



Foreign Trade Association

FTA Position

on

Global Europe: competing in the world

**Comments on the Communication
published by the EU Commission in 2006**

The FTA is the association for European commerce that specialises in foreign trade issues. It is committed to achieving its goal of a true free trade environment. For almost 30 years it has supported its members, consisting of national trade associations and companies from all over Europe, by providing expertise and up-to-date information and by campaigning on their behalf against protectionist measures in the European and international arena.

Introduction

“The core message of today’s review is clear: rejection of protectionism at home; activism in opening markets abroad.” These were the words chosen by Trade Commissioner Peter Mandelson on October 4th 2006 when he presented the Communication of the EU Commission entitled ‘Global Europe: competing in the world’¹. In this Communication the EU Commission analyzes the foundations of EU competitiveness and suggests an action plan for improvement.

Also on October 4th 2006 it became clear that after a chaotic and non-transparent voting marathon the EU member states would agree with a close majority of 13 to 12 to the Commission’s proposal for definitive anti-dumping duties on leather shoes from China and Vietnam.

The question whether member states were really convinced that dumping had been proved remained unanswered. Discussions on other issues than dumping as well as open and secret bargaining had made some member states change their opinion on the shoe case a couple of times. The protection of domestic interests – whether linked to the European shoe industry or not – had successfully pushed the interests of importers and consumers aside.

Already early in 2006 the FTA had published comments² on a preparatory paper called ‘Issues Paper on Trade and Competitiveness’ (October 2005)³ in which the EU Commission had unmistakably condemned any kind of protectionism and promoted the principle of open trade.

In consequence one of the main FTA messages had been:

“The FTA calls on the EU Commission to streamline its actions with the liberal trade policy principles outlined in the issues paper.”

However the shoe case was launched by the EU Commission early in 2006 and put to votes in several advisory bodies of the EU Council until the duties were finally accepted. This proves that policy principles are not sufficient to withstand protectionist tendencies. Structural reforms – especially of the European Trade Defence Instruments (TDI) - are required to avoid similar cases in the future.

This paper looks into the analysis the Commission made on the foundations of EU competitiveness and highlights some of the items on the agenda set by the Commission to improve the competitiveness of European companies in a globalized world. Despite the fact that the Commission focuses very much on industry, the FTA, representing European commerce in foreign trade issues, feels obliged to comment on some aspects which are important to its constituency.

1. Foundations of EU competitiveness

The FTA shares the views of the EU Commission on the foundations of EU competitiveness.

¹ http://ec.europa.eu/trade/issues/sectoral/competitiveness/global_europe_en.htm

² <http://www.fta-eu.org/doc/unp/opinion/en/TradeandCompetitivenessFTAcomments.pdf>

³ http://trade.ec.europa.eu/doclib/docs/2005/november/tradoc_125859.pdf

Predictability and transparency

These two major policy principles are rightly mentioned first in the communication. Not only the industry but also traders need a reliable legal framework. Importers of articles are bound by their buying cycles. A predictable trade policy – may it concern the imposition of new duties, tariffs, quotas or restrictions – will help avoid emergencies like the textiles crises in 2005 when quotas were imposed at far too short notice for importers to react. The financial losses are only the visible competitive disadvantages European companies suffer from similar cases. Far worse is the loss of flexibility in the sourcing practice, a loss of credibility vis-à-vis their customers and as a consequence a loss of competitive advantages compared to third countries' competitors.

Openness to global trade – NO to protectionism

The FTA fully agrees to the following statement in the communication:

“Openness to global trade and investment exposes the domestic economy to competitive pressures, stimulates innovation, provides access to new technologies and increases incentives for investment. Protectionism raises prices for consumers and business and limits choice.”

However, in this context the Commission could have explicitly mentioned the commerce sector (26 million jobs; 13% of GDP) as especially vulnerable to protectionist measures. It should be recognized that the competitiveness of these companies is also a genuine European interest, not only that of manufacturers. Nonetheless the communication calls for open European markets mainly for the benefits of manufactures who “need to import to export”

Investment in third countries

The FTA welcomes that– in the context of investments in third countries - the Commission recognizes the importance of the service sector for the EU economy and its potential for growth. The communication highlights that “improving investment conditions in third countries for services (...) can make an important contribution to growth, both in the EU and in the receiving countries”.

The number of European distributors and retailers that export retail concepts and open stores in third countries steadily increases. Emerging markets like China and India offer a huge potential regarding the size of the consumer markets. The openness of third markets to investments in distribution services is a prerequisite for future competitiveness of retailers and distributors.

2. Agenda: action plan for EU external competitiveness

The communication distinguishes between internal and external measures to improve the competitiveness of European companies. The FTA agrees with most of the priorities and methods chosen.

Consistent policy-making process in internal affairs

Regarding internal measures, the FTA especially supports the following statement: “The case for openness is undermined if its benefits do not reach citizens. The Commission and Member States have important roles in ensuring that the benefits of trade opening and globalisation reach all citizens and are not captured by specific interests.”

However, the conclusion to be drawn is slightly different to the Commission's assessment, which continues: “Following the liberalisation of trade in textiles at the end of 2005, these benefits have not been passed on consistently. The Commission will put in place systematic monitoring of import and consumption prices before considering further action.”

Competition among retailers in the European consumer market is very tough and often leaves no room for manoeuvre. Companies cannot afford to keep the benefits of liberalisation to themselves as countless competitors will not hesitate to pass them on to the consumers in order to maintain their market shares. In practice European consumers often can not benefit from the advantages of global trade because the manufacturing industry motivates the EU to re-impose import restrictions.

The FTA will closely watch the actions taken by the EU regarding the monitoring of import and consumption prices and will make sure that no new trade restrictions are implemented that mainly serve protectionist means.

External policy priority: WTO

Regarding the external policy principles the FTA fully supports the Commission's commitment to the multilateral trading system within the World Trade Organisation (WTO). The current round of trade liberalisation (DDA) must be concluded –not only for the sake of global growth and development but first of all for the benefit of European companies. Moreover, the future of the multilateral trading system as a whole is at stake if the DDA does not come to a conclusion with satisfactory results.

External policy priority: Additional bilateral agreements

The envisaged Free Trade Agreements and bilateral negotiations with selected countries are helpful but can only complement trade liberalisation on WTO level. It may be that issues like market access for Foreign Direct Investments (FDI), competition rules, Intellectual Property Rights (IPR) or certain non-tariff barriers can better be dealt with on a bilateral basis.

However, the FTA will closely monitor whether “the EU's priority will be to ensure that any new Free Trade Agreements, including our own, serve as a stepping stone, not a stumbling block for multilateral liberalisation,” as announced in the communication.

Two of the issues mentioned in the communication as potential parts of Free Trade Agreements should be dealt with in other places:

Trade facilitation will only be effective and efficient if all WTO members agree on the same measures. This issue is a genuine WTO issue and will hopefully be part of the successful agreement at the end of the current DDA.

Labour standards are often part of the competitive advantage of third countries. The EU should refrain from imposing European labour standards on emerging or developing countries. Nonetheless minimum social standards must be respected all over the world. But control and enforcement of internationally recognized ILO-standards (International Labour Organisation) cannot be achieved via Free Trade Agreements. There exist better instruments for the ILO to enforce the implementation of its rules. Private business initiatives such as the Business Social Compliance Initiative (BSCI)⁴ initiated by the FTA can achieve a lot in this respect also.

Review of trade defence instruments

The above mentioned issues paper of the Commission from October 2005 had promoted an improved performance of third countries in the application of trade defence instruments, especially anti-dumping (ad-) procedures. In its comments to this issues paper the FTA had called on the Commission “...to improve the European performance in the

⁴ www.bsci-eu.org

application of anti-dumping investigations and procedures to provide more transparency and predictability for all parties involved”.

It is therefore highly appreciated that the communication elaborates on the necessity to review the European Trade Defence Instruments and announces a green paper on possible reforms in order to adapt to the changes in global economy.

The FTA – being part of the expert group invited by Commissioner Mandelson in the middle of this year to a first hearing – tabled a detailed paper⁵ with suggestions for possible reforms on European anti-dumping procedures. The main demands are a higher threshold for the initiation of a procedure to prevent misuse for protectionist reasons, improved transparency and predictability throughout the procedure and a new definition as well as better recognition of the ‘community interest’ that must also take into account the interests of importing distributors, importing manufacturers and consumers.

Conclusion:

The communication demonstrates that the EU Commission is striving for a liberal trading climate to foster competitiveness of European companies. The FTA fully supports this trade policy and calls on the EU Commission to implement this approach in its future policy agenda and act accordingly. The FTA calls on the Commission to consider the competitiveness of all parts of the European economy, including the commerce sector which sometimes has to focus on requirements for open trade that differ from those of industry.

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⁵ <http://www.fta-eu.org/doc/unp/opinion/en/11-07-06.pdf>