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EUROPEAN PARLIAMENT, THE EUROPEAN ECONOMIC AND SOCIAL  
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**GLOBAL EUROPE: COMPETING IN THE WORLD**

*A Contribution to the EU's Growth and Jobs Strategy*

**Impact Assessment Report**

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**IMPACT ASSESSMENT: COMMISSION'S COMMUNICATION ON "GLOBAL EUROPE:  
COMPETING IN THE WORLD"**

**Lead DG:** DG TRADE

**Agenda planning or WP reference:** 2006/TRADE/001

**EXECUTIVE SUMMARY**

**PROBLEM DEFINITION**

The purpose of this Communication is to set out how, in a rapidly changing global economy, we can build a more comprehensive and integrated set of policies to strengthen the contribution of external policies to European competitiveness.

We start from a situation where the EU is one of the most open markets worldwide but its leading trading partners are less open, sometimes significantly so. This implies that EU trade interests are first and foremost outward-looking in nature: the EU stands to win from the further opening of markets worldwide.

While still good mainly due to its ability to sell upmarket products, the EU industry's position on world markets is at risk due to the geographic orientation of its exports, which are strong in countries where demand is static but less well positioned in rapidly growing areas. In particular, the EU needs to decide how it is going to deal with the integration into the world economy of emerging countries and in particular China. There are essential conditions to fulfill at home to make the most of the changing external context and our own openness to trade. In particular, we must recognise the disruptive impacts of market opening for some, particularly for the less qualified and most vulnerable workers.

**MAIN OBJECTIVES**

(i) Improving access to markets and resources in third countries by addressing non tariff barriers to EU exports and investments; tackling export taxes and restrictions on access to resources; further strengthening the presence of EU companies in third countries through permanent establishment; delivering better market access in services.; opening public procurement markets; ensuring that positive changes induced by openness are not jeopardized by abuses of fair competition; securing IPR protection.

(ii) Improving Europe's capacity to benefit from openness to trade and investment by ensuring internal policies reflect global challenges; equipping people for change; ensuring the benefits of trade policy are passed on to consumers.

**POLICY OPTIONS**

In the case of no change in policies, the current trade agenda cannot fulfil all the objectives set out above. Even a success in the current negotiations in the WTO (Doha Development Agenda – DDA) will not address all the external competitiveness challenges we face. Bilateral negotiations already complement the DDA but have been only a partial answer to our needs. Indeed, we face structural difficulties in addressing non-tariff barriers either at multilateral or bilateral levels. On the internal side, there are already some efforts to take into

account the international context, but this is not as systematic as should be and international dialogues often take place after policy choices.

The second option is to propose new initiatives to improve access to markets and resources in third countries and Europe's capacity to benefit from openness to trade and investment. The overriding priority remains to achieve an ambitious, balanced and fair agreement to liberalise world trade and to keep WTO centre-stage. In parallel, it is necessary to consider our options for achieving additional market access and improvements in the business climate, particularly in our future major trading partners. A bilateral approach would allow the EU to liberalise tariffs further, to take non tariff measures better into account and to restore a level playing field with our main competitors on major markets. The Commission will also produce a strategy in the autumn on the EU-China relationship. It is likely to develop a clear roadmap for the coming years to deliver a more balanced relation between the EU and China. The importance on IPR protection enforcement will translate by a focus of Commission efforts on a small set of priority countries. The Commission will also consider presenting in the autumn a proposal for a new external procurement initiative targeting discriminatory procurement practices in the EU's major trading partners. A renewed market access strategy may identify key markets and key barriers to tackle with specific instruments. Trade defence instruments contain a degree of flexibility but might need to be reviewed in light of the new challenges posed by globalisation. The Commission will also place even more EU policy making in an international context for instance through "International reality checks". We recommend offering imaginative help with adjustment, public policies that support change and help change to happen. The Commission will examine how price decreases as a result of trade opening are passed on to consumers. Systematic monitoring of the evolution of import and consumption prices will for instance be put in place.

#### **WHAT IMPACT IS EXPECTED FROM THE COMMUNICATION?**

The Communication does not itself propose new instruments and policy measures. Rather it sets out a series of future initiatives for further work on a number of specific policy challenges that have been identified as crucial for the competitiveness of the EU economy. The impact of each future initiative will be detailed in specific impact assessments.

The positive contribution to growth and jobs in Europe of the initiatives set out above is ensured by their ability to respond to the challenges and objectives identified above. Some of the initiatives set out in the Communication directly tackle specific challenges but most of them address several challenges simultaneously. Conversely, specific challenges are tackled through several initiatives.

The positive contribution of these initiatives is ensured by the method proposed in this Communication. The added value of the renewed market access strategy will be to identify and prioritise sectors and markets where the removal of trade barriers would create the greatest gains for EU exporters. Such focus of efforts on main economic interests will also be a key dimension of other initiatives e.g. as regards IPR protection and public procurement. The selection of FTA partners would also be framed by economic criteria in view of maximising EU economic interest as well as by a case-by-case analysis of the potential partners' actual level of ambition and readiness to remove real obstacles to trade.

Three main instruments will be used to ensure regular reporting on progress made to tackle barriers in third countries and cross checking to ensure consistency between different instruments: (i) the renewed market access strategy should lead to a regular review,

announcement of priorities on key markets and key barriers to tackle with specific instruments and reporting on progress made; (ii) sustainability impact assessments undertaken for each specific negotiation (in particular of free trade agreements) and provide an evaluation of their likely effects; (iii) mechanisms will be put in place to monitor the results of new FTAs.

## **INTRODUCTION**

The Communication on “Global Europe: competing in the world” is a framework Communication proposing a way to respond to the challenges posed by globalisation. It sets out a number of concrete policy initiatives to improve the contribution of EU trade policy to growth and jobs in Europe as well as initiatives we should pursue at home to make the most of the changing external context and our own openness to trade. It gives an overall framework to specific initiatives which will be further developed through specific Communications, regulations proposals or request for negotiating directives. Each of these specific initiatives will be presented with a detailed impact assessment. As the present Communication only provides a general framework aiming at policy consistency between these different initiatives, the following impact assessment remains general in nature.

### **1. PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES**

#### **1.1. Stakeholder consultation**

In the process of preparing this Communication, the Commission engaged in a wide consultation with Member States, EU institutions, European business and other stakeholders on the basis of a “trade and competitiveness” issues paper:

- A workshop on trade and competitiveness in the framework of the Market Access Symposium in September 2005;
- A presentation at the public hearing on “The effects of globalisation on the Internal Market” organised by the Committee on International Trade of the European Parliament on 6 October 2005;
- A presentation of the “trade and competitiveness” issues paper at the conference “Contribution des régions à l'action de l'Europe dans le Monde” organised by Région Centre, Orléans, October 2005;
- Consultations with Member States between September 2005 and April 2006 (discussions in the 133 Committee with trade directors and in the European Policy Group with industry directors);
- A presentation on 18 January 2006 to representatives of the major manufacturing and services sectors such as ACEA (automotive), EUROMETAUX (Non-ferrous metals), CEFIC (Chemicals), EURATEX (Apparel and Textiles) and ESF (Services);
- Consultations with UNICE between January and April 2006;
- A presentation to the “Civil Society Dialogue” organised by DG TRADE on 8 March 2006.

Written contributions from Member States and European business were also received following these consultations. The comments received through the consultation were taken into account in the preparation of the Communication. The main conclusions of the consultation can be summarised as follows:

1. All stakeholders share very high expectations regarding the results of this work;

2. Although sharing the analysis of the Commission in the trade and competitiveness issues paper (e.g. market access as priority, our policy must facilitate access to inputs, etc.), some stakeholders (e.g. the European business) were critical as regards the results obtained so far by EU trade policy (multilateral, regional and bilateral level) and expected from the forthcoming Communication the presentation of clear orientations for future actions;
3. Internal EU policies and regulations with impact on the external competitiveness of the EU were identified as an important issue to be tackled in the Communication;
4. Regarding market access, business representatives requested more action at bilateral level, especially to tackle non-tariff barriers, notably towards emerging countries where both current barriers and future markets are located. Attention to be given to countries which have already or are negotiating free trade agreements (FTAs) with EU competitors and where we are losing market share.
5. Export restrictions, technical barriers to trade, Intellectual Property Rights (IPR) protection, obstacles to trade in services and public procurement were issues the EU should tackle as priority.

Specific consultations as regards each of the initiatives set out in the Communication (e.g. 7 July conference and workshops on the future of our trade and investment relations with China, discussions on possible FTAs with business federations, consultation on an external procurement initiative) were organised in parallel. These consultations are key to complement the general consultation on the Communication on “Global Europe: competing in the world” e.g. on practical implementation and/or cooperation issues (renewed market access strategy, external procurement initiative).

## 2. PROBLEM DEFINITION

One of the important features of the new Growth and Jobs Strategy has been to underline the external dimension to achieving our goals. The EU is the most open of the big economies in the world. It is the largest exporter of goods and services and the first investor abroad. Like the Single Market, the EU’s ever greater openness to trade and investment has been a major “catalyst of growth” over the last period<sup>1</sup>. Alone, it explains a quarter of the productivity gains witnessed across Europe, owing to greater competition, better specialisation based on comparative advantage, innovations generated by greater competition, the technological content of foreign imports and investments, and increased economies of scale. In many sectors (such as textiles or automotive), extra-EU liberalisation has been a major factor in reinforcing competitive disciplines in the EU economy, even compared to the effects of internal liberalisation.

An effective policy to foster competitiveness must link internal and external policies. Internal policies like competition, research and development, innovation, education and cohesion policy exert a strong influence on the capacity of EU companies to compete internationally.

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<sup>1</sup> See for example estimates in Cortes O. & Jean S. (1997), « Commerce international, emploi et productivité », *Travail et Emploi*, n°70. Hine R. C. et Wright P. (1998), “Trade with Low-Wage economies, Employment and Productivity in UK Manufacturing”, *The Economic Journal*, vol. 108, n° 450

The completion of the Internal Market is a critical platform for EU exports. A strong and competitive home market is a pre-condition for the development of strong global players based in Europe. Harmonising regulatory approaches inside the EU is essential to addressing these issues and defending our interests abroad.

The purpose of this Communication is to set out how, in a rapidly changing global economy, we can build a more comprehensive and integrated set of policies to strengthen the contribution of external policies to European competitiveness. It stresses the need to integrate further our internal and external policies, adapt the tools of our trade policy to new challenges and create new market opening around the globe. This is one of the main challenges identified in the Citizens Agenda Communication of 10 May 2006<sup>2</sup>.

## 2.1. Strengthening trade policy's contribution to growth and jobs

Trade policy can have a positive impact on competitiveness by ensuring that:-

- **The domestic market is sufficiently open to provide cheap inputs and allow healthy competition vis-à-vis the rest of the world, as well as to stimulate technical progress.** Border measures should not needlessly raise production costs for the EU industry through tariffs or non-tariff barriers (NTBs) on its inputs (raw materials, but also intermediary goods, parts and components and services) which would put European producers at a disadvantage. Border measures should also not shelter industries from the benefit of the introduction of more competitive disciplines, itself a key effect of trade openness. Regulatory measures should not deter foreign direct investment (FDI), which is a key provider of jobs, skills and technologies.
- **Domestic producers have adequate access to third markets,** which is the basis for better specialisation, economies of scale and the contribution of exports to growth. Market access restrictions encompass tariffs on goods, but also non-tariff barriers and non-traditional, behind-the-border restrictions on goods such as norms and standards, restrictions on competition or discrimination in public procurement. The same applies to services and investment, The latter is also an essential complement to the export of goods and services. All these restrictions carry a direct effect on competitiveness both directly through the possibilities afforded to our exporters to sell their products abroad and indirectly through the economies of scale generated by the increase in volumes of sales.
- **Anti-competitive practices do not distort or undermine resulting trade.** Trade policy should also ensure that the positive changes induced by openness are not jeopardised by abuses of fair competition.

The situation we start from:

- **The EU's open trade regime clearly helps EU competitiveness.** Reducing its own barriers has been a policy the EU has consistently followed since its inception. For example, the dramatic reduction of tariffs on industrial products during the successive GATT "rounds" and successful sectoral dismantling such as the Information Technology Agreement covering almost the entire IT sector, of which the EU was one of the major instigators. The borders of the EU are now largely open to trade, the only significant

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<sup>2</sup> "A Citizens' Agenda - Delivering Results For Europe", Communication from the Commission to the European Council, COM(2006) 211, 10/05/2006



exceptions are in certain sectors of agriculture. There is no real restriction to inward investment. There are only limited pockets of distortions regarding inputs for basic industrial products (but there are important restrictions on access to resources in certain third countries). They are already partly addressed with tariff suspensions and quotas and likely to be reduced or even removed within the WTO negotiations. Regarding anti-dumping duties, they do not appear to lead to significant costs to downstream industries even when they are applied to products which are used as inputs. In any event, the “Community interest” clause is systematically applied to avoid anti-competitive impacts – albeit it may need to be reviewed to fully reflect the evolution of the world economy and EU interests at stake. The same applies to services: while measuring restrictions is more difficult here than for goods, the general conclusion is that there are no costly restrictions to the foreign supply of business related services.

**There are some exceptions to this picture in the agricultural sector**, where some significant inputs for the EU food industry, such as sugar or dairy, are still highly protected. This is not a special European feature, however, as indicated by a comparison with the US and Japan. Neither is it the only factor of competitiveness for the EU food industry: marketing, distribution, brand positioning and the degree of consolidation within the industry are also important in determining competitiveness. Besides price considerations, the quality of agricultural inputs is also a key element for the competitiveness of processing industries. The actual impact of the additional cost induced by the protection of inputs may thus be limited for highly differentiated products, but is not negligible for producers of less sophisticated manufactured goods. Tariff escalation and the protection given to processing industries partly compensate for this disadvantage on the domestic market, while export refunds (likely to be phased out) serve the same purpose on third markets. Globally speaking, despite some of the problems mentioned above, the EU processed food industry is considered to be highly competitive with strong domestic and international brand names and quality recognition.

- **Addressing barriers to EU exports in third countries accounts for the bulk of the potential to improve the competitive position of the EU industry.** The EU is one of the most open markets worldwide. Its leading trading partners are less open, sometimes significantly so. This implies that EU trade interests are first and foremost outward-looking in nature: the EU stands to win from the further opening of markets worldwide.

Both the analysis and our experience of running the Market Access Strategy over the last decade show that there are still substantial access restrictions to third markets, due to both tariffs and non-tariff barriers, which include core NTBs but also non-traditional, behind-the-border practices limiting access for EU goods, services and FDI. The protection of intellectual property rights is essential in this respect. Geographical indications (GIs) are, for instance, of high importance to EU exporting interests in wines, spirits, beers and other agri-food products, given the high degree of usurpation of EU GIs on third markets. Public procurement is another example where national preferences are a major impediment to market access: it is probably the biggest trade sector sheltered from multilateral disciplines and it represents between 10% and 25% of GDP, often reserved to domestic goods or suppliers.

- **International rules for ensuring fair competition are insufficient.** The absence of international rules of competition is both a limit to market access in third countries where private barriers are often substituted for tariffs or traditional non-tariff barriers and an open door for predatory practices of foreign exporters on the EU domestic market. Trade

defence instruments (TDIs), especially anti-dumping and anti-subsidy measures, are precisely designed to correct such distorting practices. While this is the purpose of EU TDI policy, European producers are often adversely affected in third country markets by WTO-incompatible anti-dumping investigations and measures. This is all the more important because anti-dumping use by third countries, especially developing countries, is on the rise, and the severity of US measures continues unabated despite numerous WTO rulings.

- **EU trade shows a good export performance in upmarket, high-quality products, but this performance is at risk<sup>3</sup>.** The EU industry's position on world markets is still good mainly due to its ability to sell upmarket products (products which sell at a higher price owing to quality, branding and related services). This is not just anecdotal. It is a striking fact that upmarket products now account for about half of European exports and a third of world demand. This is the case not only for consumer goods, but for the whole range of EU specialisation, including intermediary goods, machines and transport equipment. It actually reflects a new form of "vertical", qualitative, intra-sectoral international division of labour, according to the level of product range, that distinguishes itself from the classical "horizontal" inter-sectoral specialisation. The challenge now is not only to trade Airbus planes for T-shirts, but increasingly to trade similar products within the same sector, where European firms prosper as a result of their products' distinctiveness and quality. For example, parts of Europe's textile industry remain very competitive. Globally, the EU ranks in second place just behind Japan but ahead of the US: upmarket products account for 52% of Japanese exports and 48% of European exports, but for only 41% of US exports. On the other side, they still account for less than 15% of Chinese exports. This is an unstable equilibrium, however, and the EU position is at risk, because the European industry is losing ground in high technology products. It is trailing behind in several high tech products whereas countries such as China are rapidly catching up, even if this in turn is in part an optical distortion: whenever an EU or US company has its most recent invention assembled in Asia, this appears as an Asian trade gain and our loss. Maintaining the EU's ability to sell expensive top-of-the-range products is not just a matter of technological advance, as stated above. The quality of products, their reputation, their continuity over time and their related services are all decisive factors in determining prices. However, innovation remains a key component of this picture.

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<sup>3</sup> CEPII (2004), *European industry's place in the International Division of Labour: situation and prospects*.

**Table 1: Contribution to Trade Balance for high technology products by quality in 2003**

	Quality	EU25	USA	Japan	Korea	Russia	India	China
High technology	<b>all</b>	<b>-12.7</b>	<b>28.9</b>	<b>3.7</b>	<b>29.5</b>	<b>10.9</b>	<b>-44.4</b>	<b>-8.9</b>
	not classified	<b>-4.0</b>	4.1	-0.4	-0.3	-0.2	-0.9	-3.5
	<b>Low-market</b>	<b>-11.4</b>	3.5	4.2	3.7	6.2	-17.8	38.8
	<b>Mid-market</b>	<b>-2.0</b>	6.7	6.1	7.8	-2.0	-7.1	-15.4
	<b>Up-market</b>	<b>4.8</b>	14.6	-6.1	18.4	6.8	-18.6	-28.7
Others	<b>all</b>	<b>12.7</b>	<b>-28.9</b>	<b>-3.7</b>	<b>-29.5</b>	<b>-10.9</b>	<b>44.4</b>	<b>8.9</b>
	not classified	<b>0.6</b>	<b>17.7</b>	-9.9	0.0	13.4	8.5	-33.3
	<b>Low-market</b>	<b>-45.2</b>	<b>-50.6</b>	<b>-23.1</b>	<b>71.2</b>	7.8	<b>90.9</b>	<b>144.0</b>
	<b>Mid-market</b>	<b>-13.8</b>	-1.4	<b>24.0</b>	-26.9	<b>41.3</b>	<b>-36.7</b>	-41.6
	<b>Up-market</b>	<b>71.1</b>	5.5	5.2	<b>-73.7</b>	<b>-73.3</b>	-18.3	<b>-60.2</b>

**Note:** when quantities are not available the breakdown by quality ranges is not possible.  
**Source:** UN Comtrade – Calculation by CEPII (2006), report for DG Trade.

In the mid to long term, the EU position is also at risk due to the geographic orientation of its exports, which are strong in countries where demand is static but less well positioned in rapidly growing areas. This is particularly true compared to the Japanese and US exports. For example, while the EU conducts less than half of its trade with the ten markets which accounted for 93% of the growth in world imports between 1995 and 2002, that share is significantly higher for the US and Japan, with 79% and 76% respectively. Conversely, the EU is more oriented towards the least dynamic markets, which accounted for a negative contribution of 5% of the growth of world imports during the period. It runs the risk of missing market opportunities in dynamic areas which already account for the bulk of world import growth.

**Table 2: Share of most/least dynamic markets in EU, US and Japan exports**

	% of total exports going to the most/least dynamic markets			Contribution to the rise of world imports
	US	Japan	EU25	1995-2002
On 10 most dynamic markets*	79%	76%	48%	93%
On 20 least dynamic markets**	8%	12%	13%	-5%

\* In decreasing order, in absolute amounts (exporting country excluded): US, EU25, China, Canada, Mexico, India, South Korea, Turkey, Australia, Japan, and Taiwan

\*\* In decreasing order, in absolute amounts: Venezuela, Colombia, Argentina, Brazil, Peru, Chile, Iceland, Albania, Macedonia, South Africa, Gabon, Pakistan, Kirghizistan, Russia, Byelorussia, Brunei, Indonesia, Thailand, Hong Kong, Singapore

Source: Chelem data base

- Coping with the integration into the world economy of emerging countries and in particular China represents the decisive challenge for the EU. China has become the world 4<sup>th</sup> economic power in 2006 and the world third exporter. Regarding most of the challenges that the Communication tends to address China is central: from market access, to IPR protection; from EU capacity to stand international competition to its ability to cope with structural adjustments. While it should not blind us to wider challenges linked to other emerging markets, China is the biggest single challenge of globalisation in the trade field

and a test for our capacity to make globalisation an opportunity for jobs and growth. Europe must get China right, as a threat, an opportunity and prospective partner.

## 2.2 Joining up internal and external policies

There are also essential conditions to fulfill at home now to make the most of the changing external context and our own openness to trade.

- The internal market must take full account of the new environment created by increased openness to trade and investments for EU industry to benefit from the global economy. As we focus trade policy more clearly on its contribution to jobs and growth in the EU, so we must ensure our internal policies are sufficiently outward-looking to serve our economic interests<sup>4</sup>.
- We must also recognise the disruptive impacts of market opening for some, particularly for the less qualified and most vulnerable workers. These structural changes are not new, but the speed and depth of the transformations we are seeing pose a new challenge. We have not been successful enough in anticipating the effects of trade opening. Textiles are a good example. Although some regions and countries managed the end of textiles quotas relatively smoothly, others did not.
- We have also not been successful enough in ensuring the benefits are passed on to consumers. Again, in textiles, the benefits of lower prices, as a result of increased trading openness, were not passed on to consumers. While certain Member States, such as the UK, have seen large price falls, others have seen price stability and certain markets, such as Spain and Italy, have even seen price rises.

## 3. MAIN OBJECTIVES

### 3.1. Improving access to markets and resources in third countries

- **Addressing non tariff barriers to EU exports and investments.** Tariffs still matter, in particular in advanced developing countries, and the EU should continue to push for their removal. But tariff reductions are of little use if the market remains closed by e.g. public procurement regulations, State induced competition distortions<sup>5</sup>, excessive sanitary and phytosanitary (SPS) requirements, the variety of conformity assessment procedures used for the same product or customs controls or if exports are unprofitable due to specific norms which must be adopted. We need to look at the whole operating environment in third countries and reduce the barriers and transactional costs derived from the fragmentation of the productive processes. Regulatory barriers to trade and investment are a major challenge for several key sectors, including services, food, cosmetics, pharmaceuticals, building materials, medical devices and motor vehicles and they are still of direct relevance for chemicals, textiles, tyres, electric and mechanical engineering. Although it is legitimate and necessary to regulate trade in products and services, this has

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<sup>4</sup> See the Communication from the Commission to the European Council of June 2006 "Europe in the World – Some practical Proposals for Greater Coherence, Effectiveness and Visibility"

<sup>5</sup> The EU State aid rules allow Member States to grant aids only when this is duly justified by a public interest (market failure or equity objective), thereby holding them back from using aids as a means to protect national companies. In most foreign States there is no similar self-imposed discipline, but also no transparency as to the aids granted. In an increasingly competitive worldwide environment, it is necessary to make sure that European firms don't suffer from unfair foreign subsidisation practices.

to be done in a way which is transparent, non discriminatory, justified and proportionate to the ultimate objective.

- **Tackling export taxes and restrictions on access to resources** such as energy, hides and skins, metals primary raw materials and scrap as well as certain agricultural raw materials. The dependence of EU industries on imports from third countries means they need better access to raw materials to compete on a fair basis. The EU imports half of its energy needs and this could increase to 70% in the next 20/30 years. Dependency on gas, imported mainly from three suppliers, could increase to even 80%. As regards ores and concentrates, the EU imports more than  $\frac{3}{4}$  of its needs in iron ore, bauxite, copper ores or lead ores. And while scrap metals are at the core of EU metals industries' competitiveness, the EU non-ferrous metals industries faces serious problems in gaining access to scrap metals at competitive price because of measures taken by some of the EU's biggest trading partners to secure their own supply of raw materials. Such restrictive measures seriously undermine the competitiveness of EU industry on the domestic market and worldwide – not only in countries which apply the restrictions. Unless they are justified by security or environmental reasons (e.g. the Basel Convention on exports of dangerous waste, the Montreal Protocol on substances which deplete the ozone layer, or unilateral export bans for dangerous products that are banned in the territory of a country), all restrictions on access to resources should be eliminated. It is also essential to ensure access to networks.
- **Further strengthening the presence of EU companies in third countries through permanent establishment.** A “physical” presence in a foreign country facilitates the access of EU companies to business opportunities; adds predictability to the flow of trade; and consolidates the image of the firm, and that of the country of origin. There is growing evidence that higher investment leads to an increase in trade flows. As supply chains become increasingly globalised, the ability to invest freely in third markets becomes also more important. Investments need a predictable, transparent, non-discriminatory and secure business climate.
- **Delivering better market access in services.** Services are a key variable of the competitiveness equation. They represent 77% of GDP and employment in the EU. This is where EU exports have the highest potential for growth. Because of the linkage effects to the wider economy, gradually liberalising and facilitating international trade in services, in particular more efficient services — in finance, telecommunication, distribution, environmental, transport, construction, professional and business services — is important to improve the performance of the whole economy because they have broad linkage effects. Purchases of services by industry often account for two thirds of industry value-added. Dynamic gains are likely to stem from it: see, for instance, the effect of a service like telecommunications in terms of knowledge diffusion. Liberalisation of services related to trade in goods (transport, logistics, and distribution) is also essential. EU service producers are strongly competitive on world markets and therefore stand to gain from international market opening. The EU, for example, boasts the three largest firms in construction services worldwide, six out of the top ten global companies in telecommunication services, and similarly in distribution, finance, insurance, transport and environmental services. But they are prevented from providing their services in many parts of the world. The EU should push market opening in sectors where it has a comparative advantage and where market access is hindered or where few commitments have been made so far by third countries.

- **Opening public procurement markets.** This is an area of enormous untapped potential for EU exporters. EU companies are world leaders in many areas such as transport equipment, public works and utilities. Almost all the EU's major trading partners operate discriminatory procurement practices which impede the fair participation of EU suppliers in national procurement markets. As a result, European exporters see themselves effectively shut out from important exporting opportunities. This is probably the biggest trade sector sheltered from multilateral disciplines as it represents between 10% and 25% of GDP of partner countries. It is vital for sectors such as construction or engineering.
- **Ensuring that positive changes induced by openness are not jeopardized by abuses of fair competition.** The EU uses trade defence instruments to defend European interests against unfair trade. These rules are part of the international trading system. They have proved their value in the past and must continue to do so. We do not seek to roll back the comparative advantages of our partners, but we will take action where those advantages are topped up by unfair practices such as anti-competitive pricing behaviours or State induced distortions. At the same time, European producers are often adversely affected in third country markets by WTO-incompatible anti-dumping, anti-subsidy and safeguards investigations and measures, which cancel out the benefit of the market access obtained in these countries. We will continue to seek to address these practices through the WTO. Where appropriate, we will make use of the multilateral dispute settlement procedures in the WTO to remove foreign practices which unduly distort competition. Third countries should have the same high standards as we do in their use of trade defence instruments. Finally, we must ensure that our trade defence instruments effectively serve our interests in an increasingly complex global market.
- **Securing IPR protection.** Market access is of little value if exports are a high-risk business due to lack of IPR protection. IPR violations deprive right-holders of the revenue of their investment and ultimately put at risk the viability of the most innovative and creative companies. The challenge lies mainly in enforcement of commitments. In many countries, IPR rules are satisfactory, but their enforcement presents serious deficiencies. European companies are not always aware of the risk they take by doing business with certain countries and do not know what to do when they find that their equipment is copied (e.g. China). Given the high degree of usurpation of EU geographical indications (GIs) on third markets, the protection of GIs is important for EU exporting interests, including in particular for wines, spirits, beers and other agri-food products.

### 3.2. Improving Europe's capacity to benefit from openness to trade and investment

- **Ensuring internal policies reflect global challenges:** Ensuring that external considerations are taken into account when setting key internal policies is not simply about ensuring WTO compatibility. It is about factoring international considerations into our policy-making process from the outset. Our objective should be to ensure greater consistency in rules and practices between the EU and its main developed and emerging partners by sharing our practices, influencing international norms and by taking early account of the external dimension in our own policy making. This is a "better regulation" criterion, which will serve our export interests and help attract foreign direct investment.

We must also make sure that competition policy contributes to creating a global level playing field for Europe's industry. This means factoring in our partner's analyses and behaviours. The Commission has to protect European businesses and consumers from the harmful effects of global cartels, monopolies and restrictive practices. This may be

achieved through unilateral application of our merger and antitrust enforcement tools to restrictions of competition with effects inside the EU. But in addition it is necessary to export (the European model of) competition policy to other jurisdictions and to promoting the convergence of approaches to competition policy to ensure that the competition policies of third countries do not have the effect of raising new barriers to trade.

- **Equipping people for change:** Actively managing change is essential to seizing the benefits of globalisation. Building barriers to keep low-productivity jobs in Europe would be a recipe for decreasing wages, locking people into unsustainable jobs. But while the process of market opening is good overall for growth and employment, it brings about transformations which are disruptive for some. This can be a hidden form of redistribution that should be addressed for reasons of social justice, economic efficiency and politics. While the costs of change are limited at an aggregate level they are felt strongly in the specific areas they occur. The benefits, while greater, are often less visible, more diffuse and longer-term. This asymmetry feeds opposition to market opening. There are also economic arguments for action. Policies which anticipate change help minimise the costs, facilitate and accelerate transitions (for example by limiting duration of unemployment or the scope of wage losses), and ensure that market opening can effectively take place.
- **Ensuring the benefits of trade policy are passed on to consumers:** It is necessary to ensure that the positive effects of trade opening benefit all consumers and are not captured by specific interests. There may be several reasons for differences in the translation of lower import prices into consumer prices following textiles liberalisation<sup>6</sup>. It is likely that market power exercised by the domestic trade and distribution sectors in some Member States has allowed them to capture at least part of the benefits of trade liberalisation, that regulatory barriers have caused the retail sector to remain fragmented and un-competitive or that rigidities remain as a result of a comparatively slower adoption of new technology in these sectors in certain Member States. In any case, it is the Commission's responsibility to ensure that the positive effects of trade opening benefit all consumers and are not captured by specific interests.

## 4. POLICY OPTIONS

### 4.1. Option A: no change

**The current trade agenda cannot fulfill all the objectives set out above:**

- **The current negotiations in the WTO (Doha Development Agenda – DDA) have a lot to provide** in terms of tariffs, non tariff barriers (especially export taxes), services, GIs and rules (especially anti-dumping disciplines and trade facilitation). They should be resumed as circumstances allow. But it is clear that even a successful DDA will not address all the external competitiveness challenges we face. It is in particular difficult to obtain improvements in market access in major emerging countries on the scale we seek within the DDA due to the gap between their bound and applied tariffs<sup>7</sup> and the special and

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<sup>6</sup> Benefits that consumers expect from the goods they buy aren't limited to the price : consumers also care about the quality, safety, fashion or service component, brand, environmental impact of the goods they buy, and which orientate their purchasing decision. Public authorities have a key role to play in fighting counterfeiting and piracy in order to have only safe and reliable goods on the market.

<sup>7</sup> The difference between the level of *ad valorem* equivalent (AVE) bound and MFN tariffs, known as the "binding overhang", is important in determining how the liberalisation of bound tariffs would pass

differential treatment (legitimately) afforded to developing countries. The final outcome on goods, services, GIs and rules on anti-dumping will not fully meet the ambitious objectives we set at the launch of the Round. Some key issues also remain outside the negotiations, either having been removed (investment, public procurement, competition) or because they cannot properly be dealt with at the multilateral level (e.g. regulatory issues, IPR enforcement).

- **Bilateral negotiations already complement the DDA but have been only a partial answer to our needs.** The current geography of EU free trade agreements (FTAs) mainly covers our neighbourhood and development objectives well, but our main trade interests less well. The content of these agreements also remains limited: they may deliver on market access commitments but even an advanced agreement like the EU-Chile FTA does not present major progress in areas such as IPR, subsidies, SPS or TBT. During that time, several of our main trading partners and priority targets have been negotiating FTAs with our competitors (e.g. ASEAN members with Japan or Korea with the US). There is a growing risk of trade diversion detrimental to the EU in the most dynamic countries. Even an ambitious outcome of the DDA will not restore a level playing field and in many cases will not be sufficient to cancel out the resulting protection differential in both tariffs and non-tariff measures. On investment, for example, the US and many of our developing country partners are engaged in negotiating investment bilaterally having refused to do so in DDA. The EU would be putting itself at a disadvantage if we did not seek to improve investment conditions in our bilateral negotiations.
- **We face structural difficulties in addressing non-tariff barriers either at multilateral or bilateral levels.** Although non-tariff, behind-the-border issues are increasingly important, they are still largely outside the core business of trade policy. It is more complicated, technically challenging and resource-demanding to detect, analyse and remove these barriers than in the case of tariffs. SPS, TBT and TRIPS agreements in the WTO provide a framework which is essential but not sufficient. Current instruments (e.g. mutual recognition agreements, TBT and SPS notification procedures, international standardisation, and regulatory dialogues) are useful. There has been some real progress on SPS issues and more attention is being paid to IPR enforcement, but this remains insufficient (although we are starting to tackle them more decisively with the neighbouring countries). In many cases, we lack the leverage to push discussions forward. This applies to regulatory issues such as TBT, SPS or IPR but also to other more classic trade issues such as public procurement. In the latter case, the EU is reaping considerable benefits from having one of the most open and competitive procurement markets in the world. However, thanks in large part to this openness, we constantly find it difficult to obtain satisfactory, reciprocal commitments from our trading partners, be it at multilateral or bilateral level.
- **On the internal side, there are already some efforts to take into account the international context** (e.g. the role of impact assessments or the development of international regulatory dialogues), but this is not as systematic as should be and international dialogues often take place after policy choices. There have been for a long time mechanisms to manage change but they lack of anticipation's capacity and are not sufficiently related to changes in the international environment. Neither are they properly

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through applied tariffs. For most developing countries, the binding overhang is high in agricultural products, generally exceeding 20% on average, and approaching 50% in ASEAN countries for instance. See Bchir, Jean and Laborde: Binding overhang and tariff-cutting formulas, CEPII Working Paper N° 2005-18, October 2005.



adapted to absorb unexpected shocks. Finally, there is no systematic commitment to ensure that the benefits of openness are effectively passed on to consumers.

As already indicated, one of the main result of the consultation was that although sharing the analysis of the Commission on the conditions to improve Europe's competitiveness and the priorities identified, some stakeholders (e.g. the European business) were critical as regards the results obtained so far and expected from the forthcoming Communication the presentation of clear orientations for future actions.

#### **4.2. Option B: Initiatives to improve access to markets and resources in third countries and Europe's capacity to benefit from openness to trade and investment**

- **Keeping the WTO centre stage:** The EU and our partners will continue to need a strong and efficient multilateral trading system. Our overriding priority remains to achieve an ambitious, balanced and fair agreement to liberalise world trade. As indicated above, the EU is ready to resume current negotiations as soon as circumstances allow. In the short-term, our objective is to seek early agreement in the WTO to a package of development initiatives to ensure poorer developing countries are not further disadvantaged by the failure of the WTO as a whole to reach agreement. In the longer term, and after the completion of the DDA, WTO members will need to consider the role of the organisation in shaping the world trading system, including the balance between liberalisation, rule-making, dispute settlements and monitoring of trade policies. Rules and coherence with work in other international forums are likely to become key elements. Social and environmental aspects of globalisation will have to be dealt with in an inclusive manner between WTO members. The WTO will have a vital role in ensuring the current wave of free trade agreements strengthen and do not undermine the multilateral trading system. The WTO will continue to provide the right framework for issues such as competition or public procurement where discussions should resume as soon as possible. And we will work to promote more transparency in the area of subsidies. It is also important to ensure that the WTO functions effectively. Reforming the WTO's working methods, while desirable, is sensitive for many WTO members. But after the end of the DDA, and subject to agreement among WTO members, the EU will support any review of WTO decision-making designed to make it more efficient.
- **A new generation of Free Trade Agreements (FTAs):** In parallel to future efforts to revive the WTO negotiations, it is necessary to consider our options for achieving additional market access and improvements in the business climate, particularly in our future major trading partners. A bilateral approach would allow the EU to liberalise tariffs further, to take non tariff measures better into account and to restore a level playing field with our main competitors on major markets. While we must continue to factor other issues such as neighbourhood and development, and the wider role of trade policy in EU external relations into bilateral trade relations, it is critical that economic factors such as market potential (economic size and growth), protection against EU export interests (tariffs and non tariff barriers) and potential partners' activities in terms of concluding/planning FTAs with EU competitors play a central role in the choice of future FTAs if trade policy is to contribute to the EU's agenda for jobs and growth. New FTAs would need to be comprehensive and ambitious in coverage, aiming at the highest possible degree of trade liberalisation including far-reaching liberalisation of services (covering all modes of supply) and investment. Where our partners have signed FTAs with other countries that are competitors to the EU, full parity should be ensured. Quantitative import restrictions and all forms of duties, taxes, charges and restrictions on exports should be eliminated. Future

FTAs would also need new ways of addressing non tariff barriers. Specific disciplines on regulatory transparency could be developed. This should be combined with some form of horizontal mediation. We will need to consider also how to extend the possibilities of cooperation instruments aimed at regulatory convergence within new agreements, notably those involving direct contacts/private agreements between standardisation and conformity assessment bodies (with support by the Commission). Future FTAs should include new provisions for investment, IPR and competition. Future FTAs will also need to cover sustainable development concerns, by involving public participation, including in ensuring that social and environmental commitments are fully implemented. Finally, before launching negotiations, the ambitions of both sides must be clearly understood to avoid the risk of negotiations later stalling because of a mismatch of expectations between the two parties.

- **A new relationship with China:** The Commission will produce a strategy in the autumn on the EU-China relationship. It is likely to develop a clear roadmap for the coming years to deliver a more balanced relation between the EU and China. The trade and investment relationship with China provides EU operators with considerable trade opportunities. But the current situation is unbalanced: as China's exports are booming (China is already the second supplier of the EU) and moving rapidly upscale, China maintains considerable barriers to market access in the form of non tariff barriers. The lack of effective intellectual property and technology transfers are becoming serious threats the global competitiveness of EU firms. Chinese firms are supported by a wide array of subsidies and privileged access to the banking sector. It will be fundamental for the future of Europe's competitiveness to develop a balanced trade and economic relationship with China with real opportunities for both sides. This will require to continue and reinforce dialogues and cooperation at all levels, but also to develop a more robust trade policy taking into account the importance of the competitive challenges that China poses for Europe.
- **A focus on IPR protection enforcement:** As a result of the Enforcement Survey launched in 2005, the Commission will focus its enforcement efforts on a small set of priority countries. China, appearing on top of virtually all indicators available, will clearly be the main priority. Other priorities include ASEAN, Korea, Mercosur, Chile, Russia and Ukraine which present high levels of production, transit and/or consumption of IP infringing goods. The three latter have already committed to adopt the highest standards of IPR enforcement in bilateral agreements with the EU; they need to step-up their efforts and tackle serious deficiencies. We will also work to improve enforcement in Turkey in the context of accession negotiations. In addition to reinforced customs co-operation, concrete initiatives to come include the creation of specific IPR dialogues with Russia and Ukraine and the setting up of a new technical assistance programme focused on IPR enforcement in China. Future FTAs will also promote enforcement-enhanced legal frameworks and binding enforcement commitments on IPR. The Commission will also reinforce its presence in key countries. It will allocate more resources to the support of right-holders, and in particular SMEs, concerning specific IPR problems in third countries. In particular, it will create a one stop shop that will provide information to right-holders about who-does-what in the Commission and even in Member States. Finally, it is considering ways to build awareness of IP issues among EU companies operating in China, in particular.
- **An initiative to open public procurement markets:** The Commission is considering presenting in the autumn a proposal for a new external procurement initiative targeting discriminatory procurement practices in the EU's major trading partners. This initiative would encourage our major trading partners whose own markets are closed to open them.

EU procurement markets are and will remain among the most open in the world. It is crucial for EU prosperity that our own procurement is subject to competitive pressures and that internal barriers that still exist are removed. The policy challenge is to find new ways of opening up major foreign procurement markets without closing our own. Where the countries concerned have made clear that they do not want to move towards reciprocity, and as a last resort, we may need to consider introducing carefully targeted restrictions on access to parts of the EU procurement market. In certain limited cases, it may be that greater openness in the procurement markets of major trading partners can only be achieved through the possibility of carefully targeted restrictions on access to the Community (procurement) market.

- **A renewed market access strategy:** The EU's Market Access Strategy was launched in 1996, after the Uruguay Round, in order to provide exporters with information on market access conditions as well as a framework to tackle barriers to trade in goods, services, intellectual property, and investment. It has proved useful in informing business and policy makers about market conditions and barriers to trade, but has not lived up to its full potential to provide a systematic and visible focus on eliminating the barriers. A communication on the re-shaped Market Access Strategy will follow in early 2007. It is likely to focus on identifying and prioritising sectors and markets where the removal of trade barriers would create the greatest gains for EU exporters. The renewed strategy may identify key markets and key barriers to tackle with specific instruments. It should lead to a regular review, announcement of priorities and reporting on progress made. It may imply a new approach, both within the Commission and beyond. Strengthened cooperation with Member States and industry/exporters in tackling obstacles to trade for European enterprises would be essential to making the renewed strategy work. Concentrating our resources and reinforcing them on the ground in our major trade partners would help to tackle barriers which are increasingly creating problems on the enforcement side. Our ability effectively to pool and mobilise our resources will determine the level of ambition we are able to set. We will need to invest in technical expertise, centralise and co-ordinate our tools better. The renewed Strategy would incorporate the relevant EU trade policy instruments, either existing or newly developed as outlined in this Communication.
- **An appropriate use of trade defence instruments:** Trade defence instruments, especially anti-dumping and anti-subsidy, have a role in defending European interests against unfair trade, so helping to secure more competitive markets inside and outside the EU, but rules may have to be adapted to a new more complex international context where EU companies adopt transnational business models and where the concept of community interest is more complex than in the past. Current trade defence instruments contain a degree of flexibility but might need to be reviewed in light of the new challenges posed by globalisation. The Commission will continue to collect views from experts and stakeholders in order to throw fresh ideas into the debate and produce a Green paper by the end of 2006.

**Placing EU policy making in an international context: Our policy-making process should factor in global competitiveness challenges.** The greater the consistency in rules and practices with our main partners, the better for EU business. We must play a leading role in sharing best practice and developing global rules and standards. To do so effectively we must also take account of the external dimension in making our regulatory and other standards. This is not about downgrading our rules. It is about taking an open and flexible approach in setting our rules and seeking to prevent future trade friction – and so support European business – where possible. This is already part of our agenda for better regulation in the EU,

but there is more we can do. International and bilateral regulatory co-operation is a key tool to this end.

- **Anticipating and managing change:** Companies and people, need time and predictability to adapt to change. The EU’s new generation of cohesion policy programmes provide opportunities to anticipate, prepare and react to changes linked to globalisation. These opportunities must be seized. The European Globalisation Adjustment Fund will also provide a swift answer to one-off, clearly defined problems resulting from restructuring. The aim must be to promote adaptation, sustainable growth and employment, not to shelter individual jobs or companies from inevitable change.
- **Addressing obstacles to the passing on of prices to consumers:** The Commission will examine how price decreases as a result of trade opening are passed on to consumers, including in the textiles sector. More analysis of the reasons that may explain such divergences between trends in import prices and retail prices is needed before any action is considered. Systematic monitoring of the evolution of import and consumption prices will be put in place. It is in particular the aim of competition policy to fight agreements restricting competition and the abuse of dominant positions in a market. Competition policy is thus ensuring that markets operate as efficiently as possible and deliver favourable outcomes for consumers. It could also be linked to Internal Market issues. Member States also have an important role in ensuring the benefits of openness are passed on.

## **5. WHAT IMPACT IS EXPECTED FROM THE COMMUNICATION?**

The Communication “Global Europe: competing in the world” does not itself propose new instruments and policy measures. Rather it sets out a series of future initiatives for further work on a number of specific policy challenges that have been identified as crucial for the competitiveness of the EU economy.

The impact of each future initiative will be detailed in specific impact assessments.

### **5.1. Impact on growth and jobs**

The positive contribution to growth and jobs in Europe of the initiatives set out above is ensured by their ability to respond to the challenges and objectives identified above. Some of the initiatives set out in the Communication directly tackle specific challenges e.g. the envisaged initiative to open public procurement markets abroad but most of them address several challenges simultaneously (e.g. a new generation of FTAs may reduce non tariff barriers to EU exports and investments, facilitate access to resources, improve IPR protection, etc.). Conversely, specific challenges are tackled through several initiatives (e.g. market access in services is likely to be a key dimension of future WTO work, FTAs, the new relationship with China and the renewed market access strategy). The table below summarises the match between competitiveness objectives and the initiatives set out in this Communication.

## Match between main objectives and main initiatives

Objectives	Initiatives									
	Keeping the WTO centre stage	A new generation of FTAs	A new relationship with China	IPR protection enforcement	An initiative to open public procurement markets	A renewed market access strategy	An appropriate use of trade defence instruments	Placing EU policy making in an international context	Anticipating and managing change	Addressing obstacles to the passing on of prices to consumers
Non tariff barriers	x	x	x			x		x		
Access to resources	x	x	x			x				
Investment		x	x			x				
Services	x	x	x			x				
Public procurement	x	x	x		x	x				
Fair competition / trade defense instruments	x	x	x			x	x			
IPR protection		x	x	x		x				
Ensuring internal policies reflect global challenges								x		
Equipping people for change									x	
Ensuring the benefits of openness are passed on to consumers										x

The positive contribution of these initiatives is also ensured by the method proposed in this Communication. The added value of the renewed market access strategy will be to identify and prioritise sectors and markets where the removal of trade barriers would create the greatest gains for EU exporters. Such focus of efforts on main economic interests will also be a key dimension of other initiatives e.g. as regards IPR protection (for which, as a result of the Enforcement Survey launched in 2005, the Commission will focus its enforcement efforts on a small set of priority countries) and public procurement (the new initiative would only be directed at countries operating restrictive procurement practices which result in discrimination against EU suppliers; we would consider using these measures in relation to major trading partners where important economic interests are at stake). The selection of FTA partners would also be framed by economic criteria in view of maximising EU economic interest (see box below) as well as by a case-by-case analysis of the potential partners' actual level of ambition and readiness to remove real obstacles to trade.

### Economic criteria for potential FTAs

Two main economic indicators should frame our decisions

**Market potential.** The size of the market and its growth prospects are proxies for our current and long-term commercial interest in a country, including investment opportunities.

**Table 3: Market potential and key economic indicators of main EU trade partners**

	Market potential 2005-25 (€ bn)**	GDP (2005, €Bn)	Annual average growth rates 2005-25 (%)*	Trade with the EU (2005, €Bn)	Share of EU trade (2005, %)
USA	449	10.144	3.2	412.7	18.5
China	204	1.573	6.6	209.4	9.4
Japan	74	3.920	1.6	116.4	5.2
India	58	607	5.5	40.0	1.8
ASEAN	57	714	4.9	115.1	5.2
Korea	45	598	4.7	53.3	2.4
Mercosur	35	677	3.6	51.0	2.3
Canada	28	849	2.6	40.8	1.8
GCC	27	412	4.3	87.6	3.9
Russia	21	526	3.0	163.0	7.3
Taiwan	18	268	4.3	36.5	1.6
Australia	17	526	2.5	30.1	1.4
HK	12	149	4.8	31.1	1.4
Iran	10	151	4.3	24.2	1.1
Ukraine	5	61	4.9	20.7	0.9

Source: World Bank, Global Insights and own calculations. Note: \* Growth figures from Global Insights 2007-15.

\*\* Indicates cumulative changes in market size: *economic size x growth*.

**Protection against EU export interests.** This covers tariff as well as non-tariff barriers (NTBs), including services, intellectual property, SPS, TBT, public procurement, competition and investment. The role of the latter increases with the lowering of tariffs and they are a key part of the comprehensive EU approach to FTAs. Post DDA (or post accession for partners outside the WTO) protection should be primarily considered. The difference in protection facing the EU and its main competitors on third country markets should also be factored in: the rapid development of third countries concluding FTAs with the EU's main competitors such as the US or Japan carries risks of marginalizing the EU. The higher the level of barriers against EU interest, the higher the risk of trade diversion implied by such FTAs, as demonstrated by the case of NAFTA - which resulted in a substantial loss of market share for the EU in Mexico, but had hardly any impact on EU-Canada trade flows.

Other elements to consider include EU economic interest in terms of **access to resources** (such as energy, hides and skins, metals primary raw materials and scrap) and the **likely impact on the EU market** (namely the balance of our interests and the risk of preferences erosion for our neighbouring and developing partners). Finally, we should consider carefully the effects of our FTAs and those of our main partners on the **multilateral system**.

The Communication “Global Europe: competing in the world” also draw attention to the need, where possible, to maximise the synergies and complementarities between Community policies. This is the main focus of initiatives aiming at placing EU policy making in an international context, anticipating and managing change and addressing obstacles to the passing on of prices to consumers.

## 5.2. Specific impact on small and medium enterprises (SMEs)

While they constitute a key asset of the EU economy, SMEs find it more difficult than multinational enterprises to access third markets, due to their limited capacity to cope with non-tariff barriers. Several initiatives in this Communication will support them in their efforts to enter emerging economies' markets e.g. the focus on regulatory issues in the renewed market access strategy or in our future FTAs. Systematic inclusion of trade facilitation provisions in our future FTAs will also directly benefit SMEs as transaction costs are

deadweight costs disproportionately felt by them. SMEs are also the main target of our efforts to support right-holders concerning specific IPR problems in third countries. More generally, an enforced IPR enforcement strategy stands the potential of boosting SMEs competitiveness. Finally, SMEs would directly benefit from our efforts to reconcile EU regulatory approaches with those of its partners.

### **5.3. Link with development policy**

Fostering EU's ability to take benefit from globalisation can and must be fully compatible with development. The growing inter-dependence between economies and business means that countries all share a stake in each other's prosperity and development. EU growth depends on growing prosperity in our major and future markets. Poverty reduction and economic development in major emerging economies, including through improved conditions and wages for labour, are not only moral objectives – they are essential to creating economic opportunities of the future.

Our agenda for market opening focuses on the major emerging countries and regions which are able to sustain competition, which already draw huge benefit from their integration into the world trading system and whose opening to trade is an increasingly important factor in the prospects for growth around the world.

Middle income countries represent a growing share of EU external trade. Their example shows that our competitiveness is linked with wider development goals including reform processes in these countries. Future agreements with those countries should incorporate commitments on sustainable development, including its social and environmental dimensions.

Through a different set of tools, we also promote development in poorer developing countries. For ACP countries, for example, our trade and sustainable development objectives are pursued through Economic Partnership Agreements. Asymmetric trade liberalisation and attention to sustainability considerations rather than reciprocal trade opening are the objective here. Trade-related technical assistance is a key element for these countries, helping them to grasp trade market opportunities and foster their integration into the world economy.

The EU's commitment to development through trade is long-established. Increasingly, major emerging economies also bear a responsibility towards these poorer countries. As they grow, so does their role in providing market access to help spur development in other countries. Many emerging countries retain very high tariffs which are holding back export-led growth in their poorer neighbours. This is why agreement on substantial quota free and tariff free access for Least Developed Countries (LDCs) – on the model of the EU "Everything But Arms" (EBA) initiative – to developed country markets and to developing countries in a position to do so is a key policy outcome of the Doha Development Agenda.

In the context of forthcoming FTAs, we will take into account the development needs of our partners and the potential impact of any agreement on other developing countries, in particular the potential effects on poor countries' preferential access to EU markets. The possible impact on development should be included as part of the overall impact assessment that will be conducted before deciding to launch FTA negotiations.

### **5.4. Contribution to EU international social and environmental objectives**

The Communication recalls that the pursuit of economic growth through trade can have environmental implications, particularly for biodiversity and our climate. It states that our

external competitiveness policies will need to encourage energy efficiency, the use of renewable energies including bio fuels, low emission technology and the rational use of energy in Europe and globally, both to reduce the growth in global energy demand and strengthen security of supply. Finally, it stresses that the links between trade policy and climate change in particular will require further examination.

The staff working paper accompanying the Communication recalls that social and environmental aspects of globalisation should be part of on the future agenda of the WTO. Coherence with work in other international forums is also indicated to be a key point to consider.

Finally, the Communication explains that in considering new FTAs, we will need to work to strengthen sustainable development through our bilateral trade relations. This could include incorporating new co-operative provisions in areas relating to labour standards and environmental protection.

## **6. MONITORING AND EVALUATION**

Three main instruments will be used to ensure regular reporting on progress made to tackle barriers in third countries and cross checking to ensure consistency between different instruments.

First, the renewed market access strategy should lead to a regular review, announcement of priorities on key markets and key barriers to tackle with specific instruments and reporting on progress made.

Second, sustainability impact assessments (SIAs) will be undertaken for each specific negotiation (in particular of free trade agreements) and provide an evaluation of their likely effects.

Third, we will put in place internal mechanisms to monitor the results of new FTAs.