



EUROPEAN COMMISSION
Directorate-General for Trade

Brussels, 28 June 2006
Ref. 318/06

[Limited]

**DRAFT COMMUNICATION ON
EXTERNAL ASPECTS OF COMPETITIVENESS**

REMARKS:

Attached is an early draft of the Communication on External Aspects of Competitiveness, shared to demonstrate the direction of the Commission's thinking. This is a first approximation of what could be put forward in the Communication.

This is a key reflection to inform our thinking and strategy beyond the DDA and to maximise the synergies between all Community policies aimed at increasing their contribution to growth and jobs.

It takes into account the result of previous discussions in the 133 Committee on the basis of the "Trade and competitiveness" issues paper and subsequent written comments by Member States, as well as the consultations held with industry and civil society.

The Communication should be published after the summer break (subject to progress in the DDA) and will constitute a launch pad for post DDA initiatives including possible new market-access driven FTAs, a renewed Market Access strategy, a review of our strategy with China, a specific initiative to open public procurement markets abroad and a review of trade defence instruments to ensure that such rules are adapted to the complexity of global markets and the changing patterns of trade and production. It will also explain how external and internal policies can join up to contribute to growth and jobs.

A first discussion of analysis and policy options will be held on the basis of the attached paper in the **133 Committee on 7 July**.



EUROPEAN COMMISSION
Directorate-General for Trade

Brussels,
EB D(2006)

DRAFT – 27/06/06
Not to be quoted

Global Europe: competing in the world¹

The relaunching of the Lisbon agenda and the development of a new Growth and Jobs strategy has been at the very heart of the Commission's agenda for the last two years. One of its specific features has been to explicitly take into account external aspects. This is well justified. Like the Single Market, the EU's ever greater openness to trade and investment has been a major "catalyst of growth" inside the Community over the last two decades, significantly contributing to the creation of 25 million jobs in the EU. Open markets are a powerful stimulus to competition, innovation and productivity growth.

The internal and external dimensions of competitiveness are inextricably linked. They are different faces of the same coin. Internal policies like general [interest] services, research and development, innovation and education exert a strong influence on the capacity of EU companies to withstand international competition. The completion of internal Market also provides the right platform for EU exports. For the EU to have strong global players, a strong and competitive home market is a pre-condition. And the harmonisation of regulatory approaches inside the EU is a pre-requisite to address these issues and defend our interests abroad.

To date, the focus of the external side of the renewed Lisbon strategy have been mainly placed on the completion of the Doha Development Agenda (DDA) in the WTO. The DDA will deliver important improvements in market access around the globe, contributing to growth in both developed and developing countries [to update as necessary]. But with the end of the DDA now in sight, it is time to consider the options for building on that outcome in order to drive forward our agenda for jobs and growth.. The objective of this Communication is to fix the parameters of a modern trade policy which responds to these needs and to propose a programme of concrete post DDA policy initiatives for the second half of this Commission's mandate. This goes well beyond trade policy. Indeed, it is increasingly clear that trade policy must interact with internal Community policies if it is to deliver results and benefits for all in Europe.

¹ Alternative titles: "European external competitiveness strategy, "European External Strategy for Competitiveness", "An External Strategy for Europe's competitiveness"

1. The external policy challenge

The EU's ever greater openness to trade and investment often raises fears of possible negative economic and social consequences and a feeling of insecurity. These fears are to a large extent at odds with economic realities.

The EU industry still has key assets for the future. The industrial basis in the EU remains strong. Its output has increased by 40% over the last two decades². Despite rapid developments on the international scene and the emergence of a new range of competitors such as China, Brazil and India, the EU's position on world markets remains almost unchanged. It is a remarkable fact that whilst the EU world market share has remained stable, the US and Japan have lost ground.

Analyses show that this good performance is mainly due to the EU ability to sell products at premium price due to quality, branding and related services³. This is not just anecdotal. It is a striking fact that such "upmarket" products now account for a third of world demand. This represents not less than half of European exports in sectors such as luxury consumer goods, but also across the whole range of EU exports, such as intermediary goods, machines and transport equipment. This reflects a new form of "vertical", qualitative, international division of labour, which occurs in each sector according to the level of product range. International trade is no longer about only trading Airbus planes for T-shirts, but about trading increasingly similar goods and services, where European firms prosper as a result of their products' distinctiveness and quality. In this range of products, the EU ranks second just behind Japan but ahead of the US, whilst countries like China still lag far behind.

This is a fundamental point for the linkage between competitiveness and our capacity to sustain social systems in Europe. The EU produces expensive, upmarket products and can sell them abroad, due to a set of non-price factors such as innovative features, quality, reputation, continuity over time, and related services. Building on this strength is the only way to make a high level of social protection, employment and wages sustainable.

However, it is fair to recognize that this 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. 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. It runs the risk of missing market opportunities in dynamic areas which already account for half of world import growth.

Moreover, while the aggregated impact of outsourcing on job losses remains limited, the very existence of social distress reveals the limits of our ability to manage change linked to further openness. Market opening brings about transformations which are costly and disruptive for some in the EU, particularly for the less qualified and most vulnerable workers. Structural change is not new, but what makes this phase of globalisation different is the speed

² See Commission's Communication on "A new industrial policy: creating the conditions for manufacturing to thrive" (October 2005)

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

and depth of change. We have certainly not been successful enough in anticipating the effects of trade opening. Textiles are a typical example. Although some regions and countries managed the end of textiles quotas quite well, others did not.

Finally, some benefits of openness are also slow to appear. Again, the textiles and clothing sector is a good example. Increasing trade openness has led to a substantial decrease in the unit price of imported products. This should have been translated into a decrease in retail prices of clothing articles, leading to a rise in consumers' purchasing power. The latter would have boosted demand for other products and services eventually contributing to growth and jobs. However, this positive evolution has not happened everywhere in the EU. 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.

The solution is not to close markets. We should reject the temptations of Community as well as national protectionism. Protection raises prices for consumers and limits choice. Protecting import-competing sectors divert resources away from other, potentially more productive, sectors of the economy – leading to the sub-optimal distribution of economic resources and eventually jeopardising the future. Europe's prosperity is intrinsically linked to that of other countries, and more and more to that of emerging economies. Any obstacle to global supply chains could be potentially damaging to our own industry since raising the cost of intermediary goods and raw materials would make the EU industry less competitive. More than ever, we need to import to export.

Openness to trade provides irreplaceable benefits for growth and jobs: it boosts productivity by enabling more efficient allocation of resources; by providing greater opportunities to exploit economies of scale, by exposing the domestic economy to greater competitive pressures, by rewarding innovation and providing access to new technologies, and by increasing incentives for investment. Beyond, our openness to others is not only good for the rest of the world, including developing countries, but is also important in maintaining our leading role on global trade and economy.

In order to keep the EU at the forefront of international competitiveness, it is essential to adopt a dynamic approach that looks at the position of EU firms in a globalising international economy. We all know about the future challenge from China and India. The staggering thing about Asia is the appetite for education, the outpouring of graduates often in computer science and engineering, and determination to develop their own research base. It is as fair to characterise the issue for Europe as a race to the top rather than as a race to the bottom. This is a serious incentive to move up the value added chain, while it creates new market opportunities at the same time. In truth it is a question of not trying to compete where we cannot - but making sure we succeed where we can as a provider of top quality, often highly specialised goods and services in a knowledge based economy.

Europe should move up the value chain within each and every product and service sector. Traditional sectors such as textiles or footwear can specialize in design and high added value products that can be exported. Competitiveness can be substantially enhanced through improved innovation, marketing and distribution techniques for all kinds of products, including those traditionally considered unsophisticated and low- or middle-tech. There is no reason why manufacturing should shift massively to Asia and we could do nothing about it; and that Europe would simply be left with high value added services and research based innovation.

Trade policy must support excellence and innovation in Europe. This means both better recognition of intellectual property rights (IPR) and enforcement of IPR. EU investments in creativity, research, design and quality are a unique asset of the EU economy, but particularly affected by poor enforcement of IPR. The EU will continue to look at potential links with public health and human development carefully but this should not prevent us from maintaining a strict line on better enforcement of commitments taken by its partners, especially in markets such as China, Asean or Korea where our interests are at stake. This is also a question of fairness and public support for openness. As we seek to manage economic and social change in some sectors as a result of our openness to trade, so we must be committed to promoting and protecting new wealth and job-creating sectors. .

We need to promote our economic interests not by protectionism at home but by activism abroad. Our trade policy should be resolutely outward looking. Addressing barriers in third countries accounts for the bulk of the potential to improve the competitive position of EU industry. The EU is one of the most open markets worldwide. Its leading trading partners are less open, sometimes significantly so. EU trade interests are thus outward-looking in nature: the EU stands to win from the further opening of markets worldwide. The EU should take a robust approach to ensuring markets are genuinely open and that international rules are applied openly and transparently.

We should not be ready to emphasize the need for meaningful commitments from the most advanced fast-growing and competitive emerging economies. The world trading system is no longer the preserve of the OECD countries. Emerging countries like China, Brazil and India are reaping the benefits of the increasingly important role they play in world trade. Together they now represent 15% of global trade flows and their growth reflects this. China, for example has grown by more than 9% annually in the last ten years, largely thanks to annual export growth of around 25%. The EU is already very open to their exports and is ready to do more. But most of emerging countries combine high growth with high barriers against EU exports and this has to be balanced. Our ability to take benefit of the opportunities provided by these new, emerging markets will certainly be a major benchmark of the contribution of trade policy to realise the Lisbon Agenda.

We should ensure that the positive changes induced by openness are not jeopardised by abuses of fair competition. Trade defence instruments are there to defend European interests against unfair trade. These rules are part of the international trading system. They have an important role to play in ensuring fairness in the face of intense, new competition. While we are not trying to roll back the comparative advantages of any of our partners, we will take action if on the basis of thorough investigations we see those advantages being topped up by unfair practices such as anti-competitive predatory pricing behaviours or State induced distortions. International trade is meaningless if the rules of the game are not obeyed by all.

However, for this to provide real benefits for all in Europe, there is a need to go beyond trade policy. For EU producers to fully benefit from trade opening, internal policies must explicitly take into account the nature of the new environment created by increased openness to trade and investments. For EU workers to fully benefit from trade opening, it is also crucial to develop policies to equip people for change. Economic transformations linked to trade opening are the best guarantee to ensure growth and jobs creation in the long-term, but if nothing is done, short term effects may be costly for the less qualified and most vulnerable workers in the EU. We need a new, more social Europe. A social Europe that offers choice

and opportunity rather than one that tries to delay inevitable change or lock people into doomed jobs. Building barriers to keep low-productivity jobs in Europe is the best recipe to downward pressure the level of our wages. We need to offer imaginative help with adjustment, public policies that support change and help change to happen. Anticipation is a key requirement in this regard. Finally, the well-functioning of competition in the internal market is a necessary condition for EU consumers to fully benefit from trade opening.

All this calls for a comprehensive review of EU trade policy (see part 2) and a mobilisation of EU internal policies (see part 3).

Box 1: An EU external competitiveness strategy which fits into wider development goals

Sustainable development is one of the two pillars of EU trade policy, together with EU competitiveness. This goal can and should be entirely compatible with our competitiveness objectives. The growing inter-dependence between economies and business means that countries all share a stake in each other's prosperity and development. A trade policy which impoverishes others is not only wrong, but is by definition unsustainable in a globalising world. The EU is already the most open major global economy. Further progressive opening of our economy is critical both to our agenda of growth and jobs and to the development of our trading partners.

The EU recognises that not all developing countries are equally capable of exploiting the potential which market opening will provide. We must approach third country market opening in poorer developing countries in a way which contributes to development. This approach underlies the 'development package' of the Doha round and will continue to guide us. Trade-related technical assistance is also a key element to complement trade liberalisation, support the building of markets in the least developed and vulnerable developing countries and foster their integration into the world economy. Our agenda for market opening focuses on the major emerging countries and regions who are able to sustain competition and who already draw huge benefit from their integration into the world trading system. They also need to demonstrate that they are willing to accept the responsibility which their growing importance on the world trading stage implies. Indeed, as they grow, so does their role in providing poorer countries with full market access to help spur their development. Many of them retain very high tariffs which are holding back export-led growth in their poorer neighbours (62% of developing country tariffs are paid to other developing countries). 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" initiative – to developed country markets and to developing countries in a position to do so is a key policy outcome of the DDA.

On the other hand, the very development of developing countries – while welcome in its own right - is also of economic interest for the EU as it creates new opportunities for EU companies. The catch-up of living-standards and wages is also a key aspect as it allows the development of two-way trade in similar products and the preservation of a wide industrial basis in the EU. Such an evolution is a main feature of development as such (wages grow with productivity) and has always been observed to date (see Japan or Korea). But it can be hampered by institutional obstacles such as limits to freedom of association, which hinder wages capacity to adjust to productivity gains.

Hence the need to support reforms promoting sustainable development in developing countries. It is not only good for them; it is also important for the EU from its own

competitiveness perspective. The new scheme of the EU generalised system of preferences (GSP) supports our partners' efforts to respect core labour standards as well as key environmental agreements by providing additional preferences to those which ratify the main international conventions in this matter. Future EU FTAs should further develop this kind of supportive provisions, which could also be linked to a mechanism of peer review and public scrutiny for enforcement of commitments. But this is above all a major challenge for other external policies, in particular for economic and development cooperation, and in particular their governance dimension.

2. Developing a modern trade policy for growth and jobs

Effectively responding to global competition requires a sharper definition of our trade policy objectives as well as an unblinking examination of our current agenda, pointing out the areas where we should do more.

2.1. Securing real market access in third countries

Addressing non tariff barriers to EU exports and investments is a priority for the future. Tariffs still matter, in particular in advanced developing countries, and the EU should continue to push for their removal. But it is useless to get tariff reductions if the market remains closed by e.g. sanitary and phytosanitary (SPS) requirements, public procurement regulations, excessive customs controls or if exports are unprofitable due to specific norms to 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. This concerns above all trade facilitation and regulatory cooperation. Reducing red tape and costs to business and improving transparency in procedures all make a significant contribution to competitiveness. Regulatory barriers to trade are a major challenge for several key sectors, including services, food, cosmetics, pharmaceuticals, medical devices and motor vehicles and they are still of direct relevance for chemicals, textiles, tyres, electric and mechanical engineering. Although it is both perfectly legitimate and necessary to regulate trade in products and services, this has to be done in a transparent, non discriminatory manner and that is the least restrictive possible.

EU producers need a better access to raw material inputs in order to compete on a fair basis. There is an urgent need to tackle export taxes and export restrictions on resources such as energy, hides and skins, metals primary raw materials and scrap. The EU industry is very much dependent on imports from third countries. As regards ores and concentrates, it 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 raw materials' supply. Such measures seriously undermine our competitiveness on the domestic market and worldwide – not only in countries which apply the restrictions. Exports restrictions of many countries do not allow EU producers to compete on international markets.

Some EU metals manufacturers have been forced to switch to sub-optimal mix of input materials (compensating scrap material with ores and concentrates, which is also more energy intensive) or even reduce production or close plants when no substitution process were available (for example in the secondary copper sector). Unless they are justified by security

reasons (e.g. international conventions on export control of certain chemicals products or dual use goods), export restrictions of any kind should be completely eliminated.

We need to further strengthen the presence of EU companies in third countries through a permanent establishment. A “physical” presence in a foreign country consolidates the image of the firm, and that of the country of origin; adds predictability to the flow of trade, not relying on local importers; and facilitates the access of EU companies to more business opportunities. Moreover, the ability to invest freely in third markets becomes increasingly important as supply chains become more globalised. Investments need a predictable, transparent, non-discriminatory and secure business climate.

Box 2: 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. It is key to gradually liberalise and facilitate international trade in services, as more efficient services — in finance, telecommunication, distribution, environmental, transport, construction, professional and business services — 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 key. The World Bank argues that liberalising services would have strong impacts in promoting growth and improving productivity – with effects up to four times larger than simple tariff elimination and other reforms affecting goods. Even if overstated, the basic principle is persuasive.

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. They are prevented from providing their services in many parts of the world. The EU should push negotiations in sectors where it has a comparative advantage and where market access is hindered or where little commitments have been made so far by third countries. The services sector should be at the very heart of EU trade policy to maintain EU’s comparative advantage.

Progressive liberalisation of services trade, based on sound regulatory frameworks, will not only benefit the European economy, but it is also essential to developing economies, where services already make up more than 50% of the total economic output on average. According to the World Bank, liberalisation of services in developing countries could provide as much as \$6 trillion in additional income in the developing world by 2015, four times the gains that would come from trade in goods liberalisation. No country can prosper today without efficient services markets, which help countries build up and modernise their infrastructure and foster an environment that is conducive to foreign investment.

We should open public procurement markets abroad. 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. However, several of the EU's major trading partners operate discriminatory procurement practices which impede the fair participation of

EU suppliers in the 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.

We should ensure that third countries have the same high standards as we do in their use of trade defence instruments and don't abuse them. European producers are often adversely affected in third country markets by WTO-incompatible anti-dumping investigations and measures, which cancel out the benefit of the market access obtained in these countries.

Finally, it is ineffective to get market access if exports are 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. Our companies aren't always aware of the risk they take by doing business with certain countries and they don't know what to do when they find that their equipment is copied (e.g. China). Protection of geographical indications (GIs) is also of high importance for EU exporting interests in wines, spirits, beers and other agri-food products, given the high degree of usurpation of EU GIs on third markets.

2.2. The need to go beyond the current agenda

The conclusion of an ambitious Doha Round in the WTO has been the paramount priority of the EU for the last five years. A successful completion of a far-reaching DDA is an essential deliverable of the Lisbon strategy in itself. The EU has set ambitious goals regarding tariffs, NTBs, services, GIs and rules (especially anti-dumping disciplines and trade facilitation). It has shown great flexibility on agricultural market access and export subsidies to obtain real market access in industrial tariffs and services from all countries in a position to contribute, namely developed and major emerging countries. It has played an instrumental role in pushing for high level objectives on non tariff barriers (e.g. elimination of export taxes). We are now approaching an end game which would solve part of the external competitiveness equation. [to update as necessary]

However, even an ambitious result of the DDA will not address all the external competitiveness challenges we face. It is a necessary condition, but is not sufficient on its own. It is in particular difficult to obtain real market access in major emerging countries within the DDA due to the gap between their bound and applied tariffs and the special and differential treatment (legitimately) afforded to developing countries. Our initial objectives as regards goods, services, GIs and rules on anti-dumping are likely to be partially, not fully achieved. And some key issues remain outside the DDA, 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 are already used to complement the DDA but have been only a partial answer to our needs. The current geography of EU FTAs covers our neighbourhood and development objectives well, but our main trade interests less well. The content of these agreements remains limited: they may deliver on market access commitments but even an advanced agreement like the EU-Chile FTA doesn't allow a real breakthrough as regards IPR or regulatory issues.

During that time, several of our main trading partners and priority targets are very active in negotiating FTAs with our competitors (e.g. Asean members with Japan or Korea with the US). This bears a 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. In many cases, it will not be sufficient to cancel out the resulting protection differential. This relates to tariffs as well as non-tariff measures (e.g. at a time that the US and many of our developing country partners are engaged in negotiating investment bilaterally, after having refused to do so in DDA, the EU would be putting itself out of the picture by not taking advantage of bilateral negotiations to consolidate and improve investment conditions for the whole EU).

We have structural difficulties to address non-tariff barriers either at multilateral or bilateral levels. Although non-tariff, behind-the-border issues are more and more relevant, as already explained, they are still largely outside the core business of trade policy. It is certainly 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 necessary but not sufficient. Current instruments (e.g. mutual recognition agreements, international standardisation, regulatory dialogues) are useful and there has been some real progress on SPS issues and there is much more attention paid to IPR enforcement than before, but this is still insufficient compared to the issues at stake, and overall, the feeling is that we lack a real capacity to tackle these questions. In many cases, we lack the leverage to push negotiations forward. This applies to regulatory issues such as TBT, SPS or IPR but also to other more classic trade issues such as public procurement. 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.

2.3. Post DDA strategy

The successful outcome of the DDA is an irreplaceable step forward on which we will need to build further to serve EU key interests. The WTO will remain an essential platform to push forward further rules and opening of trade at the world stage but we can and should also develop further EU trade policy instruments, by better focusing on our key interests, fully mobilizing all existing instruments, gaining leverage in negotiations, and ensuring our tools to defend EU interests in global markets work in the face of globalisation.

a) Keep the WTO centre stage

The EU – as well as its partners – will continue to need to lean on a strong and efficient multilateral trading system. The multilateral rules-based system under the WTO is the most effective and legitimate means of managing and expanding trade. It provides fewer distortions, greater effectiveness and simpler rules (especially for SMEs) than any other system – not to mention the involvement of all countries only the WTO can ensure. It also provides a unique framework for dispute settlement.

After the completion of the DDA, there will be a need to reflect on the future role of the WTO to shape the contours of 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 element of the future agenda. Social and environmental aspects of globalisation will have to be dealt with in an inclusive manner between WTO members. There will also be a need for the WTO to ensure the current wave of FTAs strengthen and not undermine the multilateral trading system. Rules on FTAs have already been discussed within the DDA but given the relevance of this issue for the whole system, it should certainly be part of the post DDA built-in agenda (see box 5 below). Finally, the WTO will continue to provide the right framework for areas such as competition or public procurement where discussions should resume as soon as ready to do. The EU is ready to invest in future WTO developments but it will depend on the readiness of its partners as it cannot – and should not – be the sole pillar of the WTO.

Finally, there is a good case for modernising the WTO decision-making process. It encompasses several aspects from decision-taking rules to the organisation of formal constituencies and reinforced parliamentary involvement. Negotiations should be supported by real capacity for analysis in the WTO secretariat. The role of the WTO DG deserves to be reviewed. But above all, the organisation of constituencies and the involvement of WTO members need to reflect the new shape of the world trading system. As already mentioned, it is no longer the preserve of the OECD countries. Emerging countries like China, Brazil and India which are reaping the benefits of the role they play in world trade have to exert corresponding responsibilities within the WTO.

b) A renewed market access strategy

The EU's Market Access Strategy was launched in 1996, after the Uruguay Round, with the aim of working more vigorously towards the enforcement of multilateral and bilateral trade deals and the opening of third countries markets. It aimed at providing exporters with information on market access conditions as well as a framework to tackle the barriers to trade in goods, services, intellectual property, and investment, post-Uruguay Round. The Market Access Database was created as a tool for the implementation of this strategy. It has proved useful to inform business as well as policy makers about market conditions and barriers to trade, but has not lived up to its full potential in providing a systematic and visible focus on eliminating the barriers in a coordinated way.

A specific communication on the re-shaped Market Access Strategy will follow in early 2007. The objective is likely to focus our efforts on the identification and prioritising of sectors and markets where the removal of trade barriers would create the highest 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 and announcement of priorities as well as 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 in this respect. Concentrating available 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. In addition, investment in technical expertise, coordination, centralized tools and bilateral negotiations which have proved to be able to remove some of the more complex barriers should be used as best practices on a broad scale inside the Commission services. The renewed Strategy would incorporate the relevant EU trade policy instruments, either existing or newly developed as outlined in this Communication. [to be developed]

Box 3: A focus on IPR protection enforcement

The Commission adopted in 2004 a Strategy determining priorities and optimising the use of resources in order to obtain the most effective results in terms of IPR enforcement in third countries. This strategy proposes the identification of priority countries and the implementation of a number of specific measures in fields like technical assistance, awareness raising, political dialogue, partnerships with private entities as well as with international organisations and countries sharing our concerns.

It has already delivered in many areas: the Commission is conducting a productive structured dialogue with the Chinese authorities and a IP working group including Chinese authorities and EU right-holders; in parallel, the Commission presence in China has been reinforced; the Commission has launched a joint programme of cooperation on IPR enforcement with the US, which is face to similar problems, and also has an IP Dialogue with Japan; it has introduced the enforcement issue in the WTO Agenda, by proposing a detailed assessment of enforcement practices among the WTO membership; finally, the Commission also undertook several actions of awareness raising about violations of all types of IP rights.

As a result of the Enforcement Survey it launched in 2005, the Commission will focus its enforcement efforts on a small set of priority countries: [names to be added]. As foreseen in the IPR enforcement strategy, it will also create specific IPR dialogues with Russia and Ukraine and set up a new technical assistance programme focused on IPR enforcement in China. Beyond that, it will promote enforcement-enhanced legal frameworks, binding enforcement commitments, and reinforced provisions in future FTAs. It will 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. It is also seriously considering ways to build the EU companies' knowledge and capacity of the IP ground in China, e.g. how to protect and enforce their IP rights through available legal tracks.

c) A new generation of FTAs

Within the toolbox of market access (enlargement negotiations, multilateral or bilateral negotiations, dispute settlement), multilateral negotiations and the enforcement of the resulting commitments have been the primary tool to serve the market access objectives, while FTAs have responded mainly to neighbourhood and development motivations – even if market access considerations have not been excluded (e.g. Mexico). Moreover, to focus attention on the DDA, the EU has agreed on self-restraint with respect to launching any new RTAs⁴.

Now that the parameters for a deal in the DDA are set, it is time to take steps to build on this outcome [to update as necessary]. We need to top-up the DDA with additional market

⁴ The most recent internal EU review of its strategy for regional trade agreements, agreed in the Council in the fall of 2003 after the deadlocked WTO Ministerial Meeting in September 2003, established in general lines the following: (1) new RTA initiatives are not excluded and should be assessed on a case-by-case basis; (2) the DDA remains the priority and new initiatives should logically not be launched before DDA is concluded; (3) RTAs should bring clear and tangible economic benefits; and (4) evidence of progress as regards regional integration with partners that are part of a grouping.

access and improvement of the business climate, particularly in our future major trading partners. A bilateral approach would allow the EU to liberalise tariffs further and to take non tariff measures better into account. As already mentioned, there is also a growing need to restore a level playing field with our main competitors on major markets. This justifies reconsidering the role of competitiveness and economic motivations in the rationale for negotiating FTAs – while fully recognising the relevance of other factors such as neighbourhood and development, and the wider role of trade policy in EU external relations.

Focussing on economic rationale in future FTAs implies a review of our priority list of potential partners to target our real market access priorities. Taking into account economic criteria such as market potential (economic size and growth) and protection against EU export interests (tariffs and NTBs) and weighing in potential partners’ activities in terms of concluding/planning FTAs with EU competitors (see box below) Asean, Korea and Mercosur (negotiations on-going) emerge as potentially interesting future FTA partners for the EU. These countries combine high levels of protection against EU export interests, large market potential and are active in concluding FTAs with EU competitors. Except for the latter criterion, the same or to a greater extent holds for China and India. The GCC (negotiations on-going) and Russia also show relatively interesting combinations of market potential and level of protection.

Box 4: Economic criteria for potential FTAs

Two main economic indicators should frame our decisions:

(1) **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.

(2) **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 EU comprehensive 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 EU main competitors such as the US or Japan bears a risk of marginalizing the EU. The higher the level of barriers against EU interest, the higher the risk of trade diversion implied by such FTAs. An interesting example in this respect is NAFTA, which resulted in a substantial loss of market share for the EU in Mexico, but which 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 offensive and defensive interest but also 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**.

FTA content

The effectiveness of competitiveness-driven FTAs will to a large extent be judged by its capacity to tackle non tariff barriers. New FTAs would of course need to be comprehensive and ambitious in coverage, including the elimination of duties for

substantially all trade and substantial elimination of restriction of trade in services covering all modes of supply. In case counterparts have signed FTAs with other countries that are competitors to the EU, full parity should be ensured. Import quotas and all forms of duties, taxes, charges and restrictions on exports should be eliminated. But future FTAs would also need alternative ways of addressing non tariff barriers, in light of EU industry interests and past experiences with EU FTAs. Indeed, current FTAs don't always provide sufficient grounds to do this: as already pointed out, their value added as regards IPR, SPS or TBT issues remains limited.

For example, the lack of regulatory transparency is often cited by industry as a major problem in almost all the countries with which the EU would have an interest to negotiate FTAs and is at the root of many non-tariff barriers. The problem relates both to the way in which new regulations are introduced without sufficient consultation and the way in which regulations are implemented on the basis of very broad discretion. Horizontal disciplines on transparency could be developed beyond TBT and Trade Facilitation disciplines. This should be combined to some form of horizontal mediation. A specific dispute avoidance / resolution mechanism to tackle difficulties linked to regulatory issues on the model of the SOLVIT mechanism used to tackle barriers to the internal market could be envisaged. More generally, there will be a need to strengthen monitoring and enforcement mechanisms in bilateral trade agreements so as to make them as efficient as the WTO dispute settlement. These mechanisms should be accessible to industry.

Further reflection will also be needed on the ways 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). This would continue to be mostly focused on consultation, early warning procedures, exchange of information and possibility to comment. Institutional aspects of these commitments should be strengthened, notably with a request for partner countries to participate in specific international mechanisms of standard-setting/regulatory convergence (e.g. ISO, UN-ECE).

A new generation of FTAs should also include new provisions for investment, IPR and competition. Our potential partners such as India, Korea and ASEAN seek a very high level of ambition as regards investment and go well beyond the provisions of current EU FTAs. A new, ambitious model EU investment agreement should be developed in close coordination with Member States. Another area where it will be needed to be more ambitious is IPR, where current FTAs only include very weak provisions. This would encompass a well developed part on enforcement of rights along the lines of the EC Enforcement Directive. Finally, the competition chapter of future FTAs would also deserve to be reviewed.

All this require a verification of a common level of ambition between the EU and prospective FTA partner's preparedness to actually remove real obstacles to trade. This evaluation needs to be done prior to the decision to launch negotiations, so as to avoid the risk of negotiations becoming subsequently blocked because of a mismatch of expectations between the two parties. [add reference to the exploratory work undertaken in the EU-Asean Vision Group and the EU-India High Level Trade Group as well as the launch of exploratory talks with Korea]

Box 5: A stepping stone for further multilateral integration

Ambitious and WTO-consistent FTAs and the multilateral WTO approach can offer different and mutually supportive means to achieve similar goals. FTAs can build upon WTO rules and its framework for negotiations by going further and faster in promoting openness and integration than is sometimes possible at the multilateral level. The EU's own integration and the broader European experience of FTAs are good examples of how regional integration schemes can be combined with, and help facilitate, increased multilateral openness. The EU has enlarged, integrated and deepened our relations with partners around the globe, while taking active part in the WTO and multilateralism at large.

At the same time, FTAs can involve a number of risks for the multilateral trading system. They may complicate trade for economic operators (due to the possible multiplication of rules of origin or divergent regulatory requirements) and increasingly make non-discrimination the exception. The positive impact of FTAs is strictly dependent on such agreements being comprehensive in scope and providing for liberalisation of substantially all trade. The current surge in low quality FTAs is a particular concern in this regard. As part of the DDA, the EU has sought both improved transparency and clarified disciplines for all FTAs. This is certainly an area where more discussions will be needed in the future in the WTO framework. Further substantive disciplines will be needed as well as reflection on a possible harmonisation of preferential rules of origin to avoid any "spaghetti bowl" effect.

The EU has also persistently defined its own FTAs so as to ensure their complementarity with the multilateral trading system and to make them a stepping stone rather than a stumbling block for further multilateral trade opening. The new generation of FTAs with a deepened content proposed above only reinforces this stance. EU FTAs must be fully compatible with WTO rules on FTAs but above all, they should aim at deep integration, i.e. WTO-plus in terms of width and depth, in order to maximise the mutual and long-term benefits from regionalism. It is particularly encouraging in this regard that exploratory talks undertaken by the EU already show some interest from partner countries to engage with the EU on subjects such as competition, investment or public procurement, which have been difficult to discuss at the multilateral level.

d) Working to open public procurement markets abroad

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. The aim of this initiative would be to enhance the competitive position of EU suppliers who wish to tender for public contracts abroad. Currently, several of the EU's major trading partners operate restrictive procurement practices which discriminate *de jure* or *de facto* against EU suppliers..

The prime avenue for the EU to address these market access issues is by encouraging third countries to negotiate agreements with the EU. Market access can be negotiated either in the framework of the plurilateral WTO Government Procurement Agreement ("GPA"), or bilaterally as part of comprehensive FTAs. To the extent that the Community's trading partners are prepared to negotiate substantial commitments in this field, there is clearly no need for any action. However, the broad openness of the EU public procurement market does not always encourage our partners to negotiate reciprocal market access.

The aim of this new initiative would be to 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 barriers that still exist internally 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.

This initiative would only be directed at countries operating restrictive procurement practices which result in a discrimination against EU suppliers. The “Buy National” policies prevalent in certain countries are illustrations of such restrictive procurement practices. Such policies are often expressed in the form of so-called price preferences giving national suppliers an advantage on price of 50% or more over their European competitors. These measures would not be used vis-à-vis least-developed countries.

e) An appropriate use of trade defence instruments

As mentioned above, trade defence instruments, especially anti-dumping and anti-subsidy, have a key role to play to defend European interests against unfair trade. But we also have to ask whether our rules are sufficiently adapted to the complexity of global markets. Do they allow us to take account of the wide range of interests thrown up by globalisation, where manufacturers in the EU may compete with distributors which have outsourced production, and where consumers and other manufacturers expect the benefits of wider choice and lower prices? Suppliers produce in more than one country, often both inside and outside the EU. And goods assembled in one country often contain parts produced in another. Protection of EU businesses needs to be effective, 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 nuanced than in the past.

The ongoing anti-dumping case on footwear from China and Vietnam has highlighted the need for such a reflection process. This case has thrown into sharp relief some of the complexities of competition in a global world. For instance, the Community interest test has traditionally mainly focussed on the trade off between consumer/user interests and those of producers. The footwear case has highlighted the need to also take into consideration other elements, such as the situation of Community producers that have outsourced certain steps of the value chain (outsourcing certain parts of the value chain is often the only way to sustain fierce international competition and, in this sense, helps to secure jobs and create growth in Europe), the impact on distribution services in the EU (in particular as far as transparency and predictability of trade policy measures are concerned) and the possible social impact of our measures. Depending on the products concerned, anti-dumping duties can indeed have unintended practical implications for the budget of poorer families. While there are many established processes and procedures to assess injury to producers, it is more difficult to quantify the wider interest. But this should not lead to neglect it. In the footwear case, our preliminary response to this challenge was to exclude children’s shoes from the provisional measures imposed.

Current trade defence instruments contain a degree of flexibility but might need to be reviewed in light of the new challenges posed by globalisation. While the footwear case is clearly exceptional, it raises the general questions if we should not look more thoroughly at the application of the Community interest in the future. The aim is to ensure we have the right tools at our disposal. The Commission will collect views from experts and stakeholders and organise a seminar to throw fresh ideas in this debate. This will lead to a Commission Communication with, possibly, reform proposals by the end of 2006. This is very much an open-ended exercise.

f) A new relationship with China

China plays a very specific role in all the above mentioned issues. While it should not hide the wider challenges linked to other emerging markets, it is undoubtedly the biggest single challenge of globalisation in the trade field - and a real test-case 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. This certainly needs imaginative thinking. We should pursue a pro-active, ambitious agenda to promote EU interests.

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 which will effectively deliver a more balanced relation between the EU and China. We need to develop a new relationship based on mutual benefit, mutual respect and fair play. The roadmap is likely to focus on key challenges such as intellectual property, market access issues and investment opportunities, while promoting areas of common interests and cooperation. [to be developed]

3. Maximising the benefits of increased openness to trade and investments: the need to go beyond trade policy

External aspects of competitiveness are certainly not limited to trade policy. Internal market rules and policies have a key role to play⁵. EU producers' capacity to benefit from trade opening directly depends on internal policies choices and how they relate with the new environment created by increased openness to trade and investments. For EU workers to fully benefit from trade opening, it is crucial to develop policies to equip people for change. Finally, the well-functioning of competition in the internal market is a necessary condition for EU consumers to fully benefit from trade opening.

3.1. Ensure internal policy initiatives fit with global competition challenges

As trade issues are shifting towards behind-the-border, regulatory challenges, trade policy can no longer be developed in isolation. It has more and more to rely on effective coordination with other Community policies. As we need to focus our trade policy on its contribution to jobs and growth in the EU, so we also rethink our internal EU policies to relate them more effectively to what happens “outside” and to better serve our economic interests.

The greater challenge is to ensure that external considerations are taken into account when setting key internal policies (e.g. competitiveness, energy, spending priorities). Such an “international reality check” should be done systematically through impact assessments. This should aim at a better consistency in rules and practices between the EU and its main developed and emerging partners. Taking early account of the external dimension in our own policy making is a key requirement to minimise potential regulatory frictions across international markets. This is a better regulation criterion, which also serves our export interests. International regulatory cooperation is the right tool for it, helping to choose the least trade restrictive system, minimize the cost of regulations for domestic business and "upstream" dispute resolution. It is essential that the globalised nature of certain sectors (such as automobile or chemical industry, but also shipbuilding or aerospace, for instance) is taken into account when consulting the business. One of the good examples as been the consultation process of the REACH directive where the voice of the industries outside Europe became heard. It is extremely important for this to be done right from scratch. The CARS 21 High Level Group is another good example of cooperation between the Commission, Member States and the industry which resulted in the recommendation to replace 38 EC directives by international rules and to introduce self- or virtual testing of additional 25 directives.

An effective dialogue with third countries as regards regulatory issues supposes more flexibility as regards our own legislative process. If we expect our partners to be open to our market access concerns, we have to demonstrate some flexibility in return. We should be ready to improve our level of transparency, prior information, chance to comment, flexibility along the content are necessary from our side if we expect it from our partners. We can not simply project our model onto third countries.

⁵ [add a reference to the concept paper]

EU ability to promote its approach in international rule-making fora as well as in bilateral relations depends on the degree of harmonisation within the Internal Market. The completion of the Single Market allowed the adoption of EU-wide standards which were more readily to spread internationally and supportive of EU industry. Europe enjoyed a key success in the early adoption of the GSM standard for mobile telephony and the development of a globally competitive industry in Europe.

Box 6: EU external energy policy

Energy policy can contribute to the EU external competitiveness, notably through an enhanced security of internal and external energy supplies. Following the events at the beginning of the year, the EU has realised the need to adopt a coherent and strong energy policy which strengthens in particular its external dimension.

The EU will complete its **internal energy market** with a view to establish an open and competitive energy market, based on competition between energy companies which should gradually look at EU-wide rather than national markets. This will contribute to Europe's overall security of supply. The EU will should also look for **sustainable, efficient and diverse energy mix**, with a view to tackling both security and competitiveness problems, and this should include looking at all energy sources, including renewable and nuclear energy. **Energy efficiency questions** are particularly important as well as the need to develop **new energy technologies** which are key to improve security of supply, sustainability and industrial competitiveness.

The EU is also defining its **external energy policy** to enable it to play a more effective international role in tackling common problems with energy partners worldwide. It will develop strategic partnerships with its key energy partners and engage in dialogues with key energy consumer countries. Some key objectives in this context are:

- (1) Promoting transparency and improved governance in the energy sector through energy partnerships with third countries, the objective being to create mutually beneficial, open, transparent, non discriminatory and stable legal conditions for energy investment and trade
- (2) Improving the climate for European companies' investments in third countries and opening up the production and export of energy resources to EU industry.
- (3) Improving conditions for trade in energy through non-discriminatory transit and third party access to export pipeline infrastructure.
- (4) Improving production and export capacities in producer countries and developing and upgrading energy transportation infrastructure in producer and transit countries.
- (5) Encouraging energy efficiency, use of renewable energies including bio fuels, low emission technology and rational use of energy worldwide.

Trade policy has a key role to play in this context. There are a number of trade-related questions on which we will want to work with our third partners (transit, investment, access to networks) and we should also use as appropriate WTO rules.

We have to make sure that competition policy provisions are adapted to a global competitive context. This means factoring in our partners' analyses and behaviours. This has been done recently in the merger control regarding the way in which mergers between firms operating in the internal market are assessed. Also, the world's major competition authorities are increasingly co-operating against collusive practices in their fight against international

cartels. International venues such as the International Competition Network (ICN) provide a useful forum to spread best practices and to foster cross-border convergence and co-operation. Such a pro-active outlook has recently been undertaken in the field of State aid, i.e. the control of public subsidies. Whilst the EU's internal market has rightly benefited from a strict control of state aid, the jurisdictions of our major trading partners do not have such an encompassing discipline. [to be developed]

Beyond, spending priorities as regards innovation and R&D (Framework Programmes, Technology Platforms, European Institute of Technology) should also address the needs concerning the external competitiveness and build on EU's comparative advantage in "upmarket" products.

In conclusion, the need to address the growing complexity of behind-the-border trade barriers necessitates policy coherence between the internal and external policies and very good cooperation between different services in the Commission in order to improve the competitiveness of EU companies on third markets.

Box 7: Responses to small and medium enterprises' special needs

While they constitute a key asset of the EU economy, small and medium enterprises (SMEs) find it more difficult than multinational enterprises to access third markets, notably due to their limited capacity to cope with non-tariff barriers. Several initiatives described above 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 (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. SMEs would directly benefit from our efforts to reconcile EU regulatory approaches with those of its partners.

3.2. Equip people for change

While the process of market opening may be beneficial overall to growth and employment, it also brings about transformations which are disruptive for some in the EU. These transformations are necessary for openness to yield to full benefits, through a better specialisation. In a sense, they constitute an opportunity which needs to be seized. But they are costly for the less qualified and most vulnerable workers. Openness to trade thus may imply a form of hidden redistribution that should be corrected: this is an imperative of fairness. Addressing these adverse effects is also a political imperative because of the wide asymmetry between these costs - which are quite limited at an aggregate level but very visible, tangible and concentrated in the specific areas they occur - and the overall benefits of openness, which, even at a high level, often appear intangible and are usually diffuse: this asymmetry directly feeds opposition to market opening. Finally, this is also an economic imperative insofar as a targeted anticipation policy helps in minimising the costs of change, facilitates and accelerates transitions (for example by limiting duration of unemployment or the scope of wage losses), and ensures that market opening can effectively take place.

These adverse effects are of course taken into account in the definition of trade policy: sectors which are weak or vulnerable to international competition deserve particular treatment; and transition periods are systematically part of every trade agreement allowing for

smooth and progressive evolutions. Moreover, safeguard clauses shelter EU producers from unexpected changes leading to massive imports increase (as in the case of steel following US measures in 2002). Companies, as well as people, need time, predictability and legal certainty to adapt and evolve.

However, whatever the precautions taken, structural adjustment is inherent to trade openness and this must be tackled. Denying it would not be looking economic realities in the face of a world of dramatic industrial change. This should be addressed with more flexible labour markets and safety nets. The link with the new growth and jobs strategy is clear: we need active labour market policies to help unemployed people back into work quickly. We should equip people for change with lifelong learning and increased human capital endowment. This is about a new, more social Europe. A social Europe that offers choice and opportunity rather than one that tries to delay inevitable change or lock people into doomed jobs.

Active policies to anticipate and manage transition in the medium term are also needed⁶. The regional dimension is particularly relevant when managing the effects of market opening. Indeed, transition costs are disproportionate in those regions that have underdeveloped and non-diversified economies. In the context of the renewed Lisbon strategy, the new generation of structural funds will increasingly aim at anticipating changes linked to globalisation and preparing for them. Parts of these funds are specifically ear-marked in this respect. Adjustment to changes induced by the Single Market was the key reason for the inception of cohesion policy at the end of the 80's. The adjustment to changes induced by international trade opening and the division of labour, which are of similar significance, should now become a key component of it.

Finally, whatever our efforts to anticipate and manage change, there will always be unexpected trade shocks which will provide adverse effects for some workers. The newly established European Globalisation Adjustment Fund is mainly intended to protect against these unexpected developments.

Box 8: European Globalisation Adjustment Fund

The new European Globalisation Adjustment Fund will offer a European response to help those adjusting to the consequences of globalisation: a sign of solidarity for the many who benefit from openness to the few who face the sudden shock of losing their job. It will provide a swift answer to one-off, clearly defined problems resulting from restructuring.

The Fund will cover training, relocation of workers, outplacement: the costs of action to help find a new job. Clear criteria on the nature of the crisis and the scale of the eligible costs have been set out. Not all restructuring will qualify: this will be a crisis mechanism to be used only to address significant economic and social shocks related to globalisation. It will only intervene if a threshold is reached, defined in terms of the proportion of workers hit by redundancy in the sector and the region concerned, and the local jobless rate. To be cost-effective, this instrument will be delivered through existing Structural Fund instruments and using the same rules.

⁶ See Commission's Communication on "restructuring and employment", April 2005

3.3. Ensure the benefits of trade policy are passed on to consumers

European citizens expect to see real, positive results in exchange for the often difficult process of economic and structural change. They want to see the benefits of improved market operation being passed on, for the good of consumers and society in general. The case for openness is strongly undermined if its benefits drift away along the supply chain as seems to be the case in certain Member States e.g. in the textiles and clothing sector (see part 1 above – of such concerns are not limited to one specific sector in particular but this case is relatively clear-cut).

There may be several reasons for such differences in the translation of lower import prices into consumer prices following textiles liberalisation. 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.

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. The Commission will look at it more in-depth in the coming months, and not only in the textiles sector. A systematic monitoring of evolution of import and consumption prices will be put in place. More analysis of the reasons that may explain such divergences between trends in import prices and retail prices is needed before any action to be taken. It is the aim of competition policy to ensure that markets operate as efficiently as possible to deliver favourable outcomes for consumers. It could also be linked to internal market issues. But operational follow-up also fall within the competence of Member States. The UK Fair Trading office major inquiry into competition in the retail sector is a very good example of what can be done. It is also the case of structural reforms in this sector as foreseen by Spain and Greece in their Lisbon National Reform Programmes.

Conclusion

Elaborate our longer term thinking now that the DDA is concluded. Develop a trade policy which is adapted to the challenges of the XXIst century. Post DDA programme. Results oriented trade policy action plan. Broaden the trade policy agenda and maximise the synergies between all Community policies to deliver for growth and jobs.

1. **A “modern” trade policy** providing an effective answer to globalisation; stressing our export oriented needs and the outward nature of EU trade policy; being prepared to address market opening in big emerging markets; effectively mobilising all available trade instruments; promoting key EU assets (IPR); taking into account the changing nature of international trade and production, including a broader view of EU interests (TDI); addressing new regulatory obstacles to trade and ensuring a better interplay with other policies.
2. **Deliverables for the second half of the Commission’s mandate**
3. **More consistency between internal and external policies.** Internal policies have increasingly to factor in global competition, should they give the EU industry the means to success, ensure that trade opening benefits to all, and help those adjusting to the consequences of globalisation.

Box 9: Nine policy initiatives to boost competitiveness

- Action 1. **A renewed market access strategy:** regular review and announcement of priorities as well as reporting on progress made; better coordination with Member States and industry; focus on enforcement issues. *Timeline: January 2007.*
- Action 2. **Second phase of the EU IPR enforcement strategy.** Reinforced dialogue and cooperation with concentration on a limited number of countries. *Timeline: identification of priority countries in September 2006.*
- Action 3. **A new generation of FTAs:** market access oriented; carefully selected; with enriched content and strengthened enforcement. *Timeline: launch of negotiations with key partners as of beginning 2007.*
- Action 4. **A new external procurement initiative:** an initiative to access to major public procurement markets abroad by ensuring greater reciprocity. *Timeline: Fall 2006.*
- Action 5. **A review of our trade-defence instruments:** in view of the changing nature of international trade and production; with a broader view of EU interest. *Timeline: possible Communication of the Commission in December 2006 and proposal for a regulation in 2007.*
- Action 6. **A roadmap for a new relationship with China.** *Timeline: November 2006.*
- Action 7. **Ensure internal policy initiatives fit with global competition challenges.** *Timeline: ongoing.*
- Action 8. **Equip people for change.** New generation of structural funds and new European Globalisation Adjustment Fund. *Timeline: as of 2007.*
- Action 9. **Ensure that the benefits of trade policy are passed on to consumers.** Systematic monitoring of development in import and consumer prices. *Timeline: as of 2006.*