European Commission

# Why the European Union is an essential trade partner

The euro-zone economic crisis continues to grab headlines in most areas of the world, leading to scepticism in some quarters about the advantages of establishing tighter trade and investment ties with the European Union.

This view, while understandable given the magnitude of the difficulties we are facing, is nonetheless incorrect.

First of all, it underestimates the progress that has been made in tackling those difficulties.

- At European level, action has been taken to create a firewall, provide financial assistance to countries who have needed it and put in place a reinforced system of economic governance. The EU is now working towards establishing a true banking union.

- At national level, Member States across Europe are taking tough but necessary measures to improve their fiscal position and carry out structural reforms that will boost their growth. There is more work to do but the process is moving in the right direction.

Even in the current situation, however, several reasons mean that closer economic relations with Europe offer huge possibilities to our trading partners. These are outlined below.

## 1. The European Union is still a central pillar of the world economy – and will remain so.

Although the EU may be projected to grow only very slowly in 2012 and 2013 **it remains the largest economy in the world**, with a per capita GDP of €25 000 for its 500 million consumers.

- That represents a €12.6 trillion economy. Only the United States (€11.5 trillion) is in the same league; even China (€5.5 trillion) and Japan (2.7 trillion) are considerably smaller.

- There are 135 European Union companies in the Fortune 500, more than the United States (132), China (75) and Japan.

Even if Europe were not to recover fully in the next year, it would still remain the largest economy in the world by a long shot.

It is also an economy that has **enormous potential for the future**.

- 5 of the top 10 countries on the World Economic Forum Global Competitiveness index are EU Members.[1] They make up 6 of the top 10 economies on the INSEAD/WIPO Global Innovation Index[2].

- This is borne out at a company level too: 28 of Forbes' top 100 companies are headquartered in the EU.

- The EU accounts for more than a quarter of world R&D spending and in 2009, it produced 29% of the scientific publications in the world compared to 22% from the United States, and 17% from China. Almost a third of the world's patent applications are filed in the EU.

Europe's infrastructure is also unparalleled: It has 65,000 km of motorways and some of the busiest international airports in the world. (30 European airports carry more than 10 million passengers annually.) The EU is also the birth place of high-speed rail, and enjoys the largest network of high-speed railway tracks, 6,200 km and the highest number of high-speed trains (1,050 out of 1,737 in the world).

In conclusion: companies with global aspirations cannot afford to ignore this economy.

[1] http://reports.weforum.org/global-competitiveness-report-2012-2013/#=

[2] http://www.globalinnovationindex.org/gii/main/fullreport/files/Global%20Innovation%20Index%202012.pdf

## 2. THE EUROPEAN UNION IS STILL THE BIGGEST MARKET IN THE WORLD.

- Europe is the world's largest importer of both manufactured goods and services.

- It has the largest stocks of foreign direct investment abroad and is the world's largest host of foreign direct investment.

Even in context of the crisis our imports continue to rise: the EU imported €740 billion in manufactured goods in the first six months of 2012, up 4.5% on the same period last year.

The EU is the top trading partner for 80 countries. By comparison, the US is the top trading partner for a little over 20 countries.

60% of EU imports come from developing countries and Europe is the largest importer of goods from least developed countries, at 36% of their total exports.

Europe's is also **a highly diverse market**, offering opportunities to producers at all stages of the value chain. The EU imports primary products, like agricultural goods, raw materials and energy, alongside capital equipment, chemicals and a vast range of consumer goods.

The European market is **highly competitive** and requires companies to meet exacting consumer expectations. As a result, deeper trade and investment links with Europe mean companies learn to become more internationally competitive, helping them both in other markets around the world and at home.

What is more, European companies are **world technological leaders in the infrastructure** that many emerging countries need to take them to the next stage of development - whether in transport, sanitation, environmental services, logistics, telecoms or oil and gas exploration. Importing those products from Europe is a short-cut to a more advanced economy.

## 3. THE EUROPEAN UNION HAS THE POLITICAL CAPACITY TO CONCLUDE AND IMPLEMENT TRADE AGREEMENTS.

There may be a perception that the European Union has difficulties in this area in the context of the crisis. This is a mistake.

Despite the unfavourable economic situation, **Europe has been able move forward with liberalisation through the bilateral channel, and move forward faster than other countries**, notably the United States.

<u>Example: EU-South Korea Free Trade Agreement</u>

In July 2011, a new free trade agreement between the European Union and South Korea entered into force. It is a ground-breaking agreement that covers a huge range of subjects, from border barriers to the more complex regulatory and administrative measures that can present hurdles to international trade. It also links the European Union with its fourth largest partner outside of Europe. It will have a significant positive impact on the EU economy and will change the conditions of competition in important markets.

It is a testament to **Europe's ability to move forward on trade** that this agreement moved swiftly through Europe's approval procedure despite considerable political pressure from economic sectors concerned about its impact.

- Negotiations were opened in May 2007 and the agreement entered into force in July 2011, four years in total.
- By contrast the negotiations between Korea and the United States began in February 2006 with agreement only entering into force in March 2012, six years later.

Other recently approved agreements include an Economic Partnership Agreement with Caribbean countries and an agreement liberalising trade in agricultural and fisheries products with Morocco. The EU has also moved quickly forward in our negotiations with Columbia and Peru and Central America. These processes began in 2007 and the agreements were signed in 2012.

The new role of the European Parliament

The entry into force of the Lisbon Treaty has brought more democracy into EU trade policy by giving the European Parliament the right to say yea or nay to any new deal.

However this is not an impediment to our decision making, as our results show. The Korea and Morocco agreements have already been approved by the Parliament under the new arrangements and the Columbia, Peru & Central America agreements are very likely to go through later in 2012.

One of the reasons the European system is effective is that, unlike in the United States, the Parliament cannot amend the contents of an agreement. Members may reject an agreement outright, but not parts of it. In US-parlance, that means that European trade negotiators have a permanent fast track negotiating authority.

The Anti-Counterfeiting Trade Agreement ACTA

It is true that in July 2012 the European Parliament voted to reject the European Commission's proposal that the EU accede to the Anti-Counterfeiting Trade Agreement (ACTA.)

This agreement is legally speaking a trade agreement and is concerned with better enforcement of intellectual property rights in the context of international trade.

However, it is important to understand that the agreement contained no provisions to liberalise trade in goods or services, to open up signatories' markets to investment or to improve access to public procurement markets.

The vote in Parliament, therefore, cannot be seen as a rejection of open trade. Rather it was almost entirely based on very specific concerns about the perceived impact of certain provisions of ACTA on file-sharing over the internet.

The provisions of ACTA that became most controversial in this context are not included in any other trade agreement currently under negotiation.

Accordingly, the Parliament's vote here should not be seen as a predictor of what it is likely to happen in the future.

## 4. More broadly, Europe remains committed to free trade

The evidence is clear: despite the crisis, the European Union remains one of the most open economies in the world.

In 2008, before the full onset of the recession, imports of goods and services represented 16.9% of EU GDP. After a small decline in 2009 (in line with the global collapse in trade flows, which was proportionately greater than the contraction in world GDP) the situation has completely rebounded: In 2011, imports reached 18.1% of EU GDP. That means that almost one fifth of EU economic activity is linked to imports.

This is partly explained by a continuing commitment to free trade. It is also explained by the fact that European Union Member States are legally bound to be more open than their trading partners as a result of their participation in the Single Market. Rules on foreign direct investment and regulatory transparency, for instance, bind EU countries far beyond their commitments in the WTO.

- The average applied tariff for goods imported to the EU, taking account of the preferential market access most countries enjoy, is very low. More than 70% of imports are entering our market at zero or reduced tariffs.

- Our services markets are highly open and we have arguably the most open investment regime in Europe.

There have been no moves to change any of this since the crisis began. Europe has remained open.

What is more, Europe is perhaps the strongest supporter of the Doha Development Agenda negotiations at the WTO. We know that concluding those talks would be the best boost trade policy could offer to the global economy.

As European leaders concluded at their summit in June, "*The European Union is determined to promote free, fair and open trade whilst at the same time asserting its interests, in a spirit of reciprocity and mutual benefit especially in relation to the world's largest economies*."

The WTO has praised our openness

In the words of the WTO Secretariat in its 2011 review of EU trade policy: "In spite of intensified protectionist pressures, the EU maintained the overall openness and transparency of its trade and investment regime. Given the

EU's leadership position as the world's largest trader, its decision to refrain from tightening restrictions on imports in response to the crisis had a stabilizing effect on the multilateral trading system."

The WTO also pointed to a number of specific actions taken in the EU since the start of the crisis, including:

- The fact that the number of EU anti-dumping measures in force and the number of new investigations for antidumping actually fell since 2008. (The actual figures are fall in the measures in force from 128 in 2008 to 116 in 2011 and a drop in the rate of initiations of investigations from an average of 67 in 1996-2008 to an average of 53 over 2009 to 2011.)
- The fact that necessary support measures for the financial, automotive, construction and tourism measures were largely supervised by the Commission meaning they were administered in a transparent way that minimised distortion of the EU market. (This is in marked contrast to programmes in other countries such as Brazil and Argentina, which have been blatantly discriminatory.)
- The "Health Check" reform of the Common Agricultural policy, which further reduced government intervention in farm markets;
- The elimination of tariff quotas on rice and sugar under the Everything but Arms scheme in 2009;
- A more flexible customs regime for goods imported under the Generalised System of Preferences.

<u>Compared to others, the EU has not reacted to the crisis by closing markets</u>

Our trading partners have not been as restrained. Below a list of some of the issues that have arisen since the crisis:

- Argentina – non-automatic import licences & the expropriation of REPSOL shares in the oil company YPF;
- Brazil – local content requirements in new taxes on vehicles; stricter import procedures for textiles and clothing
- China – export restrictions on raw materials; a new review mechanism for foreign direct investment;
- India – a proposed National Manufacturing Strategy that includes discriminatory public procurement measures; export duties on cotton
- Russia – discriminatory recycling fees for cars; a ban on the export of live animals
- United States – legislation on 100% scanning of cargo and limits on non-US participation in public procurement in the 2009 stimulus programme.

The External Procurement Initiative

On 21 March 2012, the Commission proposed legislation for a new instrument to help open public procurement markets around the world. If approved it would give the European Union new leverage in international procurement negotiations.

Some have criticised this as a protectionist measure. This is not the case.

Today the European procurement market is wide open, which is to the benefit of European consumers and taxpayers. It means, however, that the EU has little to trade in negotiations with trading partners whose procurement markets are very often shut to European products.

The proposed new approach would allow the EU to make a credible threat to its trading partners that if they persist in keeping their markets closed they will face consequences, because their companies would no longer have access to certain parts of Europe's lucrative public market.

This is clearly not a protectionist line of reasoning. The EU remains committed to openness of procurement process but needs a tool to convince others to open their markets as well. The proposal also calls for close supervision of the process by the Commission to ensure there is no abuse.

## 5. THE STATUS QUO IS NOT AN OPTION FOR OUR TRADING PARTNERS

The EU's trading partners should not see its commitment to free trade as a reason not to engage in trade liberalisation negotiations.

It is true that Europe will not close its market but it has a highly ambitious programme of negotiations with partners from around the world, covering:

- Asia – we are negotiating already with three ASEAN members who are likely soon to be joined by some of their other partners. We also hope soon to launch a highly significant FTA negotiation with Japan and talks on an investment agreement with China;

- the Americas – where we want to complete the jigsaw of trade opening by launching a ground breaking agreement with the United States, concluding ambitious negotiations with Canada and cementing our ties with the Mercosur countries; and

- Africa – where the Economic Partnership Agreements and European Neighbourhood Policy have the potential to spur development by freeing up trade and investment across the whole continent.

Already today we have trade agreements either applied or concluded that cover 26.4% of our imports. If we conclude the agreements we are currently negotiating as well as those we plan to launch in the near future, that figure would rise to 61.8%.

**Those countries that do not have preferential access to our market stand to see their competitive position eroded if they do not take action by negotiating and signing free trade agreements with us.**