

EIN Working Group Globalisation and International Trade Seminar on November 16th, 2010: Free Trade Agreements and the Future of Global Trade

Chair: Christofer Fjellner, MEP

Members of the Panel:

Lucien Cernat, Chief Economist of DG TRADE of the European Commission, Brussels

Patrick A. Messerlin, Groupe d'Economie Mondiale at Sciences Po, Paris

Razeen Sally, Director of the European Centre for International Political Economy (ECIPE), Brussels

Daniel Caspary, MEP EPP (Germany), EPP coordinator in INTA

Rapporteur: Hanns R. Glatz, Partner CNC

The presentations and the discussion can be summarised as follows:

A. EU trade strategy

The EU's trade policy, defined in 2006 ("Global Europe"), was still valid but some elements of the strategy needed adjustment because of changed circumstances:

- Impact of economic crisis
- Changing economic environment
- Public expectations and new policy objective.

Eurobarometer results showed that the public opinion was strongly in favour of trade and believed in Europe's competitiveness, but they were less confident about the future because of growing competition from Brazil, China and India. They also expected trade to deliver jobs and consumer benefits.

In the next five years, 90% of economic growth will occur outside the EU – if the EU wanted to benefit from that it needed to remain connected to those economies by trade.

"Europe 2020" fixed the policy priorities for the EU: smart and green growth, job creation, boosting innovation and the digital economy, creation of a dynamic labour force, and poverty reduction. Triple contribution from trade:

- Additional GDP of 150 bn € (more than 1%) by 2020 if all ongoing negotiations successfully concluded; One of the few and cheapest EU policies to create growth.
- 14 Mio workers depending on exports, 36 Mio linked to trade and 7% wage premium of trade-induced competitiveness
- 600 € per year additional disposable income for each consumer.

EU agenda combined the multilateral and the bilateral approach with the aim of deepening trade relations with strategic partners:

- market access for goods and services (access to growth in external markets)
- investment opportunities
- enforcement of trade rules and agreements
- opening up of public procurement
- protection of intellectual property
- access to raw materials and energy
- elimination of regulatory barriers (

EU does not envisage putting anything into the trade policy tool box to intervene in currency matters.

Selection of FTA candidates according to potential benefit for European growth, to overall and specific commercial interests and according to political opportunity.

B. Critique of the EU's FTA policy

Europe's position of strength as the biggest trader was weakened by declining competitive strength. DDA suffered from a number of deficiencies which prevented early success and created a strong momentum for bilateral trade negotiations.

EU negotiating/implementing FTAs with 35 countries and pursuing yet undefined programs with US, China, Japan and Russia suboptimal:

- Lessons from Washington showed that involvement of the EP might render the negotiating process even more cumbersome;
- Benefits of FTAs overestimated since trade costs in free trade areas are only marginally lower for goods, and practically identical for services (which represent some 70% of EU's foreign trade), compared to trade costs outside FTAs.

The quality of most EU-FTAs is relatively low. Applied tariffs are often not far away from negotiated tariff preferences. Many of the FTA partner countries are badly governed and regulated. Preferences are suddenly eliminated when FTA partners open up multilaterally (by unilateral decision or in the WTO context), leaving foreign investors with uncompetitive enterprises, tailor-made to a closed market.

Too many strategic goals - sometimes confrontational - enter FTA negotiations:

- Investment (conflict between EU and existing national treaties and links)
- Intellectual property rights (against interests of consumers in foreign partner countries)
- Public procurement (conflicts of interest in partner countries, but also among traditional suppliers in the EU)
- Technical/regulatory barriers (no "mutual evaluation" and no link between internal/external policies; i.e. others must accept "acquis communautaire")
- Development countries' FTAs = full membership without responsibilities

Reciprocity in EU's public procurement agreements risks eliminating the advantages of competition; could trigger a spiral into the wrong direction.

Alternative strategy, which could also show a way for the DDA to get out of its present impasse, Focus on plurilateral negotiations:

- with a few countries (a dozen) holding parallel interests,
- concentrating primarily on services in few sectors (three),
- which could quickly provide liberalisation of up to 80% of trade in the selected area.

Global supply chains may overcome a number of trade obstacles, dampen the exchange rate effects and benefit also sometimes from controlled protectionism. They will expand within the industries and between sectors. FTAs do not promote this.

C. FTA strategies of leading trading nations

Empirical data show that the numerous FTAs have

- not produced real trade liberalization,
- not produced major trade distortions either,
- no link with structural reforms at home.

On a global scale, trade liberalization is not on top of the agenda of the leading economies (US, China, India), and also the new EP powers might work more as a brake than an accelerator.

US:

- Strongest FTAs (except for the EU association agreements with future members): comprehensive tariff elimination with short transition periods, NTB (IPR, ...), services and investment (negative lists), government procurement, trade facilitation, competition, labour and environmental standards, dispute settlement;
- Carve outs in favour of US (prototype NAFTA);
- Work with small or medium-sized economies that were already pretty open; not with other large economies (Americas, S-Africa, Malaysia, Vietnam).
- Stalled under Obama administration. It is open whether Korea, Colombia, APEC will make any serious progress in Congress.

Asian countries (China, India, Japan):

- FTAs with the major developing countries in Asia.
- S-S FTAs: trade light: just about 90% of trade, longer transition periods; little beyond tariff elimination (copying WTO provisions or go unnoticeably further);
- Negotiated on political grounds (“strategic”).
- China has stopped liberalization and concentrates on industrial policy. Will not sign up on “WTO+” with developed countries. (WTO = Ministry of Commerce, MOFCOM, FTAs = Ministry of Foreign Affairs).

EU:

- Weaker than US (except EU-Korea); positive lists, no dispute settlement, repetition of WTO language;
- Will Lisbon Treaty change this? Role of EP ?;
- Canada and Singapore could be success stories; Mercosur, India, Asean countries (except Singapore) more doubtful
- Selection of candidates - risk of concluding FTAs that are not worthwhile and may, in fact, lead to trade distortions.
- Connection of trade policy and internal market policy very important; experience shows that economic benefits will be produced only if both policies are pursued in parallel.
- FTAs will be beneficial for the EU only if they fit into a strong multilateral framework and are accompanied by internal market liberalization. Europe 2020 is not enough
- Trade is closely related with many other policy areas which complicates negotiations. With many weak governments it will be difficult to find compromises which accept that there are not only winners but also losers.

D. The EP's role in EU'S FTA policies

Article 207 of the revised Treaty on the common commercial policy (including investment) puts the European Parliament on the same footing as the Council:

- Consent by EP necessary for ratification of FTAs
- EP must receive the same information as Member States' Committee (former "133 Committee")
- INTA agendas more charged with trade policy legislation (will require using simplified procedure). Not enough MEPs devote sufficient time to trade policy issues; INTA too small (half the size of AGRI).
- Commission has not yet fully internalised the changed situation.
- Assent to South Korea test (close decision), ACTA second test

On EU trade policy:

- Past performance not as successful as presented by Commission
- "Global Europe" strategy contains interesting elements but value added of new Trade Policy Strategy for 2011 or for the next ten years not obvious
- Does the strategy take into consideration changes that are likely to occur in the world in the next ten years from now?
- EP will adopt an opinion in April 2011, raise a number of questions but is likely to maintain the current goals.

FTAs should be complementary to multilateral agreements and support the multilateral trading system. Transatlantic cooperation is necessary.

Left and ALDE support protectionist ideas. There is the risk of such ideas entering binding EP reports, creating eventually confusion and overburdening trade agreements: Trade and environment; trade and climate change (trade risks to become secondary to the other issues).

Hanns Glatz