4,7***	-19.896
Turkey	79.867	***3,5***	43.780	***4,0***	36.086	***3,0***	7.694
South Korea	53.593	***2,3***	21.518	***2,0***	32.075	***2,7***	-10.557
India	52.873	***2,3***	27.486	***2,5***	25.387	***2,1***	2.099

Source: EUROSTAT (Comext, Statistical regime 4)
World excluding Intra-EU27 trade; European Union: 27 members.