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**FRENCH PRESIDENCY OF THE  
COUNCIL OF THE EUROPEAN UNION**

**PROSPECTS FOR  
TRADE POLICY**

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# Europe's Competitiveness: Linking Internal and External Dimensions

The French government recently commissioned a report to assess the Lisbon strategy and make recommendations for reform. This report entitled « [Europe in Globalisation](#) » was coordinated by [Laurent Cohen-Tanugi](#), a lawyer and adviser to the French government, and published on 15<sup>th</sup> April 2008.

The report is likely to be endorsed by the French government and determine some of France's positions during its upcoming [EU presidency](#) (July-December 2008). As explained by its author in [an interview](#), the report defines the contours of a revamped internal agenda for the Lisbon strategy, called "Lisbon Plus", but it also extensively addresses the external aspects of EU's competitiveness, which, the author says, is the "missing part" of the Lisbon strategy (have they read 'Global Europe'?! ) and should mainly consist of integrated common policies carried out on the basis of Community competences (as opposed to intergovernmental processes and the "Open Method of Coordination"). Both dimensions – internal and external – are considered together to shape a new competitiveness strategy which would make the EU more fit for the new challenges of globalisation and which the authors have labelled "EuroWorld 2015".

Presented as an innovative approach, the report is striking by the way it ignores "[Global Europe](#)", which was adopted already in 2006 and presented at that time a significantly updated strategy for the EU's external economic policies, whose features are often comparable to the ones advanced in the French report.

As envisaged by the French government, this agenda will not be fully adopted during France presidency of the EU starting in July. "EuroWorld 2015" is rather a medium-term agenda oriented towards the post-2010 period, which corresponds to both a new EU legislative period (2009-2014) and a (possible) new cycle of the Lisbon strategy (which was initially designed towards the 2010 target). From what it seems, the French presidency will not result in a major internal revolution (Sarkozy has probably understood that he needs to temper his ambitions to be successful on the European scene – but who knows what can happen?...) but, certainly, France hopes with such a report to stimulate a debate during its presidency and influence the directions of the future EU's external policies. In fact, it appears like the moment is quite strategic from the EU calendar point of view: the EP elections are very near and,

according to the Brussels rumours, the Commission (which will be appointed in October 2009) is expected to undergo a significant reshuffle.

So, whether it will build on or replace 'Global Europe', this report should be considered as an important strategic document for the future of the European Union policies.

## Ideological Continuity: The EU's "Competitiveness Mantra"

The Cohen-Tanugi report, in the same way as Global Europe did almost two years ago, illustrates the "competitiveness mantra" that has subjugated European policy-makers and which is reflected in all major EU policy documents since 2000. It implies that every policy needs to be shaped with the objective to increase, and not hamper, Europe's "competitiveness".

This is ever more true for trade policy, where "competitiveness" has become paramount, and much more important than concerns like "sustainable development" or "poverty alleviation" which, until a few years ago, were still more familiar to the Brussels trade discourse.

In accordance with this competitiveness mantra, the draft 2008/2009 Programme of the upcoming three presidencies (France, Czech Republic and Sweden) says:

*"The three presidencies consider that trade policy is a very important tool to address opportunities and challenges of globalization. It can make a significant contribution to growth and jobs, and must therefore be considered an essential element of a European policy of competitiveness. We are therefore highly committed to develop a coherent external dimension to the Lisbon Strategy."*

Let us make it clear from the outset: trade policy will not be a priority of the French presidency. At this point, one might actually ask: what are the priorities of the French presidency? This is because the preparations of the French government to its EU presidency seem to be on a very slow track, and many civil society organisations are still waiting for a coherent vision or plan of some sort.

Besides, there is traditionally a high degree of political manipulation and rhetoric in France's attitude towards the EU and very often, the public discourse of members of the French government, including of the French president himself – promising more protection, more social welfare, more jobs and less industrial relocations, etc. – is at odds with the positions they adopt on the ground. This discrepancy between words and acts, of course, does not clarify the position France will adopt during its presidency.

For this paper, we have chosen not to base our scenarios on French political rhetoric and media spin, but rather on official documents and facts.

Despite Paris' apparent inertia – maybe things are already happening but nobody is really informed of them (this scenario should not be ruled out completely) – there might be a few interesting developments which will need to be watched, but it will depend on France's activism on these issues.

However, altogether, and despite the sometimes audacious rhetorics of the EuroWorld 2015 group, it seems like France's EU presidency in the field of trade policy will rather be characterised by a sense of continuity than a path of change.

Below, we sketch out what we think will be the most notable features of the French position with regard to trade policy in the coming months/years, based on our reading of the Cohen-Tanugi report, as well as the draft French Presidency Programme.

## **A “new paradigm”: leadership on the world scene, more integrated external policies**

The conclusions of the Cohen-Tanugi report all point to one overarching objective for the EU: the EU must acquire real political leadership on the world scene, which reflects its economic power and which can counter the “American-Asian duopoly”. The report says that Europe has been traditionally “inward-looking” and must now actively become “outward-looking” (this is in line with what Mandelson and Brown are saying in their papers on “Global Europe”). It continues: “Europe must not only adapt to globalisation, it must also shape it” (again, quite a weird statement for those who can testify of the EU's aggressive/neo-colonial behaviour in many parts of the world; a path that has already been officially

endorsed by the EU with ‘Global Europe’!). The existing EU’s integrated external policies (common commercial policy, agricultural policy, international dimension of the EU’s internal market and economic and monetary union, cooperation policy) cannot fully meet this objective, says the report. New integrated policies should be considered: energetic and environmental diplomacy, migration and co-development policy, international normative strategy, Community surveillance of extra-European takeovers in sensitive sectors (here, there is a reference, among others, to the issue of “sovereign wealth funds”).

## Overcoming the opposition between “liberals” and “protectionists”

The report says that the reductionist and supposedly “ideological” debate between liberals and protectionists in the Council should be overcome. This can happen at two conditions:

- The EU Member States must acknowledge that there are different commercial interests amongst themselves (some States are smaller and others are bigger, some are more open to the world economy than others) and, based on this, define a more offensive strategy which implies that MS which are not concerned by a dossier would not block the interests of those who are concerned;
- Trade policy must be envisaged in all its dimensions: economic, social and geopolitical.

From what we have observed of French politics lately, our understanding is that the opposition between “liberals” and “protectionist” will not be overcome thanks to a clever combination of the two, but rather, quite prosaically, by a progressive replacement of protectionist policies by (ultra)liberal ones. This is the trend everywhere in Europe, and it cannot just be reversed by changing the political attitudes or voting procedures in the Council. Considering such a background, the Cohen-Tanugi report gives the impression of a naive incantatory dissertation or, even more disappointingly, of another piece of good old French theoretical/rhetorical talk.

## Active bilateralism

In a section of unusual political realism, the report says that multilateralism is in crisis because the underlying principles of the multilateral trading system reflect the interests of rich countries, since it is the rich countries from the First World who have created it at the first place. Developing countries, on the other hand, are in a numerical majority position in the WTO, but they are not feeling confident with the system and are therefore constantly rejecting a further widening or deepening of its rules. It is unclear when this crisis will be overcome but in the meantime, the EU should not stand there and wait, the report says. The EU should be proactive, as the US and Japan have been, by crafting and developing an active bilateral strategy.

The report says that the strategic priorities set in “Global Europe”, based on the “market potential” (high growth combined with market size) are the right ones, but it proposes a different geographic focus than the one envisaged in the EC Communication (which identified ASEAN, Korea, MERCOSUR, India, Russia and GCC as the most important targets). The first priority should be China. This is because the EU has strong offensive interests there (counterfeiting, IPRs, access to a rapidly expanding market), but also important defensive interests, which are always useful assets in any trade negotiation.

The US (which, the report says, was regrettably left out of Global Europe) should also be a strong focus of the EU’s trade policy, as (a) it is still the economy with the largest “market potential” in the world and (b) there are still a lot of discriminations in the US against EU companies (for instance in terms of government procurement or R&D subsidies). For this reason, the report is in favour of a deepening of the transatlantic agenda. Other developed economies such Japan (3<sup>rd</sup> rank in terms of market potential) and Canada (ranking 8<sup>th</sup>) also deserve more attention, according to the authors.

The draft 2008/2009 EU Presidencies Programme confirms this line. It says:

*“Free Trade Agreements (FTAs), can build on WTO and other international rules by going further and faster in promoting openness and integration, by tackling issues which would not be ready for multilateral discussion and by preparing the ground for the next level of multilateral progress, like*

*investment, public procurement, competition, other regulatory issues and IPR enforcement.*

*Therefore, the EU should strive to conclude as many of the currently ongoing negotiations as possible, to open negotiations with other strategic partners as appropriate and deepen and strengthen existing trade and investment relationships with both developed and developing countries.”*

As regards Economic Partnership Agreements (EPAs) with ACP countries, the WTO waiver has expired 5 months ago and the negotiations are in quite a precarious state, as many ACP governments have demanded more time to negotiate and resentment against the EU has grown because of its arm-twisting and bullying tactics. In such a context, the French presidency will not have an easy time in pushing a breakthrough in the EPAs negotiations. This explains perhaps why the French president has just hired a Deputy from Guyana, Christiane Taubira, to investigate into the possibilities for ensuring such a breakthrough. Taubira’s mission should be concluded just in time for the Presidency with a [report](#) containing concrete policy recommendations. The objective of Taubira’s mission, as set by the Elysée, is nothing else than to find ways in which the EU can re-gain the trust of ACP countries and make them eventually sign full EPAs.

Here again, the option of the French government is not to provide an alternative or a way out of the radical free trade route pursued by the European Commission, but rather to reinforce it.

The progress in the creation of the Euro-Mediterranean Free Trade Area (due for 2010) is likely to be one of the key priorities of the French presidency, as part of its plans to reinvigorate the Barcelona process.

The Presidencies Programme also emphasises the need for enhanced market access for European companies, notably by removing non-tariff barriers. In this sense, it is also perfectly in line with the current EU trade policy, pushing for WTO+ deals.

## Advancing the Singapore Issues

The report says that France should be more “vigorous” in requesting more market opening for investment and government procurement in its FTAs with OECD countries but also with emerging economies. It should also strive for better

international competition rules as well as better enforcement of intellectual property rights (IPRs), including more effective sanction measures. The report also says that the EU should better promote its accounting and financial standards – this should start by a clear mandate on this issue from the Council to the Commission.

Again, a very clear continuity with the current EU trade policies.

## A reconsideration of the “principle of reciprocity”

The Cohen-Tanugi report says that the principle of reciprocity, at the core of the WTO rulebook (with the MFN and NT clauses), is not operative in practise. WTO rules already contain a lot of exceptions, and developing countries can still not live with it.

Since the report has a rather evasive language on that point and (even by reading the annexes) it is not clear what the authors actually mean, one can only guess. One element of clarification can perhaps be found in the draft Presidency Programme which alludes to the necessity to reform the WTO:

*“After the DDA, a broad discussion should be initiated regarding the future development of the WTO, and explore if there is a need to review how the WTO functions.”*

## A differentiation among “developing countries”

In line with a rising doxa among EU elites, the Cohen-Tanugi report asks whether China (which has become a dig donor of ODA) or Brazil (which is now a net creditor on the international scene) can still qualify as “developing countries” and deserve the same commercial advantages as other, poorer economies.

But the report says such a discussion should take place at the political level and be part of the wider reordering of international governance.

## Carbon tariff

France is in favour of introducing a [carbon tariff](#) at the EU borders (a “border tax adjustment”) to compensate for the competitiveness disadvantages of its industries vis-à-vis products originating in countries which do not have matching Kyoto commitments. While a “carbon tariff” can be viewed and designed as a compensatory measure against unfair environmental and social dumping, the current debate is more focussed on ways to redress the EU’s “competitiveness” which is supposedly put at risk because of the EU’s stricter environmental measures (i.e. the third phase of the EU’s Emissions Trading Scheme).

While the European Commission has agreed to study the possibility of such a scheme, postponing a decision on the issue to 2011, it is likely that France will push ahead this topic during its presidency. The French government, heavily lobbied by carbon-intensive industries such as the world leading cement group Lafarge, has been repeatedly flagging this issue and actively defending the carbon tariff since 2006. It seems like much of the [technical work](#) about the implementation of such a carbon tariff has already been carried out by French experts, including on the issue of WTO-compatibility. France is therefore expected to come up with strong data and arguments in favour of such a border tariff during its presidency with the objective to get an agreement from the other EU Member States.

However, there is a strong impression of déjà-vu in the French debate on the carbon tariff: the French government takes some pride in tabling a proposal that is portrayed as a real solution to environmental problems and, when resistance emerges at the EU level, it can easily blame the European Union for blocking it. In the meantime, it has cleverly avoided to explain to its citizens that such a proposal, given the EU treaties, can actually only be implemented at the EU level. So what is France’s genuine position on the carbon tariff? In how far is it more than political posturing to seduce environmentally-conscious voters?

## Adding a normative dimension to EU Trade policies

Taking [NAFTA](#) as an example, the report is calling for a better promotion of labour rights in EU's trade policies. Some French policy-makers are openly in favour binding social and environmental clauses in [Free Trade Agreements](#) (FTAs). Even the French president Nicolas Sarkozy has alluded to the subject several times.

However, it is not clear how that will translate in practise since (a) many FTA negotiations have already started and (b) to promote these issues, the Council would have to deliver a new negotiating mandate to the Trade Commissioner, which can only happen for negotiations which have not started yet (Armenia, Georgia, Russia, Moldova, Pakistan?...).

But the report also underlines the fact that this normative mission of the EU will best be accomplished if it does not rely exclusively on the common commercial policy, explaining it can also be achieved by:

- Strengthening the rules of the internal market;
- Increasing the EU's financial and technical cooperation with emerging countries;
- Strengthening the CFSP;
- Making a wider use of incentive trade measures like the GSP+ scheme.

As with many other issues, it is difficult to regard the French focus on social and environmental standards as an original or even progressive position towards trade policies. The fact is that this issue has always been part of the French rhetoric on trade policy but, during all these years, never has the French government actually made it a serious agenda item at the table of the European Council.

Regrettably, much of the debate on social and environmental standards reminds us of the kind of typical PR manoeuvring we are used to from French political leaders who appear in public to care for people's concerns – Sarkozy's "*Europe that protects*" – but who, behind closed doors, are following the same ideology and serving the same interests as any other politician from any other Member State: growth, market expansion, deregulation, privatisation, competitiveness.

## A strong but renewed CAP

The “Health Check” of the [Common Agricultural Policy](#) is one of the key issues of the French presidency. In the context of the WTO negotiations, Nicolas Sarkozy has said: *“I would oppose any agreement that sacrifices the interests of French agriculture... We cannot continue to impose on our farming industry environmental dumping, social dumping, fiscal dumping, monetary dumping”* (Libération, 23 February 2008).

While France’s interest is to maintain a high level of protection against international competition (France is still the largest recipient of agricultural subsidies in Europe and has a powerful farm lobby), some policy-makers argue for a modernisation of EU’s agricultural policies and more openness to world markets.

Since France’s vested interests in the agricultural sector are both a stumbling block and a potential leverage in the negotiations about reforming the EU’s agricultural policy, it is not clear what level of change it will be able to negotiate with its EU partners during its own presidency.

## Miscellaneous

The Cohen-Tanugi report contains other noticeable trade-related proposals:

- A smaller number of EU Commissioners in charge of EU external economic policies;
- A strengthened international convergence of competition rules, through the OECD, the ICN (International Competition Network) or bilateral agreements

## Conclusion

Despite the sometimes original proposals that appear in the Cohen-Tanugi report and in the French Presidency Programme; despite also the spirited statements made by French political leaders on the subject, and despite the lack of clear information about France's priorities for the EU presidency, it seems like the position of the current French government on trade policy is more a position of continuity than a position of change.

Competitiveness will remain the central concern and objective for EU's trade policy-making. The EU's bilateral drive will be continued and even strengthened. EPAs will not be reconsidered, as more and more ACP countries are asking the EU to do, but extended.

The record of France's involvement in the EU trade policy and the massive rhetorics around it is also nurturing a general scepticism or political realism among civil society in Europe: driving EU policies in a more social or environmentally-friendly direction is still quite a different thing than speaking out about it.

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