European Commission

Trade, Growth and Jobs

Commission contribution to the European Council

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CONTRIBUTION FROM THE COMMISSION TO THE FEBRUARY 2013 EUROPEAN COUNCIL DEBATE ON TRADE, GROWTH AND JOBS

Ahead of the 7-8 February European Council, this paper reviews the contribution that deepening relationships between the EU and its key trading partners can make to a comprehensive strategy to return to growth and job creation in Europe. It does not cover the full universe of trade relations. This paper focuses on the contribution of EU trade policy to boosting growth and jobs in Europe. It does not deal with the other aims of EU trade policy such as fostering development in poorer countries and projecting EU values in the world.

Trade has never been more important for the European Union's economy. In today's difficult economic circumstances, it has become an important means of achieving much needed growth and creating jobs without drawing on public finances. It is the conveyor belt that links Europe to the new global growth centres and is a unique source of productivity gains. The EU, which is benefitting much more from globalisation than is sometimes portrayed, is well positioned to benefit from this intensified international trade.

Yet making progress in this area is not straightforward. Internally, the EU must broaden its capacity to reap the benefits from trade, as not all Member States perform equally well in the global marketplace. Externally, it requires an ambitious trade negotiation and enforcement agenda. The Commission has started to develop this agenda. To take it forward will require strong resolve from both EU institutions and Member States if we want to succeed in addressing complex regulatory issues, engage emerging countries, conclude negotiations and implement our agreements and enforce our rights. Ultimately, it is important to ensure that our external trade agenda strengthens the multilateral trading system centred on the World Trade Organisation, which remains Europe's most important asset in dealing with globalisation, particularly in times of crisis.

1. TRADE CAN BE A POWERFUL ENGINE FOR GROWTH AND JOB CREATION IN EUROPE

Boosting trade is one of the few ways to bolster economic growth without drawing on severely constrained public finances. The contribution of external demand to GDP is the EU's most important source of growth for the moment, as domestic demand components - both public and private - remain weak. In fact, the contribution of trade to GDP in 2012 (+0.9 percentage points) cut the depth of the recession in the EU by a factor of four, helping compensate for the downward pull of domestic demand and inventories (-1.2 points)[1]. The contribution of external demand to economic growth is bound to increase in future, as 90% of global economic growth in the next 10-15 years is expected to be generated outside Europe, a third of it in China alone[2]. To be sustainable, economic recovery will need to be consolidated through stronger links with the new centres of global growth.

More trade also benefits growth via the supply side of the economy. Trade liberalisation is a major structural reform in itself, creating new opportunities for innovation and stronger productivity growth. Trade and investment flows spread new ideas and innovation, new technologies and the best research, leading to improvements in the products and services that people and companies use. Long-term evidence from EU countries shows that a 1% increase in the openness of the economy leads to an increase of 0.6% in labour productivity[3].

By operating on both supply and demand, trade is a powerful tool to boost economic growth. Trade policy is therefore an essential component of the EU's growth compact. More

[1] European Commission, *European Economic Forecast*, Autumn 2012

[2] Jean Fouré, Agnès Bénassy-Quéré, Lionel Fontagné, "The Great Shift: Macroeconomic projections for the world economy at the 2050 horizon", *CEPII Working Paper*, February 2012, n°2012-3.

[3] European Commission, *Raising Productivity Growth: Key Messages from the European Competitiveness Report 2007*

trade is also essential to job creation: About 30 million jobs in the EU depend on sales to the rest of the world, an increase of 10 million since 1995. On average, each additional €1 billion of exports supports 15000 additional jobs across the EU[4].

2. Europe is well placed to benefit from trade but we need the right policies at home to reap the benefits of trade opening

2.1. The EU economy benefits much more from globalisation than is usually believed

Europe faces the rise of new competitors and new challenges linked to the reorganisation of global production but we have the means to succeed. The EU remains the world's largest exporter, importer, foreign direct investor and recipient of foreign direct investment. It is less well known that the EU has managed to hold on to our 20% share of world exports despite the rise of new competitors and while respective shares of Japan and the US sharply declined[5].

Contrary to popular belief, the EU's industrial base remains strong. The EU has a massive manufacturing trade surplus of almost €300 billion, a figure that has increased fivefold since 2000. The EU's surplus in services has multiplied by more than 20 in 10 years to over €100 billion. The EU agricultural trade balance has shifted from a deficit to a surplus. Overall, the EU's trade balance for goods and services is slightly negative (€74 billion). However, this is relatively small when compared to total trade or, for example, to the US deficit and is only due to the strong dependence on energy .

The EU retains close to 28 % of the global income generated by the production of manufactured goods, against 18 % for the US and a bit less than 16 % for China. The EU share of this income has remained fairly stable since 2000 while the share of the US – which was broadly similar – declined sharply. Japan fell even more. Similarly, the number of jobs in the industry and services sectors related to the production of manufactured goods has increased in the EU over the past 15 years, to reach 35 million, while it decreased in the US and Japan[6].

Despite the economic and financial crisis, the EU is still an attractive place to invest – in fact, it is the largest recipient of international investment projects, creating and preserving jobs. Europe attracted 29% of those investment projects in 2011, on a par with North America, while Asia and Oceania got 25% of them.[7]

The Single Market has been a cornerstone of the EU's ability to promote its interests in a globalised world. The deepening of European value chains following the creation of the Single Market and successive enlargements of the EU is the main reason for that. EU firms export not only thanks to the value that is created in the Member State where exports are statistically booked, but also thanks to contributions from across the whole Single Market. A German export very often incorporates value created in the Czech Republic, Belgium or Poland. The distribution of jobs created by exports reflects this. For every two jobs created in a Member State where exports are counted, one job is created elsewhere in the EU[8]. The Single Market has also been vital to creating globally competitive companies in Europe. It has fostered the development of high-quality rules and standards that help shape global norms.

2.2. Yet Member States' performances reveal differences in competitiveness

Despite the same trade policy, the same external conditions and, for many of them, the same currency, the trade performances of Member States are extremely diverse. Over the past ten years, the trade balance of sixteen countries has worsened, while it has improved by comparable amounts in the other eleven. Some Member States have quickly lost market share in world trade while others have never been as strong as today.

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[4] N. Sousa, 'Extra-EU exports and employment', *DG TRADE Chief Economist Note*, No 2, 2012.

[5] Based on trade in goods, oil excluded. (Source: "European Export Performance", *CEPII Working Paper 2010-12, October 2012*). Note that EU world market share in services is higher (25% - Source: WTO).

[6] World Input Output Database (WIOD), www.wiod.org

[7] Agence Française pour l'Investissement International

[8] N. Sousa (op. cit.)

Competitiveness must therefore begin with the right policies at home. The difference between Member States' performances implies a competitiveness problem in those countries that are not doing as well, rather than a problem with trade policy. On average, trade with other EU Member States, not with third countries - explains more than two-thirds of the rise in the deficit of the weaker countries. To address it they must therefore step up their capacity to compete within the Single Market. This is not a new idea. The mix of price and non-price reasons for this loss of competitiveness is analysed, country by country, by the Commission in the excessive imbalances procedure and taken up in the country specific recommendations. The solution often lies in domestic reforms in education, labour market, innovation, and more broadly all policies that influence the business environment. This is the aim of the Europe 2020 strategy, an aim that can certainly be achieved: those countries that have undertaken structural reforms have already seen a rebalancing of their current account[9].

2.3. Europe's place in global supply chains reshapes its interests

The rapid development of regional and global value chains has been a step change for trade policymaking. Today, products are no longer made in one place from start to finish. Instead, they are put together in a long series of steps, often in different parts of the world. This new organisation of production blurs economic frontiers and transforms trade relations. A significant amount of the value of a Chinese export is often produced in Europe. Even an iPhone, designed in California and manufactured in Guangdong, has a European contribution[10] of 12%. The same pattern is repeated in other production processes, from children's toys to passenger jets.

This means that national exports and imports can no longer be approached from a narrow, mercantilist angle. It is not just exports that are essential to economic growth and job creation but increasingly also imports. Two-thirds of EU imports are raw materials, intermediary goods and components needed for our companies' production processes. The share of foreign imports in the EU's exports has increased by more than half since 1995, to reach 13 %.[11]

The fundamental changes in global supply chains mean that it is important to look more closely at where value is added to products and less at where exports are booked. The core objective of the EU's trade policy must be to maintain, and where necessary, re-invent, Europe's place in global supply chains. While manufacturing in the EU remains of pivotal importance, it has to be acknowledged that in many sectors, countries have much less capacity to make products on their own any more. Trade is more and more about adding layers of value, from R&D and design to manufacturing of components, assembly and logistics. "Standort Europa" remains a valid concern, but it should be dealt with intelligently: it must be about "value generation".

Under these circumstances, raising the cost of imports reduces companies' competitiveness and ability to sell on global markets. This is an important reason for countries not to resort to protectionist measures, even if such tendencies tend to reappear in economic circumstances like those we face today. We need to keep up our guard against them, abroad but also at home.

Another insight of the value-added approach is the importance of services to manufacturing. Services today represent about 40 % of the value we add to products exported from Europe. About a third of the jobs generated by exports of manufactured goods are actually located in companies that supply the exporters of goods with auxiliary services[12]. Better and cheaper services are a key variable in the industrial competitiveness equation. While it is important to focus on the development of the EU's industry, it is equally important to focus on the development of services, whose performance has been sub-optimal in recent years. Removing the remaining barriers inside the Single Market will be essential in this regard, but gradually liberalising and facilitating international trade in services is a powerful tool as well.

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9 Report from the Commission, *Alert Mechanism Report 2013*, COM(2012) 751 final, 28.11.2012

10 Xing and Detert (2010), iSuppli, Chipworks

11 WIOD (op. cit.)

12 WIOD (op. cit.)

In a knowledge society, intangible assets are a crucial component of many goods and services. Europe needs innovation to secure comparative advantage against competitors with lower labour, energy and raw materials costs. EU investments in creativity, research, design and quality are a unique asset of the European economy, but are also particularly vulnerable to poor enforcement of intellectual property rights (IPR) in other jurisdictions. Effective protection of IPR is therefore essential to fully harness the potential of European added value. This deserves a prominent position in Europe's external trade policy.

3. TAKING FORWARD AN AMBITIOUS TRADE AGENDA FOR THE EU

To boost the EU's capacity to benefit from trade, the Commission has developed an ambitious bilateral trade agenda with significant potential. But it is important to realise that making progress in this area is not straightforward and requires determination. It is also crucial to ensure that our bilateral agenda supports the multilateral trading system.

3.1. An unprecedented bilateral trade agenda

In recent years, despite difficulties in moving forward in the multilateral context, we have not stood still in the face of rapid changes in the global economy. We have developed a trade policy agenda of an unprecedented scale: while less than a quarter of EU trade was covered by Free Trade Agreements (FTAs) before 2006, concluding on-going negotiations would bring this figure up to half of our trade and we are now accelerating and deepening this agenda with the opening of negotiations for an agreement on a far bigger scale with Japan and the possibility of going down the same road in the near future with the US. Completing this agenda would bring the coverage of our trade by FTAs to two-thirds of EU external trade. This is by far the most ambitious trade agenda in the world today.

These negotiations could boost EU GDP by more than 2% or €250bn — equivalent to the size of the Austrian or Danish economy — and support an increase of more than 2 million jobs related to trade across the EU[13]. Most of these benefits would occur in the medium term, with the progressive implementation of agreements. Yet pursuing this agenda is crucial in the short term, as it would send a strong signal that the EU is serious about reforming at home and securing markets abroad. This would have an immediate impact on investors' confidence.

This focus on an ambitious bilateral trade agenda has already produced results with the successful implementation of a new-generation FTA with Korea and the conclusion of similar agreements with Colombia, Peru, Central America, Ukraine and most recently, Singapore. Negotiations with Canada are also close to finalisation. The EU-Korea FTA is a prime example of our policy of ambitious and reciprocal agreements (see box 1) while the importance of our FTAs with Canada and Singapore go beyond the agreements themselves: Singapore is also a gateway for the rest of Asean and Canada could set an important precedent for any agreement with the US. In Canada, being able to compete with US exporters on a more level playing field also offers clear gains for EU operators, not to mention the fact that our agreement with Canada will actually go beyond NAFTA, for example on government procurement. All this shows that even in difficult times, we are able to deliver ambitious trade deals that provide concrete benefits for the European economy.

In parallel, we are also enhancing our engagement in our neighbourhood, where economic gains can be expected from deep integration and regulatory convergence. Deep and comprehensive FTA negotiations are on-going or soon to be launched with Georgia, Moldova and Armenia, as well as with Egypt, Jordan, Morocco and Tunisia. The targeted level of integration is remarkable, and the EU's neighbourhood policy builds on the strong relation and synergy between trade policy and foreign policy, thus contributing to an area of peace and prosperity.

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[13] European Commission, "External sources of growth – Progress report on EU trade and investment relationships with key economic partners", SWD (2012) 219, 18.7.2012

Box 1: EU — Korea: A landmark FTA which is already starting to produce results

In force since 1 July 2011, the EU-Korea FTA is the most ambitious trade deal ever concluded and implemented by the EU — and our first in Asia. It has clearly established the credibility of the EU's commitment to engagement with Asia, while opening up a fast-growing East Asian market for EU exports. It has led to an unprecedented level of tariff dismantling (starting with almost 99% of duties within five years) and some ground-breaking provisions on non-tariff barriers. EU exporters should save up to €1.6bn a year in duties once the FTA is fully implemented.

While it may be too early to draw final conclusions, there was a 37% increase in our exports during the first year of implementation of the agreement (against a rise of 1% in our imports). At least part of this export performance is due to the new opportunities created by the FTA. Exports of fully liberalised products as of day one increased by 54% against 35% for partially liberalised products and 20% for products not subject to any immediate liberalisation. By comparison, exports of the same fully liberalised products to the world at large have increased by 27%. The growth differential between the exports of these products to Korea and to the rest of the world means that the FTA has already potentially generated €2.2bn extra exports or €2.7bn if partially liberalised products are also considered. Our trade deficit has come down to just over €3.5bn in 2011, from more than €11bn in 2010 and well over €16bn in 2007.

3.2. Conditions to take this agenda forward

For these benefits to become reality we need to move ahead. It is essential to prioritise those negotiations that will provide most benefit in terms of growth and jobs, primarily the US and Japan but also large emerging economies with long-term potential. This raises several challenges, for example, tackling complex regulatory issues or non-tariff barriers, especially with our large developed partners; striking the right balance between ambition and realism, in particular in the way we engage large emerging countries; and putting more emphasis on the implementation of our agreements and enforcement of our rights.

a) Tackling complex regulatory issues, especially with the US and Japan

More than two thirds of the economic gains from our agenda would come from potential agreements with the US and Japan and the biggest potential with these countries lies in addressing behind-the-border obstacles to trade. The extent to which these agreements would foster greater approximation and convergence in our respective approaches to regulation, both for goods and services, will be the litmus test of their success. Member States, in authorising the opening of negotiations with Japan, rightly placed this issue at the top of the negotiating agenda alongside addressing non-tariff barriers. The EU-US High Level Working Group on Jobs and Growth, which is due to present its final report soon, has also put regulatory issues at the heart of its discussions.

It will be crucial to fully take into consideration the implications of this new generation of agreements "among equals" for the way negotiations are handled. For the first time, the EU is going to negotiate FTAs with partners of similar size, and economic development as the EU. This demands different approaches, in particular on regulatory issues, which is a challenge for our approach to negotiations but also for coordination between negotiators and regulators, between different Council formations and European Parliament committees as well as between the EU and Member State levels. Our partners will only show flexibility on the regulatory changes we seek from them if we are able to show similar flexibility on our side.

This is not about downgrading the EU's rules and standards. It is, for both sides, about taking an open and flexible approach when setting the rules and seeking to prevent future trade friction where possible. In the end, rules can become better in the process. Confronting the respective regulatory solutions to similar issues is a powerful means to ensure our regulatory systems are always built around the best rules. Political impetus will be essential to ensure the buy-in of regulators for this effort.

Box 2: The rationale for comprehensive FTAs with the US and Japan

- The EU's economic relationship with the US is its most important, unrivalled in scope and intensity, as illustrated by unique levels of mutual investment stocks (€2.4 trillion). Total US investment in the EU is three times higher than in all of Asia while EU investment in the US is around eight times the amount of EU investment in India and China put together. More than 15 million people are employed by European companies in the US or US companies in Europe. The transatlantic relationship has enormous potential which is far from being fully exploited. Given the low average tariffs (under 2%), the key to unlocking this potential lies in tackling non-tariff barriers. These consist mainly of customs procedures and behind-the-border regulatory restrictions. They come from diverging regulatory systems as regards technical regulations, conformity assessment procedures, sanitary and phyto-sanitary restrictions and security provisions. These barriers are more difficult to address than tariffs, especially in formal agreements, as they are based on different approaches to regulation, often deeply rooted in historic or societal approaches and political realities.

The EU-US High Level Working Group on Jobs and Growth set up at the 2011 EU-US Summit has been actively engaged in finding ways to tap into this potential. To fulfil the Summit mandate to create jobs and growth, any future agreement would need to be transformative in nature and aim at the highest possible level of ambition in all areas under the form of a comprehensive FTA. A far-reaching agreement between the two biggest economies in the world would indeed give a strong boost to economic growth and send a strong signal of leadership to other countries.

- The EU and Japan are the largest and fourth largest economies in the world respectively. The Japanese market is huge but EU companies come up against serious non-tariff barriers in the form of discriminatory regulations, unique standards, anti-competitive behaviour, weak corporate governance and discriminatory public procurement practice. The result is that Japan has one of the lowest import penetration rates of any country in the OECD (6% or one fifth of the OECD average.) Likewise, it has the lowest level of inward foreign direct investment (FDI) in the OECD. Only 3% of global European FDI is in Japan. The EU-Japan trade and investment relationship is clearly underperforming and could be greatly enhanced. Over the past five years, EU exports of goods to Japan declined 6.1% on average per year, while the EU's total exports grew by an annual average of 0.7%. Japan was the EU's third most important export destination in 2003, while today, it ranks only seventh. There is clearly untapped potential in sectors where EU industry is very competitive, such as the pharmaceutical, medical devices and food sectors. Japan is aware of the need to introduce economic reforms. Successive Japanese governments have been pursuing a double strategy, revitalising domestic reforms while seeking strategic alliances with key trading partners. It is in both Japan's and the EU's interests that this strategy should succeed.

Reciprocal trade and investment opening with Japan would yield very considerable gains for the European economy, while confirming the EU's determination to strengthen its economic links with East Asia. Before launching FTA negotiations, we engaged in a thorough exercise to define the scope and level of a potential FTA so as to ensure it would provide effective solutions to tackle obstacles to trade and provide a level playing field on the Japanese market. This is crucial in particular for non-tariff obstacles and those of a regulatory nature. We have agreed a solid and ambitious scoping paper, covering goods, services, investment, public procurement, intellectual property, sustainable development, trade facilitation, etc. It also covers roadmaps for the solution of a comprehensive (though not exhaustive) list of non-tariff barriers in 10 areas of trade in goods, leading in some cases to concrete outcomes in the next few months and in others to a negotiated outcome that would, if satisfactory, parallel EU concessions on tariffs. We have also found an agreement on market access in the railway procurement market.

*b) **Striking the right balance between ambition and reality on the ground, in particular in engaging emerging countries.***

The rise of emerging economies is one of the key developments of our time. It has intensified competition in terms of price and quality as well as access to energy and other raw materials. It has also created a new group of affluent middle-class consumers and unique development opportunities. While economic growth prospects in the EU remain limited in the short term, China will expand by more than 7% in 2013, which is equivalent to creating the economies of Denmark, Sweden and Finland taken together. Many other countries in Asia or Latin America are following the same path.

The EU's ability to benefit from these new, emerging markets will be an important benchmark of the contribution of trade policy to jobs and growth in Europe. We stand to gain from an active trade policy vis-à-vis emerging economies, where there are both significant growth prospects and much potential for further trade opening. Many of them are already significantly more open today than they were ten to fifteen years ago, either because of trade agreements or following their own autonomous decisions to liberalise[14]. Import tariffs have on average gone down in China, from 19.6% in 1996 to 4.2% in 2009; from 20.1% to 8.2% in India; and from 13.8% to 7.6% in Brazil[15]. But they still maintain significant barriers – tariff and non-tariff – to EU exports and in some cases risk reversing the trend towards opening[16].

The EU's relationship with emerging countries is changing in nature, focusing less on development and more on increasingly balanced forms of partnership based on mutual interests, as well as evenly-shared global responsibilities. Our biggest strategic challenge is to anchor them into the global trading system under a new overall "covenant". They are rightly reaping the benefits of their growing role in world trade. But as their role and the benefits they draw from the global trading system grow, so too do their responsibilities to play a full part in maintaining a global regime that favours openness. This is about both the economics and the politics of openness. Our citizens in Europe expect them to open to us, as we open to them.

The EU's FTA agenda with large emerging economies such as India, ASEAN countries and Mercosur is a powerful tool to anchor them in an open trading system. As the overall objective of FTAs is to remove all tariff and non-tariff barriers to trade and the EU is, like other advanced economies, more open to trade than its emerging partners, this agenda will necessarily rebalance the current asymmetry in levels of openness and promote a more level playing field. This policy is therefore reciprocal in nature.

Our concept of reciprocity aims at opening third countries markets, not closing ours. The ultimate objective is to bring emerging economies to our level of openness, which they often see in their own interest as well, not to close our markets and hamper our economies simply because others do. This approach provides results: as already said, 99% of tariffs with Korea (besides many non-tariff barriers to trade) have been removed, while Korea's tariffs were twice as high as in the EU before the start of negotiations; and negotiations with Canada should go beyond what was achieved among North American economies in NAFTA. We have tabled an instrument to open up procurement markets, which can help improve our leverage and our negotiating stance to promote further opening. But the prime avenue to address these issues remains by encouraging our trading partners to negotiate agreements with us[17]. To the extent that they are prepared to negotiate substantial commitments, there is clearly no need for any supplementary action.

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14 Autonomous liberalisation accounts for two-thirds of trade liberalisation in developing countries in recent years (World Bank, Global Economic Prospects).

15 Tariff rate, applied, weighted average, all products (%), 2010. Source: World Bank databank.

16 European Commission, *Ninth Report on Potentially Trade Restrictive Measures identified in the context of the financial and economic crisis, September 2011 – 1 May 2012*.

17 Recent developments have shown progress with several key partners: FTAs with Korea and Singapore secured a broad coverage of public procurement markets, while the agreement with Canada should do the same, going beyond previous agreements and covering sub-federal entities as well. A concrete way forward has been found with Japan on railway procurement and ambitions are very high for upcoming negotiations with both Japan and the US.

The EU is a tough negotiator. Some negotiations are taking time because we are demanding. For example, the level of ambition in the negotiation with India goes well beyond what India has agreed with other partners so far, covering issues it has previously dismissed in the WTO context (such as investment and competition) or largely excluded from negotiations with other bilateral partners (public procurement). Although stepping up our engagement with partners like India is of strategic interest to the EU we are not ready to compromise at any price. Despite our interest in negotiating an ambitious agreement with Japan, we do not have any illusions about the difficulty of obtaining what we need in future negotiations. This is why a suspension clause will allow for the suspension the negotiations after one year from their launch if Japan does not comply with the commitments made during the course of the scoping exercise. Similarly, a strict parallelism will be established between the elimination of non-tariff barriers by Japan and the elimination of EU tariffs.

However, concluding negotiations requires realism as well. While it is essential to aim at the highest possible levels of market opening in our partner countries, with emerging countries, given the level of initial asymmetry we will inevitably need to accept some limited asymmetry and phase-in periods.

Negotiation is about give and take. One cannot expect meaningful commitments from our partners without being ready to take difficult decisions on the EU side as well. Sectoral interests, which can sometimes offer stiff resistance in negotiations, need to be addressed in a realistic manner. This resistance cannot be dismissed out of hand but neither can one determine the fate of the European economy on the basis of purely defensive interests. The potential gains for the EU economy of our trade agenda need to be balanced against narrow defensive interests. Transition periods are systematically part of trade agreements to allow for smooth and progressive developments while safeguard clauses shelter EU producers from unexpected changes. But trade policy cannot substitute for other policies. Foreign competition is rarely responsible for those sectoral difficulties that trigger a negative attitude to trade. In fact, there are often both offensive and defensive interests for each type of industry. In any case, the balance of any given negotiation must be assessed overall, across all sectors of the economy.

Box 3: EU relationships with large emerging countries

China: There is inherent tension between China's state-led approach to catching up and our desire to promote openness and the respect of international trade rules, even if these are in China's long-term interest. But China has also become an essential pillar of European companies' strategies, while the EU has been China's biggest trading partner for several years. Our agenda with China focuses on investment, procurement and IPR. Both sides confirmed their commitment to an early start of negotiations on an investment agreement that would be "rich in substance", which we have made clear means for us including market access. We remain committed to developing a positive agenda with China. If, following the change of leadership, China wants to broaden the negotiating agenda (including towards a FTA, as suggested at the last summit), this issue could be looked at provided that China can demonstrate its willingness and ability to deliver a deep and comprehensive FTA.

ASEAN: FTA negotiations have just been concluded on a high-quality basis with Singapore. Negotiations are on-going with Vietnam and Malaysia and should be launched, during the first half of 2013, with Thailand subject to parliamentary approval. Other ASEAN countries are also showing willingness to re-engage after several years. Ultimately, bilateral FTAs should serve as building blocks for a region-to-region agreement, which could take shape once a critical mass of bilateral FTAs with individual ASEAN countries is reached and once ASEAN countries have achieved greater integration among themselves.

India: FTA negotiations with India are essential to prepare for the future, with implications going beyond India, as a successful agreement would be the first case of engaging a large emerging country in such a reciprocal trade opening exercise. We have come a long way in these negotiations and are now facing the most difficult issues, on which conclusion depends.

India remains committed to finding solutions, but this is not easy as in some cases it requires a change laws and regulations. The key question is whether it is feasible to conclude negotiations at a satisfactory level of ambition before India enters the run-up to elections later in 2013.

Russia: Russia's accession to the WTO last summer was a key milestone, bringing Russia into the global trading system, providing a more stable and predictable business environment for EU operators and helping to sort out bilateral trade irritants. Tariff cuts should generate some €4bn additional EU exports each year and make EU exporters save €2.5bn annually. In the short term, the priority must remain to Russia's implementation of its commitments.

Recent protectionist measures are a real cause for concern. The EU will swiftly defend its interests, resorting to WTO dispute settlement if necessary. Negotiations on a successor agreement to the Partnership and Cooperation Agreement are on-going and will require further progress on trade and investment provisions, but they remain difficult, while Russia is heavily engaged in its own regional economic integration process.

Mercosur: Protectionist tendencies in the region and the latest internal developments in Mercosur create significant challenges for FTA negotiations with Mercosur, which have not moved forward as we wished. The economic and political stakes are high for both parties as the aim is to create the biggest region-to-region free trade area in the world.

c) Stepping up the implementation of trade agreements and the enforcement of EU's rights

While trade negotiations are essential to prepare for the future, the most effective way to boost the contribution of trade to growth in the short term is to ensure robust enforcement of the EU's rights under current rules. This is also a question of balance and rules must be respected by all. The Commission will release its third annual Report to the European Council on Trade and Investment Barriers at the occasion of the Spring European Council. The report will detail progress achieved in a number of cases but also new barriers and negative trends towards the adoption of protectionist measures in certain strategic partners of the EU.

We keep a firm hand against unfair trade. Our commitment to open markets is upheld by our capacity to act against anti-competitive trade practices, using both anti-dumping and anti-subsidy measures to do so. We do not seek to undo the comparative advantages of our partners, but we do not hesitate to take action where those advantages are reinforced by unfair practices such as anti-competitive pricing behaviours or subsidies or other State-induced distortions. The EU is one of the main users of trade defence instruments globally, together with the US and China.

When all other interventions fail, we do not hesitate in taking countries to the WTO dispute settlement. The EU has been an active and most effective user of it, including as compared to other players. For example, the EU has launched 32 offensive cases since 2001, the year China joined the WTO, and we have won the vast majority of these. Only the US has a level of offensive litigation of comparable scale (36 offensive cases in the same period). We are currently stepping up our efforts: over the past two years, the EU has launched five new cases at the WTO, against six cases over the previous four years.

The EU's offensive cases target protectionist developments with a systemic reach, such as Canada's preferences given to electricity produced with Canadian-made equipment or Argentina's import licences linked to export performance requirements. We are also fighting against China's restrictions on the exports of rare earths and other raw materials that are essential for European industry, having won a first landmark case against China's restrictions to the exportations of raw materials. But our offensive stance against protectionism abroad will be credible only if we equally resist protectionism at home.

We are also changing gear in the implementation of FTAs, something that is essential for the future considering the current volume of bilateral negotiations. The EU-Korea FTA puts new emphasis on implementation and enforcement: in addition to thematic committees, seven specific working groups have been set up to ensure proper implementation, while previous agreements left this to a single committee which met only once a year. Future agreements on investment will give investors the possibility to seek enforcement based on investor-to-State dispute settlement mechanisms.

Member States as well have a greater role to play in the implementation of trade agreements, for the benefit of their own operators. For example, the granting of the approved exporter status, a key requirement for EU exporters to benefit from tariff preferences opened by EU FTAs, takes more than six months in some Member States against less than one day in others. Member States also have a responsibility for the policing of unfair practices on the EU market: technical regulations applied in the EU to domestically produced goods apply equally to imports into the EU; in some cases, however, foreign producers do not meet the requirements set in the EU, unfairly competing with EU producers and putting at risk the safety and security of EU consumers. Controls need to be stepped up and this is mostly a national responsibility.

3.3. A realistic agenda for the multilateral trading system

The EU's priority must be to preserve and strengthen the multilateral trading system. This is particularly acute in times of crisis, when the temptation to resort to protectionism is high. There is a difficult balance to strike between the current impasse in the Doha Development Agenda (DDA) and the undisputed role of the WTO in the long term. We should try and move forward where possible at the WTO but also make sure our FTAs prepare the ground for the next level of multilateral liberalisation and rule making.

a) Make sure our bilateral and plurilateral agenda support the multilateral trading system

FTAs, if approached with care, can build on WTO rules by going further and faster in promoting openness, by tackling issues which are not ready for multilateral discussion and by preparing the ground for the next level of multilateral liberalisation. Many key issues, including investment, public procurement, competition, regulatory issues and IPR enforcement, which remain outside the WTO at this time, can be addressed through FTAs.

Ambitious agreements, especially with large developed countries, can have a systemic reach. They provide a laboratory for filling the gaps in the multilateral rulebook and develop regulatory solutions that can be a basis for subsequent work at multilateral level. This could be the case, for example with the US, in areas such as preferential rules of origin or geographical indications. The more regulatory convergence - and not just equivalence - we can reach, the better for the multilateral system. Succeeding in bringing closer two regulatory models that are dominant but in part conflicting would create a global public good. It would send a powerful signal that it is possible to converge, even from very different starting points and would offer concrete regulatory solutions to do so, thereby facilitating further negotiations at WTO[18].

The EU is championing international approaches in our bilateral agreements. We refer as much as possible to internationally agreed standards (or at least plurilateral processes) and thereby use bilateral agreements as a lever to pull our partners towards these international set ups (see the example of UN cars regulations and our efforts to bring Korea, Japan and other Asian countries into their remit). The scoping exercise with Japan explicitly refers to the objective to seek greater convergence of Japan's national requirements with relevant international standards.

Plurilaterally, the EU favours non-discriminatory approaches based on the most-favoured nation rule, following the Information Technology Agreement model, where applicable. We would be ready to support such a plurilateral agreement on environmental goods at the WTO following the openness recently shown by APEC members in this area. Where such a non-discriminatory approach is not possible because a critical mass of participants cannot be reached, we need to anchor new initiatives as much as possible inside the WTO system and keep them open to all countries sharing the same ambition, as we have been doing in the context of the nascent plurilateral negotiations on services.

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[18] Economic studies also show that potential FTAs with the US and Japan would benefit third countries, because of the positive spill over effects of regulatory improvements and transparency measures, many of which benefit all countries on an erga omnes basis.

Ultimately, what matters is not whether to take the bilateral, plurilateral or multilateral route, but whether our approach to bilateral and plurilateral agreements is open (in particular to further pluri- or multilateralisation) or closed (essentially discriminatory).

b) Move forward at the WTO

Negotiations on the market access areas within the DDA remain at an impasse that will unlikely be resolved in the near future. But the DDA holds too much potential to be abandoned. The EU remains committed to contributing to its conclusion.

As a first step, it is important to move forward in areas where the multilateral process could advance. There is a tangible prospect of concluding a multilateral agreement on trade facilitation and some other issues at the next Ministerial conference of the WTO in December 2013. The benefits to the global economy of an agreement on trade facilitation would be comparable to the total gains expected from goods and services liberalisation under the DDA mandate. Such a positive step, benefiting all WTO members, would be crucial for the broader fate of the DDA.

The EU is ready to engage constructively after the next WTO Ministerial conference on the rest of the Doha agenda. But for this to happen we need to go back to the root causes of the current impasse. The real holdup in the round is not institutional, technical or even related to the actual content of the agenda but rather to the will of the participants to find a compromise. It follows from the fact that the WTO has not evolved as quickly as economic realities. The major shift in the relative economic power among major trading partners has not yet been fully reflected in the WTO system. There is a growing imbalance between the contribution large emerging countries make to the multilateral trading system and the benefits they derive from it. Already tangible when the DDA was launched, this tendency has grown significantly since, and is set to go on doing so in future.

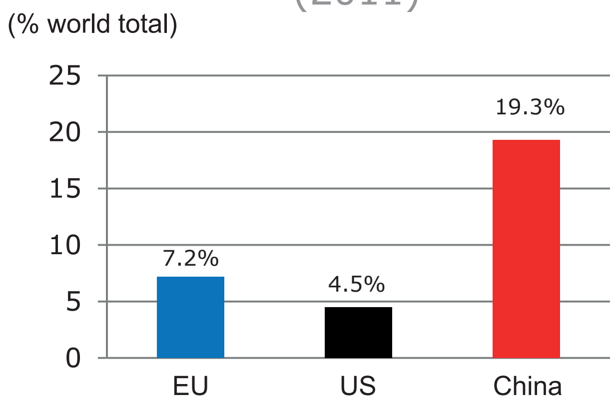
Rebalancing the relative contribution inside the system between developed countries and emerging economies is a key requirement for the system to move forward in the future. This is a big, politically-charged issue and there is no drive for the moment to address it in earnest. But it will not be possible to move ahead with any deep change to the way the WTO works until the system gets past that roadblock. Emerging countries must show more leadership and assume more responsibility for opening their markets to the rest of the WTO membership. In our view, this does not imply full reciprocity of commitments with developed countries as an outcome of the DDA, but greater proportionality of their contribution to the benefits they derive from the system.

ANNEX

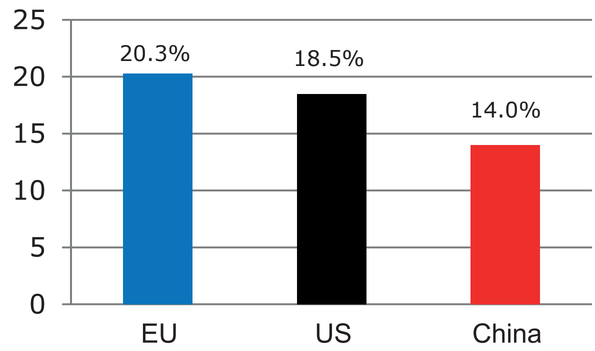
1. The EU punches above its weight

Population, GDP and trade performance* of the EU, US and China as a share of world totals

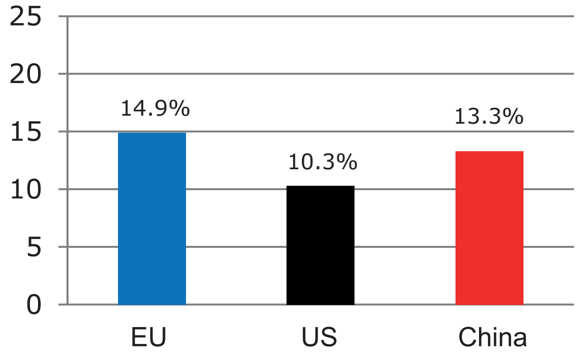
Population
(2011)



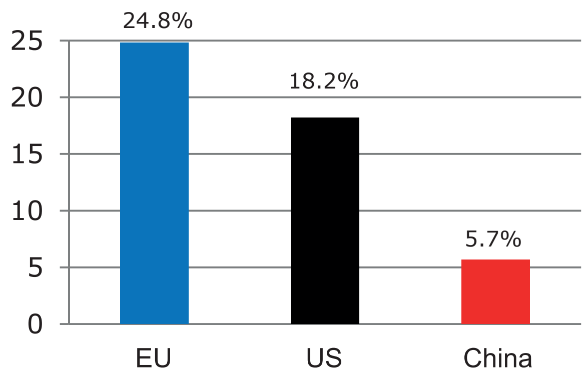
GDP
(purchasing power parity, 2011)



Merchandise trade
(2011)



Commercial services trade
(2011)



Source: UN, IMF, WTO, European Commission
** trade data excluding intra-EU*

2. The EU trade agenda

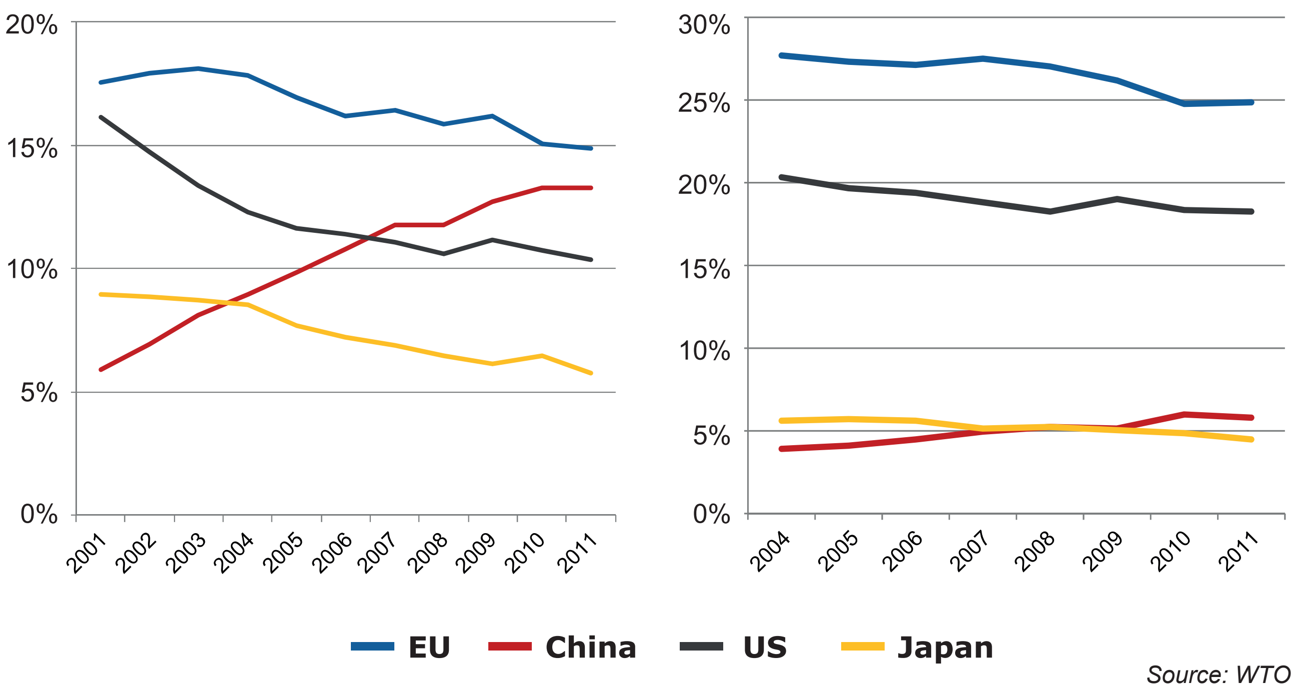
Bilateral agreements – state of play

Bilateral agreements – the way ahead

3. EU trade and FDI performance

The EU keeps a very important share in world exports and compares favourably with other industrialised economies

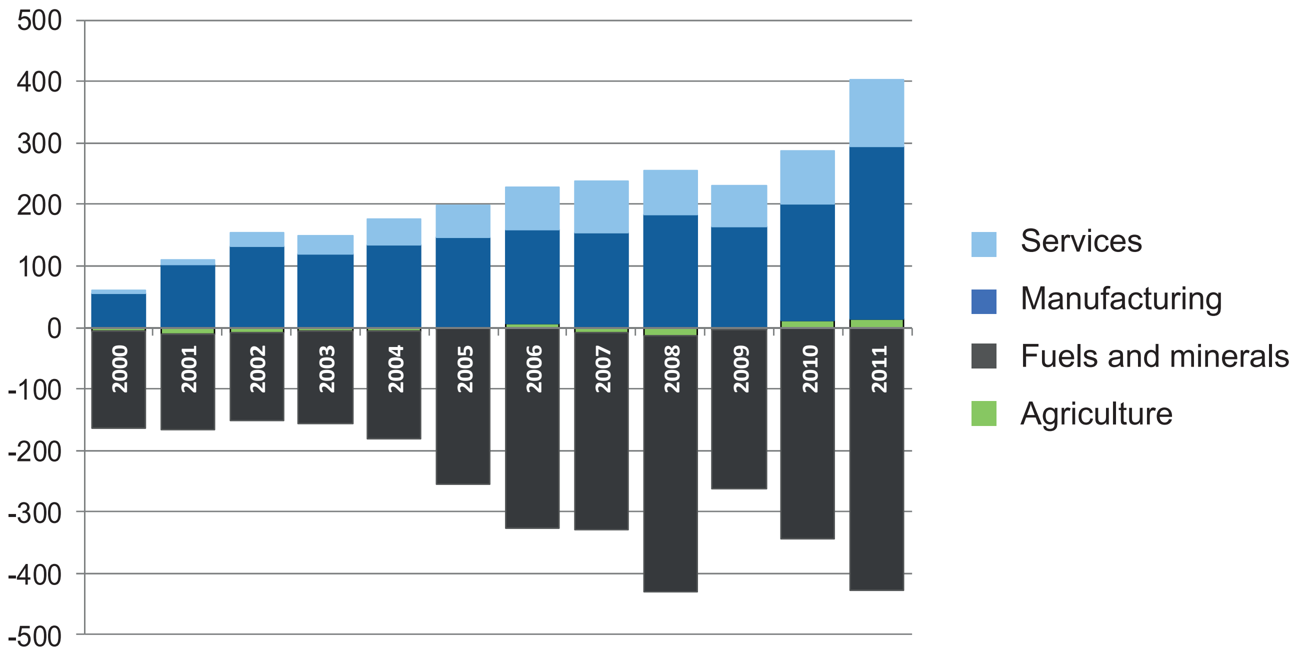
Merchandise | Services



Source: WTO

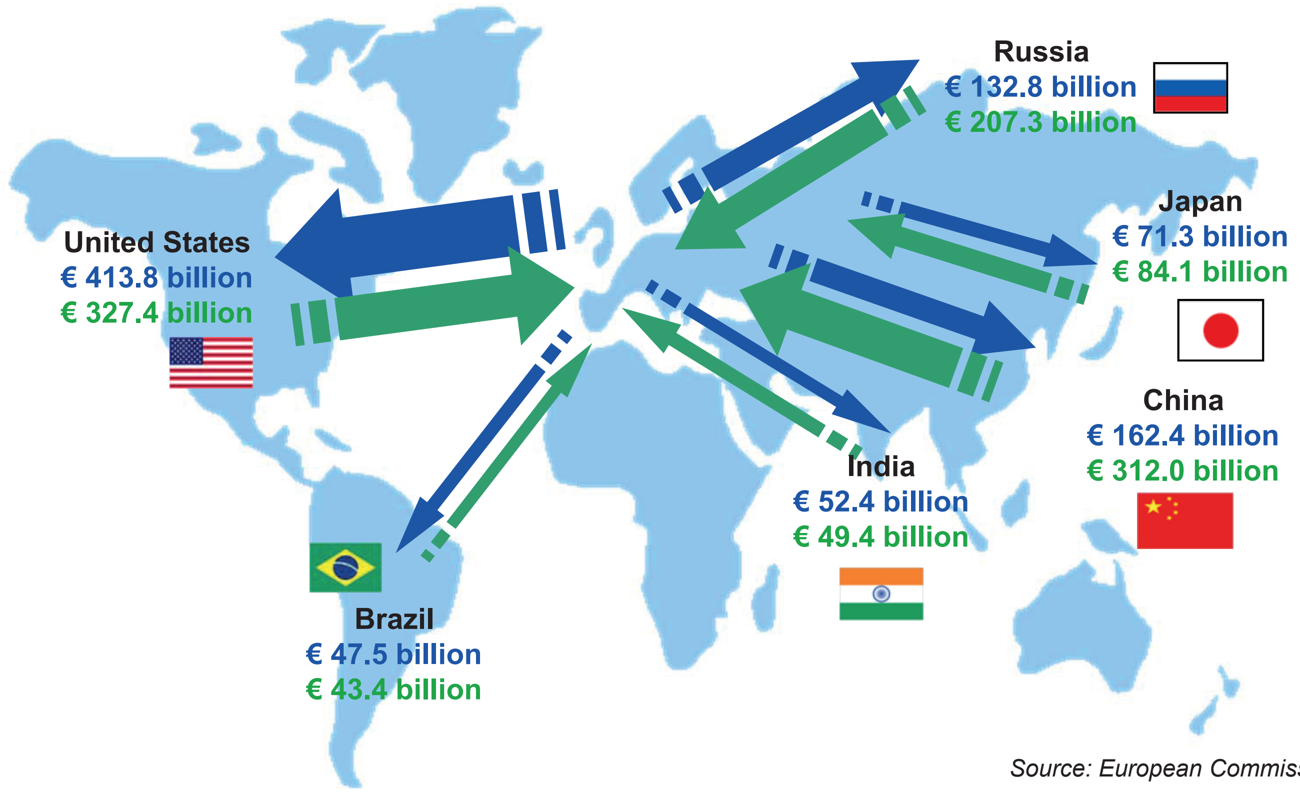
A growing surplus in manufacturing and services

(€ bn)



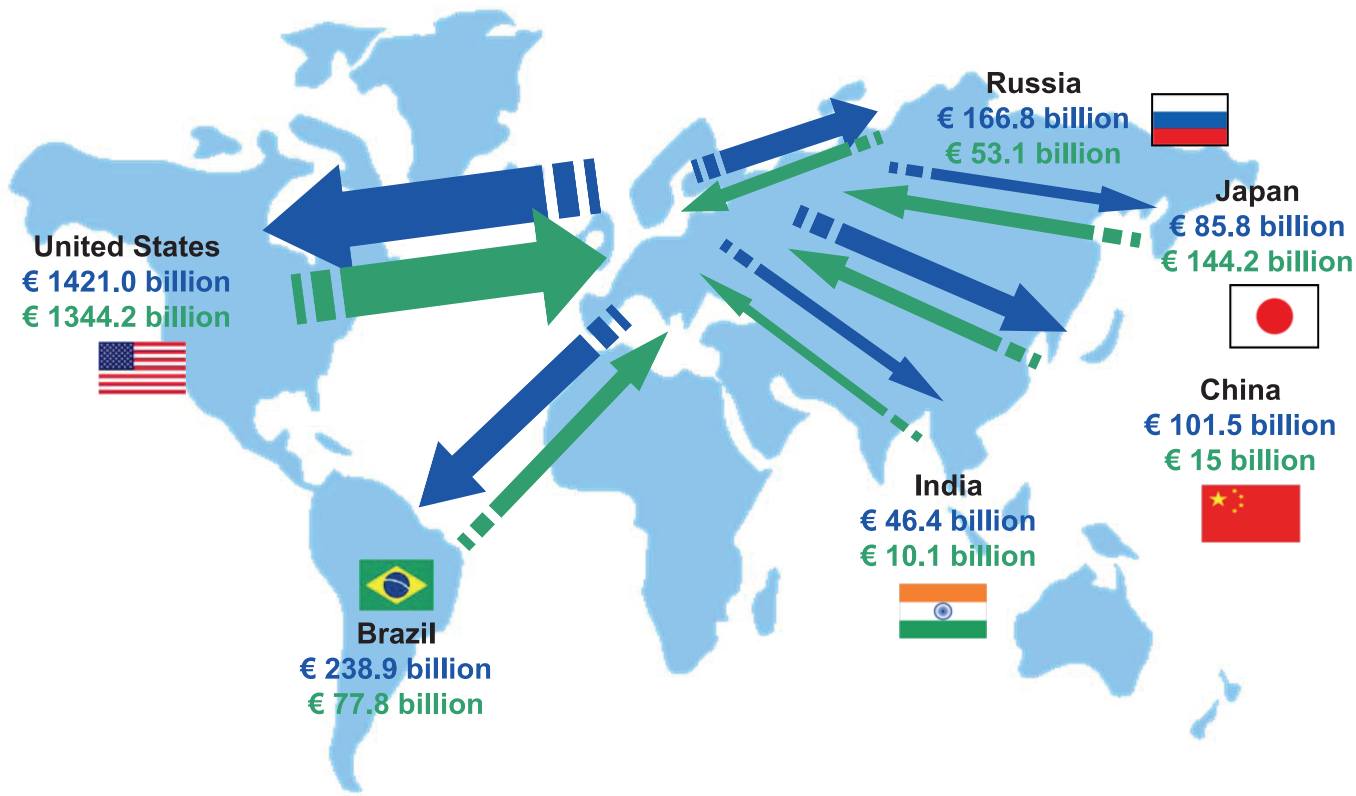
Source: European Commission

EU exports and imports in goods and commercial services with main partners (2011)



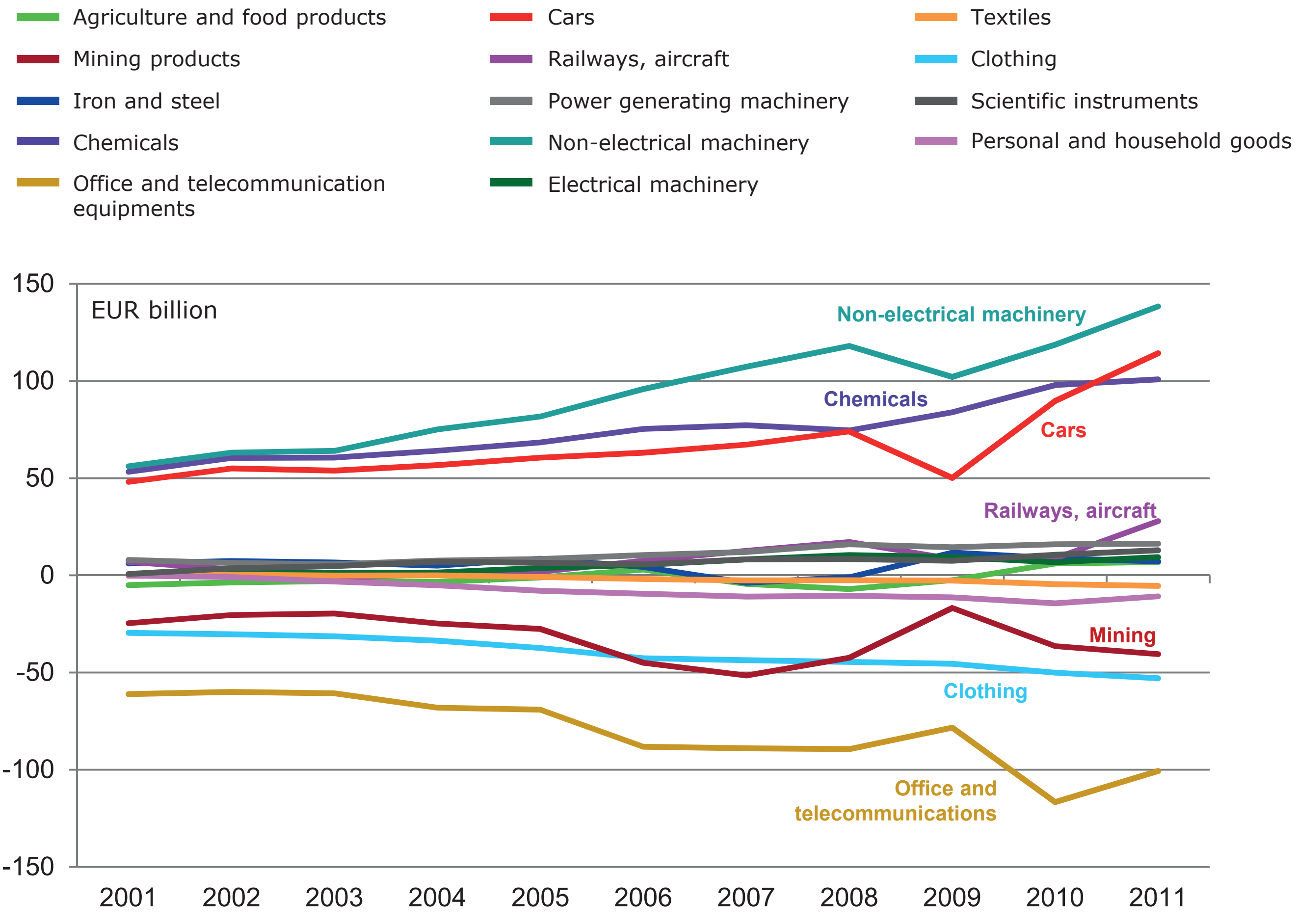
Source: European Commission

EU inward and outward investment stocks by main partner (2011)



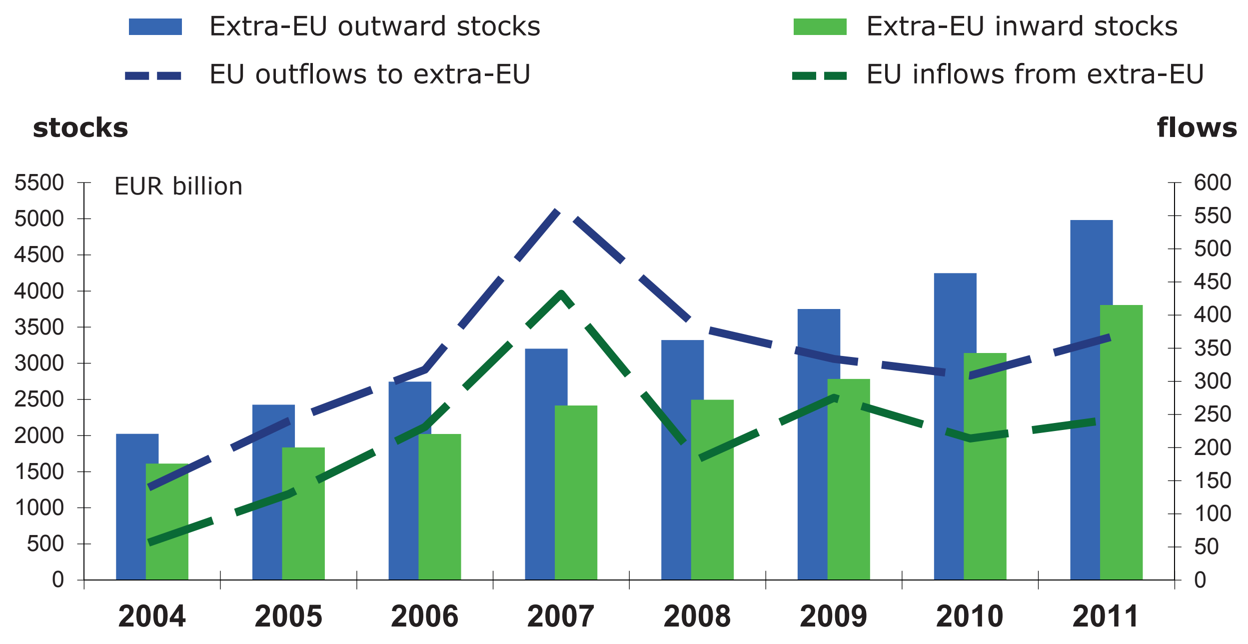
Source: European Commission

Different trends at sectoral level
(trade balance in € bn in selected sectors)



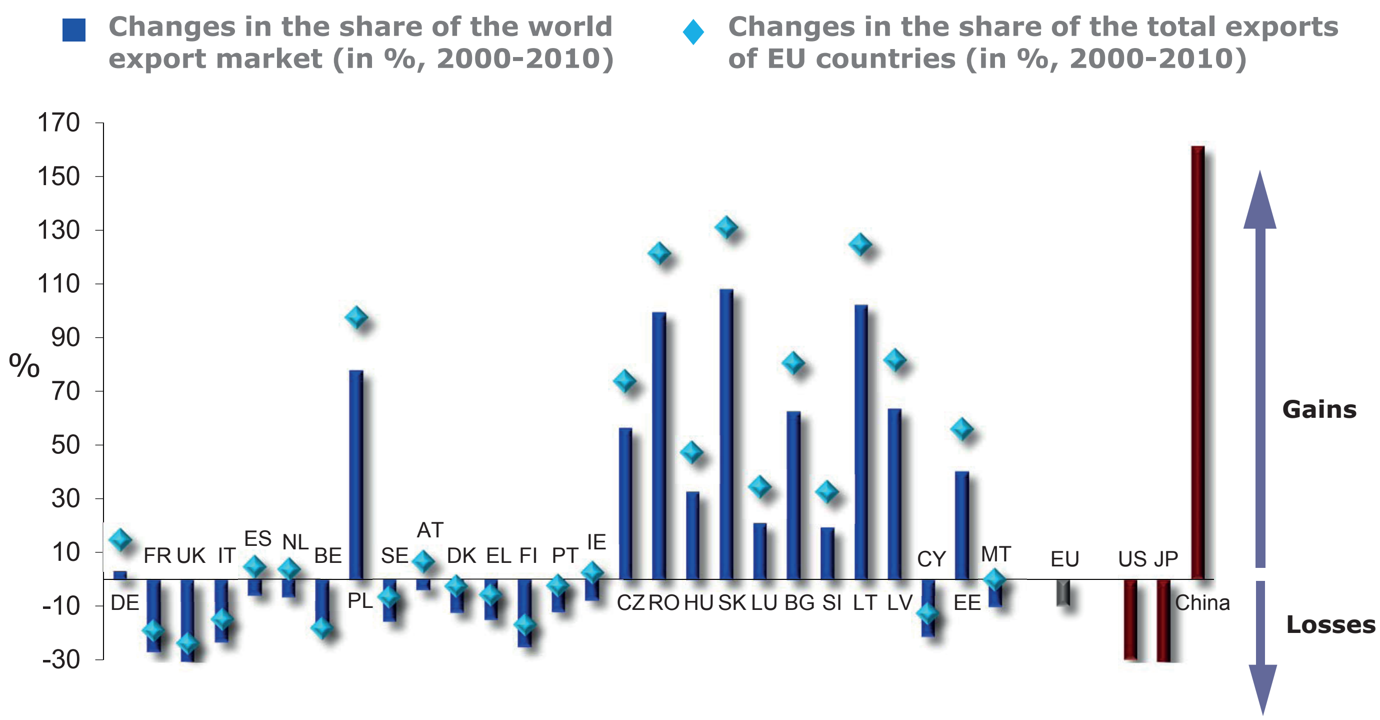
Source: European Commission

FDI is key for economic development – at home and abroad (in € bn)



Source: European Commission

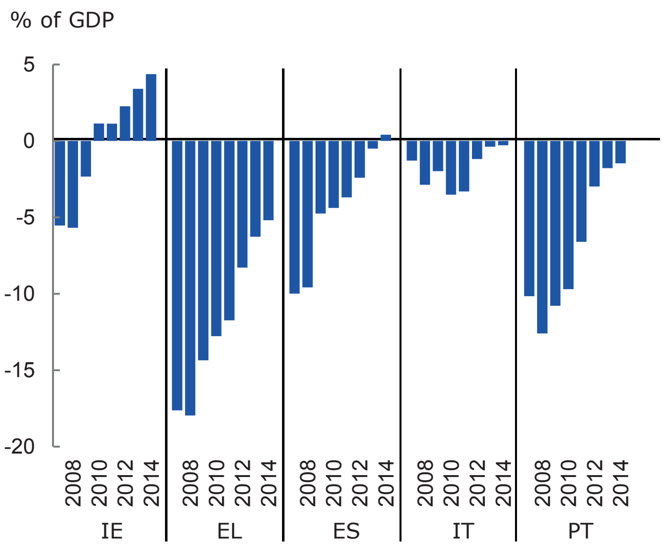
Export performance of EU Member States 2000-2010



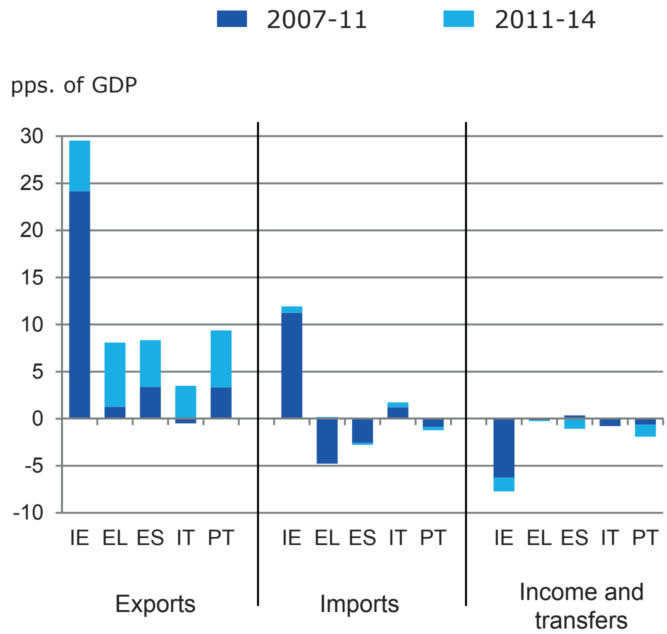
Source: European Commission

Imbalances are being corrected
(selected EU Member States)

Reduction in the current account deficit (2007-2014)



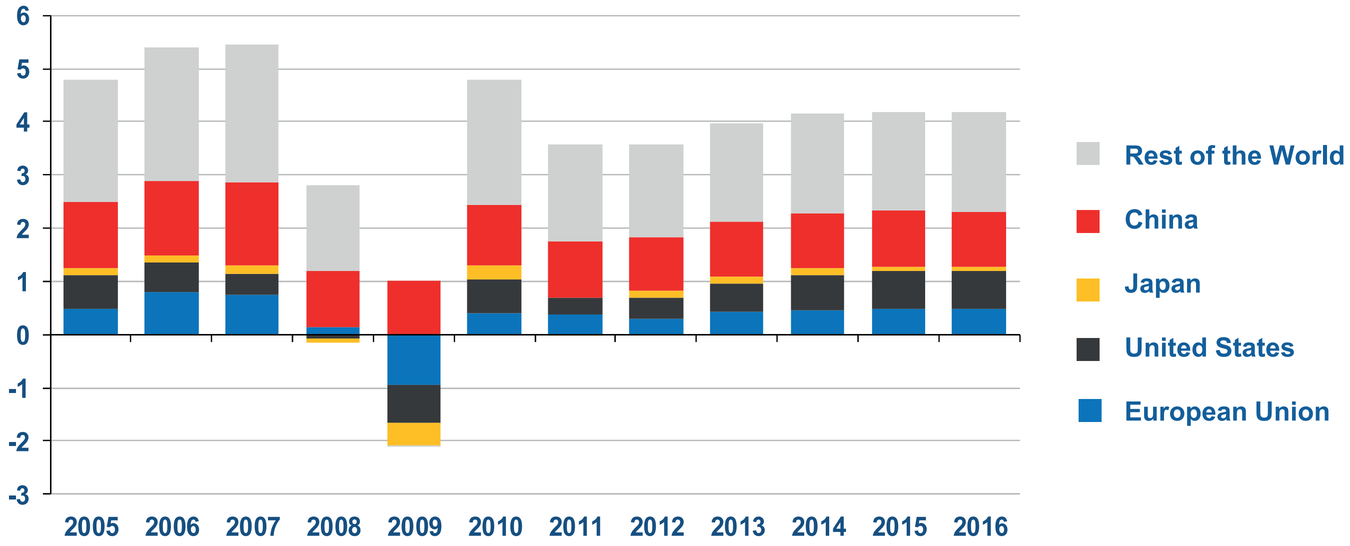
Changes in the composition of current account adjustment



Source: European Commission

4. The importance of trade for the EU

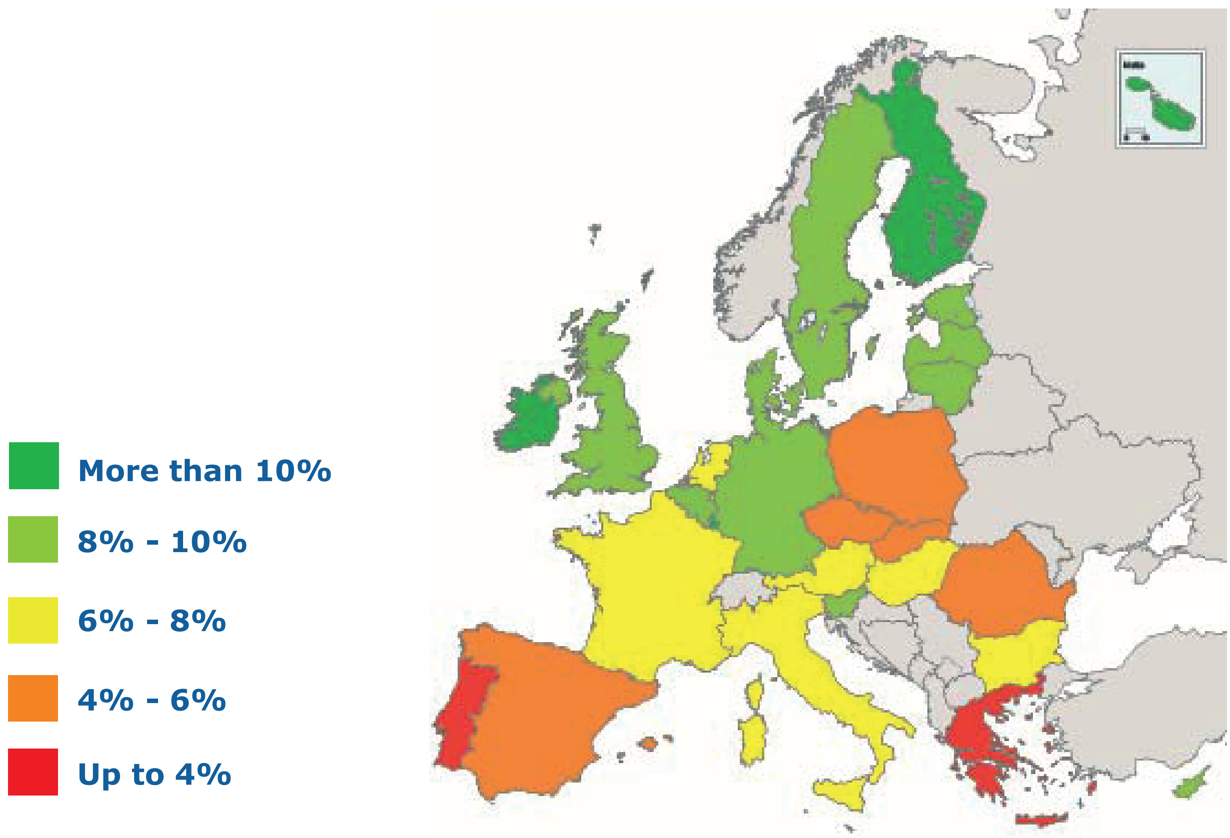
Contributions to world GDP growth (%): 90% of world-wide growth is generated outside the EU



Source: IMF, World Economic Outlook

Export-oriented employment in total employment: about 30 million jobs depend on trade outside the EU

(in %, latest available figures)



Source: European Commission

http://ec.europa.eu/trade