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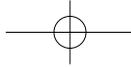


European Commission

EXTERNAL TRADE





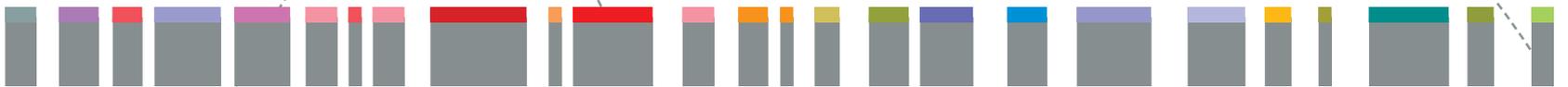


Foreword

by Peter Mandelson,
EU Trade Commissioner

In the global economy, Europe's trade policy must become an integral part of its wider approach to economic reform and competitiveness. To build a stronger EU economy at home, Europe has to be more competitive abroad.

The changes in the global economic order today are as significant for the world economy and international relations as the end of the Cold War. Global economic integration is quickening, driven by growing trade, falling transportation costs, and a revolution in information and communications technology. This is creating opportunities for growth and for development on an unprecedented scale. But it is also putting new pressures on global resources and creating new competition for EU workers and industries. It has eroded some old certainties and aroused new fears.



The answer to these fears is not to close ourselves off or to seek to stop change. We need strong economies to preserve the basis of the social models that are an integral part of European life. In a global economy, strong economies are competitive economies. And competitive economies are built on trade.

There are two critical factors in European competitiveness. First, having the right policies at home which reflect the external competitive challenge and maintain our openness to trade and investment. Second, ensuring greater openness and fair rules in other markets around the world.

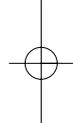
Our trade policies have a vital role in stimulating growth and creating jobs in Europe. To do so, we need to adapt the tools of EU trade policy to new challenges, to ensure Europe remains open to the world and other markets open to our trade. More than ever, Europe needs to import to export; to trade in order to grow. Our supply chains are global. We need to be open so that we can insist on openness from others.

In 2005, the renewed Lisbon strategy set out the steps we should take in the European Union to deliver growth and jobs. This internal agenda must be complemented by an external agenda for improving European competitiveness in the global economy. Our primary means of doing so is through the WTO. That will mean our first priority and the Commission is working intensively to restart the Doha negotiation after its suspension in July 2006.

We also need to build on the platform created by the WTO to open markets further to trade and investment, to tackle barriers which lie behind the border and to step up our engagement with major emerging economies. So from Autumn 2006 and through 2007, the Commission will set out the competitiveness agenda for EU trade policy with a series of linked initiatives on market access, EU policy on China, trade defence instruments, steps to further protect intellectual property rights, and a new generation of bilateral trade agreements to build on the EU's strong commitment to the WTO.



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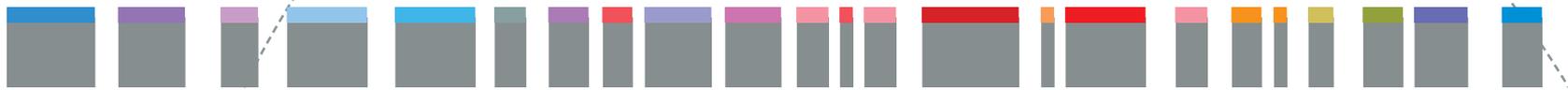


GLOBAL EUROPE

competing in the world

A Contribution to the EU's Growth and Jobs Strategy

Executive Summary



A strong European economy through competitiveness in global markets

Growth and jobs, and the opportunity they create, are at the heart of the European Commission's agenda for Europe. They are an essential condition for economic prosperity, social justice and sustainable development and for equipping Europeans for globalisation. They are a core criterion by which citizens will judge whether Europe is delivering results in their daily lives.

Global Europe: Competing in the World sets out how trade policy can contribute to creating growth and jobs in Europe. It argues that in a globalising economy, distinctions between domestic and external policies are collapsing. It argues that our openness to others, and their openness to us, are critical and mutually reinforcing factors in European competitiveness. Finally, it sets out a series of initiatives to ensure our trade policies are adapted to the competitiveness challenges of the future.

The central challenges for Europe

The world economy is changing at an unprecedented pace. Supply chains are increasingly global. The process of production is fragmenting, changing ideas of national ownership and producer interest. The emergence of major new economies is creating huge opportunities for growth and development. But this change is creating new pressures: on traditional industries and livelihoods and on the world's natural resources.

Europe is the world's biggest exporter of goods and services. It is well placed to benefit from globalisation because of the strong knowledge base of our economies and our specialisation in quality, high value-added products. But we risk falling behind if we do not adapt at home and abroad.

Our response

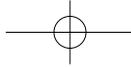
Progressive trade opening can be a powerful factor in increased productivity, growth and in creating jobs in Europe and in reducing poverty and promoting development around the world.

For trade to contribute to growth and jobs in Europe and open markets around the world, we must have the right policies at home, which reflect the challenges we face and maintain our openness to trade and investment. And we must ensure greater openness and fair rules in other markets, in particular in our future major trading partners.

At home we need to keep our markets open to remain competitive, adapt our economies to new challenges and make sure our internal policies equip Europe to compete globally. We must work to ensure that we realise the full benefits of trade opening, and that they are passed on to all our citizens. To ensure the support of our citizens for openness, we must assist those who lose out from global competition through re-training and support for adjustment.

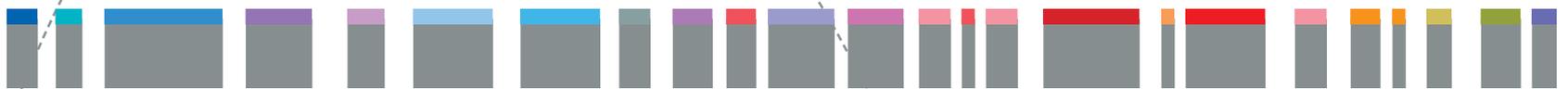


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Externally, we need to champion multilateral liberalisation through the WTO system as the most effective way to expand and manage world trade and to help achieve our broader development and global governance objectives. We must also build on the platform created by the WTO to generate new opportunities for growth by opening markets further to trade and investment and by sharing our rules and standards with our partners.

To create open markets in the 21st century, Europe needs to look beyond tariff reduction to the trade barriers that lie behind borders. As tariffs fall, these barriers – such as restrictive regulations or standards – become increasingly important. We also need to step up our engagement with the major economies of the next generation, particularly in Asia, where there is huge potential for growth, but where Europe is not performing as strongly as it should.

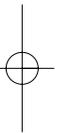
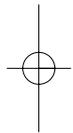


New policies, new tools

So from Autumn 2006 and through 2007, the European Commission will set out the competitiveness agenda for EU trade policy with a series of linked initiatives.

- The EU is fully committed to the **WTO** and the Doha Development Agenda our first priority. We will continue to seek to resume and conclude negotiations as soon as is possible.
- **China** will be the single greatest test of Europe's capacity to make globalisation an opportunity for growth and jobs in the years ahead. The European Commission will set out a comprehensive new strategy on China identifying clear priorities for our trade policies.
- The European Commission will launch the next stage of its global strategy for protecting **intellectual property rights**, strengthening our enforcement activity and co-operation with key partners, in particular China, Russia, ASEAN, Korea, Mercosur, Chile and Ukraine.
- The Commission will propose a new programme of **bilateral free trade agreements** with key partners in which economic criteria will be a primary consideration. The Commission will ensure these agreements are a stepping stone for future liberalisation, not a stumbling block, by building on the WTO: tackling issues which are not ready for multilateral discussion and by going beyond the market opening that can be achieved in the WTO.
- The European Commission will renew its **Market Access Strategy** to focus on non-tariff barriers in priority countries and markets. We will work with EU industry to identify key sectors and priority issues. The European Commission will also propose new measures to ensure better access for EU companies to major **public procurement markets** abroad.
- The European Commission will conduct a public consultation to reflect on the European Union's **anti-dumping and other trade defence instruments**. Many European companies now have global supply chains and invest and produce outside of the EU market. EU economic interests are global and highly complex. We need to be sure that our trade defence instruments and our use of them take account of these new realities.

This is an ambitious agenda to sharpen the focus of our trade policy on creating growth and jobs in Europe. It will be a core benchmark in judging the success of our trade policies in the months and years ahead.



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A Contribution

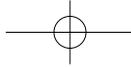
to **the EU's Growth**

and **Jobs Strategy**



European Commission

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1

Purpose

2 of the Communication



Growth and jobs, and the opportunity they create, are at the heart of the European Commission's agenda for Europe. They are essential for economic prosperity, social justice and sustainable development and to equip Europeans for globalisation. They are a core criterion by which citizens will judge whether Europe is delivering results in their daily lives.

In 2005, the renewed Lisbon strategy set out the steps we must take in Europe to deliver growth and jobs. It underlined that an open market with high quality internal rules, effectively enforced, in areas such as competition, innovation, education, research and development, employment, social and cohesion policy is essential in helping European companies compete globally. And it highlighted the need to ensure open markets around the world.

Growth and jobs are at the heart of the European Commission's agenda for Europe. They are a core criterion by which citizens will judge whether Europe is delivering results in their daily lives.

This internal agenda must be complemented with an external agenda for creating opportunity in a globalised economy, encompassing our trade and other external policies. Our external priority in this area in recent years has been to pursue an ambitious, balanced and just multilateral agreement to liberalise international trade further, opening markets in which European companies can compete and providing new opportunities for growth and development. The WTO remains the most effective way of expanding and managing trade in a rules-based system, and a cornerstone of the multilateral system. The Doha Development Agenda remains our first priority and the Commission is working intensively to restart the Doha negotiation after its suspension in July 2006.

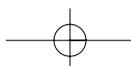
Through our trade policies, we also seek to contribute to a range of the Union's external goals, in particular development and neighbourhood objectives. These will remain core functions of EU trade policy. Coherence of the Union's external policies is vital to strengthening the EU's global role.

The purpose of this Communication is to set out the contribution of trade policy to stimulating growth and creating jobs in Europe. It sets out how, in a rapidly changing global economy, we can build a more comprehensive, integrated and forward-looking external trade policy that makes a stronger contribution to Europe's competitiveness. It stresses the need to adapt the tools of EU trade policy to new challenges, to engage new partners, to ensure Europe remains open to the world and other markets open to us.

This Communication also addresses some of the links between the policies we pursue at home and abroad. As globalisation collapses distinctions between domestic and international policies, our domestic policies will often have a determining influence on our external competitiveness and vice versa. Recognising the need for an integrated, coherent approach to domestic and to global challenges has been a hallmark of this Commission⁽¹⁾. But there is more to do to reflect this in the ways we think and work⁽²⁾.

⁽¹⁾ See "A Citizen's Agenda for Europe", adopted by the Commission in May 2006, the "EU's renewed Strategy for Sustainable Development", adopted by the Council in June 2006, and "Europe in the World", adopted by the Commission in June 2006.

⁽²⁾ The accompanying staff working paper contains a more detailed analysis underpinning this Communication.



new tools

We need to adapt the tools of EU trade policy to new challenges, to ensure Europe remains open to the world and other markets open to our trade.

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A Changing

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World

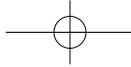
Changes in the global economic order today are as significant for the world economy and international relations as the end of the Cold War. Global economic integration is quickening, driven by growing trade and capital flows, deepening financial markets, falling transportation costs, and the revolution in information and communications technology. This is creating unprecedented opportunities for growth and development. But it is also putting new pressures on natural resources, in particular our climate, and on traditional industries and livelihoods. It has eroded old certainties and aroused new fears.

Companies are responding to these changes, combining advanced technologies and foreign capital with large pools of increasingly educated labour in the developing world. Global supply chains are changing as companies outsource complex production and services to lower cost economies. Components of a single product may be sourced in a range of countries, replacing traditional trade in finished goods.

More countries than ever before are seizing the opportunities of globalisation. In the second half of the twentieth century, the United States, Europe and Japan drove the global economy. Today they are being joined by increasingly open and expanding economies, in particular China and India, but also Brazil, Russia and others. China is already the 3rd largest exporter and likely to become the second largest national economy a few years from now. Within the same timeframe, India may become the 6th largest.

The nature of global trade is changing as a result. We do not yet live in a world without tariffs, but many sectors are moving in that direction. For Europe, knowledge, innovation, intellectual property, services and the efficient use of resources are now the keys to competitiveness. Trade policy and our whole approach to international competitiveness need to adapt.

European manufacturing industry has broadly maintained its share of GDP in the face of globalisation... But the EU is losing ground in high technology areas.



3

Analysis:

4 the Foundations of EU Competitiveness



There are two critical and linked requirements for European competitiveness. First, having the right internal policies, which reflect the external competitive challenge and maintain our openness to trade and investment. Second, ensuring greater openness and fair rules in other markets, in particular our future major trading partners. Both must be underpinned by transparent and effective rules – domestic, bilateral and multilateral.

3.1 The Right Policies at Home

Openness to global trade and investment exposes the domestic economy to competitive pressures, stimulates innovation, provides access to new technologies and increases incentives for investment.

i) Competitive markets: The single market is vital to creating globally competitive companies in the EU. Its disciplines promote predictability and transparency and allow business to exploit market size and economies of scale, encourage the efficient allocation of resources and innovation, and prevent state aids being used as an anti-competitive, protectionist tool. It has fostered the development of high-quality rules and standards which help shape global norms.

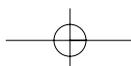
Competitive markets have helped European manufacturing industry broadly maintain its share of GDP in the face of globalisation, while the US and Japan have lost ground. The output of EU industry has increased by 40% over the last two decades⁽³⁾ and the EU's position on world markets remains almost unchanged. Our service industries are world leaders in a wide range of fields.

This is largely because EU companies sell products and services with a design and quality premium⁽⁴⁾. Upmarket products account for a third of world demand and half of European exports. In these higher-value products, the EU ranks second just behind Japan but ahead of the US, whilst countries like China lag far behind.

But the EU is losing ground in the highest technology areas. Improving our performance in innovation, education, research and development, both for products – including quality, high value-added agricultural products – and services is critical to maintaining the EU's ability to sell top-of-the-range products. We must also consider our external focus. European exports are strong in countries where demand is static but they are less well placed than Japan and the US in rapidly growing markets, particularly in Asia.

⁽³⁾ See Commission's Communication on "A new industrial policy: creating the conditions for manufacturing to thrive" (October 2005).

⁽⁴⁾ CEPII (2004), European industry's place in the International Division of Labour: situation and prospects.



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Protectionism raises prices for consumers and business and limits choice. As our prosperity depends on trade, reciprocal obstacles would damage our economy.

ii) Openness: European economic openness is vital for creating jobs and growth in Europe and for our international competitiveness. Openness to global trade and investment increases our ability to exploit the benefits of an effective single market. It exposes the domestic economy to creative competitive pressures, spurring and rewarding innovation, providing access to new technologies and increasing incentives for investment.

Europe must reject protectionism. Protectionism raises prices for consumers and business, and limits choice. In the medium term, protecting import-competing sectors from fair external competition diverts resources away from more productive sectors of the economy. As our prosperity depends on trade, others' reciprocal obstacles would damage our economy.

Imposing temporary and targeted restrictions on anti-competitive imports into Europe can play a role in defending European interests against unfair trade. We must maintain these necessary trade defence instruments while making sure that they are adapted to changing global trading conditions.

iii) Social justice: We must also recognise the potentially disruptive impacts of market opening for some regions and workers, particularly the less qualified. Structural change is not new, but it is accelerated by globalisation. Removing obstacles to adjustment in the internal market and moving resources to sectors where they can be used most effectively is essential to realising the benefits of trade and to creating jobs in Europe. But the negative effects of trade opening can be sharply felt in particular sectors or regions and can feed political opposition to open trade. We need to do better in anticipating the effects of trade opening; in helping sectors, regions and the workforce adapt; and in ensuring benefits are passed on to citizens. As we pursue social justice and cohesion at home, we should also seek to promote our values, including social and environmental standards and cultural diversity, around the world⁽⁵⁾.

(5)

See "Promoting decent work for all", adopted by the Commission in May 2006.

*Companies, and people,
need time and predictability to adapt.
The aim must be to promote
adaptation, sustainable growth
and employment, not to protect
individual jobs or companies.*

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3.2 Opening Markets Abroad

Progressive trade opening is an important source of productivity gains, growth and job creation. It is an essential factor in reducing poverty and promoting development, with the potential in the longer term to help address many of the underlying factors which drive the global challenges we face, from security to migration to climate change.

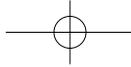
Our core argument is that rejection of protectionism at home must be accompanied by activism in creating open markets and fair conditions for trade abroad. This improves the global business environment and helps spur economic reform in other countries. It reinforces the competitive position of EU industry in a globalised economy and is necessary to sustain domestic political support for our own openness. There are two core elements in pursuing this agenda: stronger engagement with major emerging economies and regions; and a sharper focus on barriers to trade behind the border.

Major emerging economies, especially China, India and Brazil, are rightly reaping the benefits of their growing role in world trade. Together they now represent 15% of global trade flows. This growth, based on progressive liberalisation, has been essential to their historic achievement in lifting millions out of poverty.

The EU is already very open to exports from these emerging and other developing countries and is ready to go further. But most emerging countries combine high growth with unnecessarily high barriers to EU exports. As their role and the benefits they draw from the global trading system grow, so too do their responsibilities to play a full part in maintaining a global regime that favours openness.

This openness is no longer simply about tariffs. Securing real market access in the 21st century will mean focusing on new issues and developing the tools of trade policy to achieve the types of opening that make a real difference:

i) Non-tariff barriers: Reducing tariffs remains important to opening markets to Europe's industrial and agricultural exports. But as tariffs fall, non-tariff barriers, such as unnecessarily trade-restricting regulations and procedures become the main obstacles. These are often less visible, more complex and can be more sensitive because they touch directly on domestic regulation. Regulating trade is necessary, but it must be done in a transparent and non discriminatory manner, with the least restriction on trade consistent with achieving other legitimate policy objectives.



*Rejection of protectionism
at home must be accompanied
by activism in opening markets abroad.*

opening markets

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Addressing non-tariff barriers is complicated, resource-intensive and is not fully covered in the WTO. Instruments such as mutual recognition agreements, international standardisation and regulatory dialogues, as well as technical assistance to third countries, will play an increasingly important role in promoting trade and preventing distorting rules and standards. This will require new ways of working within the Commission and with others, including Member States and industry in order to identify and tackle barriers.

ii) Access to resources: More than ever, Europe needs to import to export. Tackling restrictions on access to resources such as energy, metals and scrap, primary raw materials including certain agricultural materials, hides and skins must be a high priority. Measures taken by some of our biggest trading partners to restrict access to their supplies of these inputs are causing some EU industries major problems. Unless justified for security or environmental reasons, restrictions on access to resources should be removed.

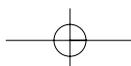
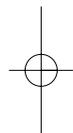
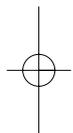
Energy will be particularly important. As global demand increases and Europe becomes more dependent on external energy sources, the EU needs to go further in developing a coherent policy for competitive, secure and sustainable energy. Internally, this means completing a competitive, EU-wide energy market and promoting a sustainable, efficient and diverse energy mix. Externally, we should seek to improve transparency, governance and trade in the energy sector in third countries through non-discriminatory conditions of transit and third party access to export pipeline infrastructure; and by helping to improve production and export capacities and develop energy transportation infrastructure. Diversity of source, supply and transit is essential to our internal and external policies.

The pursuit of economic growth through trade can have environmental implications, particularly for biodiversity and our **climate**. Our external competitiveness policies will need to encourage energy efficiency, the use of renewable energies including bio fuels, low emission technology and the rational use of energy in Europe and globally, both to reduce the growth in global energy demand and strengthen security of supply. The links between trade policy and climate change in particular will require further examination.

iii) New areas of growth: We will require a sharper focus on market opening and stronger rules in new trade areas of economic importance to us, notably **intellectual property (IPR), services, investment, public procurement and competition**.

The value of new market access for EU businesses is seriously reduced without sufficient IPR protection provided by the countries concerned. IPR violations deprive right-holders of the revenue from their investment and ultimately put at risk the viability of the most innovative and creative companies. The biggest challenge at present is the enforcement

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Geography and proximity still matter.*

8

of existing commitments, particularly in emerging economies. The Commission has devoted considerable resource to fighting counterfeiting and improving IPR enforcement in key third countries such as China. We have stepped up co-operation with partners like the US and with Japan on IPR and we have worked to protect EU geographical indications. But there is much more to do.

Services are the cornerstone of the EU economy. They represent 77% of GDP and employment, an area of European comparative advantage with the greatest potential for growth in EU exports. Gradually liberalising global trade in services is an important factor in future economic growth including in the developing world. The EU will need to negotiate to liberalise trade in services with key trading partners, especially where market access is poor or our partners have made few WTO commitments.

Improving **investment** conditions in third countries for services and other sectors can make an important contribution to growth, both in the EU and in the receiving countries. As supply chains are globalised, the ability to invest freely in third markets becomes more important. Geography and proximity still matter. Establishing a “physical” presence in a foreign country helps EU companies realise business opportunities, makes the flow of trade more predictable, and consolidates the image and reputation of the firm and of the country of origin.

Public procurement is an area of significant untapped potential for EU exporters. EU companies are world leaders in areas such as transport equipment, public works and utilities. But they face discriminatory practices in almost all our trading partners, which effectively close off exporting opportunities. This is probably the biggest trade sector remaining sheltered from multilateral disciplines.

The absence of **competition** and state aid rules in third countries limits market access as it raises new barriers to substitute for tariffs or traditional non-tariff barriers. The EU has a strategic interest in developing international rules and cooperation on competition policies to ensure European firms do not suffer in third countries from unreasonable subsidisation of local companies or anti-competitive practices. There is much to be done in this area. In most countries there is little transparency over the granting of aids.

In all these areas, transparent, effective and respected rules are essential. The proper enforcement of such rules at home is the foundation of our competitiveness. But we also need to work with others to ensure their rules and standards are of similar quality.

*More than ever,
Europe needs to
import to export.*

4 Agenda:

an Action Plan for EU External Competitiveness

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Based on this analysis, we should build an agenda for action in the months and years ahead. Our aims should be to influence the forces driving change, to seize the opportunities of globalisation and to manage the risks. This is the challenge that lies at the heart of the Commission's Communication of 10 May 2006, *A Citizen's Agenda for Europe*. The Commission's role, in close co-operation with Member States, the Parliament and others, in leading the EU's trade policy is a unique source of strength for Europe – a role not matched in any other area of policy. But we must ensure that our priorities and methods are adapted to the challenges of the future.

4.1 Internal

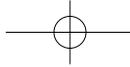
The renewed Lisbon strategy sets out a coherent agenda for adapting European economies to the new global environment. To ensure our domestic rules respond to new pressures and opportunities, the Citizen's Agenda proposed a fundamental review of the single market. This will examine how the internal market can further help European business make the changes necessary to compete internationally by diversifying, specialising and innovating. But there are other policy initiatives we should pursue now.

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

Structural change is not new, but it is accelerated by globalisation. We need to do better in helping sectors and regions adapt; in anticipating the effects of trade opening; and in ensuring benefits are passed on to citizens.

European citizens expect to see positive results from economic and structural change. The case for openness is undermined if its benefits do not reach citizens. The Commission and Member States have important roles in ensuring that the benefits of trade opening and globalisation reach all citizens and are not captured by specific interests. Following the liberalisation of trade in textiles at the end of 2005, these benefits have not been passed on consistently. The Commission will put in place systematic monitoring of import and consumption prices before considering further action.

Companies, and people, need time and predictability to adapt. The EU's new generation of cohesion policy programmes provide opportunities to anticipate, prepare and react to changes linked to globalisation. These opportunities must be seized. The European



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Globalisation Adjustment Fund will also provide a swift answer to one-off, clearly defined problems resulting from restructuring. The aim must be to promote adaptation, sustainable growth and employment, not to shelter individual jobs or companies from inevitable change. We will also make trading easier for companies at home, modernising EU customs by revising the Customs Code and introducing e-customs.

4.2 External

i) The WTO

The world needs a strong multilateral trading system. It is the most effective means of expanding and managing trade for the benefit of all and provides a unique framework for dispute settlement.

There will be no European retreat from multilateralism. We stand by our commitment to multilateralism and are prepared to pay, reasonably, to keep the system thriving. The suspension of the Doha negotiations is a missed opportunity for global growth and development. The EU has made significant offers of liberalisation, not least in agriculture, and made clear its willingness to go further within the limits of its current mandate, as part of a global agreement. **Europe remains committed to the WTO and is working hard to resume negotiations as soon as circumstances in other countries allow.**

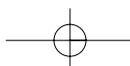
ii) Free Trade Agreements

Free Trade Agreements (FTAs), if approached with care, can build on WTO and other international rules by going further and faster in promoting openness and integration, by tackling issues which are not ready for multilateral discussion and by preparing the ground for the next level of multilateral liberalisation. Many key issues, including investment, public procurement, competition, other regulatory issues and IPR enforcement, which remain outside the WTO at this time can be addressed through FTAs.

But FTAs can also carry risks for the multilateral trading system. They can complicate trade, erode the principle of non-discrimination and exclude the weakest economies. To have a positive impact FTAs must be comprehensive in scope, provide for liberalisation of substantially all trade and go beyond WTO disciplines. The EU's priority will be to ensure that any new FTAs, including our own, serve as a stepping stone, not a stumbling block for multilateral liberalisation.

FTAs are by no means new for Europe. For example, they play an important role in the European neighbourhood by reinforcing economic and regulatory ties with the EU. They are part of our negotiations for Economic Partnership Agreements with the African

The EU has a strategic interest in developing international rules and cooperation on competition policies to ensure European firms do not suffer from unfair subsidisation in third countries.



The case for openness is undermined if its benefits are lost along the supply chain. The Commission and Member States have important roles in ensuring that the benefits of trade opening and globalisation reach all citizens and are not captured by specific interests.

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The world needs a strong multilateral trading system. It is the most effective means of expanding and managing trade and provides a unique framework for dispute settlement. There should be no European retreat from multilateralism.

Caribbean and Pacific countries and of future association agreements with Central America and the Andean Community. But while our current bilateral agreements support our neighbourhood and development objectives well, our main trade interests, including in Asia, are less well served. The content of these agreements also remains limited. We should continue to factor other issues and the wider role of trade policy in EU external relations into bilateral trade developments. But in order for trade policy to help create jobs and drive growth, economic factors must play a primary role in the choice of future FTAs.

The key economic **criteria** for new FTA partners should be market potential (economic size and growth) and the level of protection against EU export interests (tariffs and non tariff barriers). We should also take account of our potential partners' negotiations with EU competitors, the likely impact of this on EU markets and economies, as well as the risk that the preferential access to EU markets currently enjoyed by our neighbouring and developing country partners may be eroded.

Based on these criteria, **ASEAN, Korea and Mercosur** (with whom negotiations are ongoing) emerge as priorities. They combine high levels of protection with large market potential and they are active in concluding FTAs with EU competitors. **India, Russia and the Gulf Co-operation Council** (negotiations also currently active) also have combinations of market potential and levels of protection which make them of direct interest to the EU. China also meets many of these criteria, but requires special attention because of the opportunities and risks it presents.

In terms of **content** new competitiveness-driven FTAs would need to be comprehensive and ambitious in coverage, aiming at the highest possible degree of trade liberalisation including far-reaching liberalisation of services and investment. A new, ambitious model EU investment agreement should be developed in close coordination with Member States. Where our partners have signed FTAs with other countries that are competitors to the EU, we should seek full parity at least. Quantitative import restrictions and all forms of duties, taxes, charges and restrictions on exports should be eliminated.

FTAs should also tackle non tariff barriers through regulatory convergence wherever possible and contain strong trade facilitation provisions. FTAs should include stronger provisions for IPR and competition, including for example provisions on enforcement of IP rights along the lines of the EC Enforcement Directive. We will seek to include provisions on good governance in financial, tax and judicial areas where appropriate. We should also ensure Rules of Origin in FTAs are simpler and more modern and reflect the realities of globalisation. We will put in place internal mechanisms to monitor the implementation and the results of new FTAs.



Free Trade Agreements (FTAs), can build on WTO rules by tackling issues which are not ready for multilateral discussion and by preparing the ground for the next level of multilateral liberalisation.

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In considering new FTAs, we will need to work to strengthen sustainable development through our bilateral trade relations. This could include incorporating new co-operative provisions in areas relating to labour standards and environmental protection. We will also take into account the development needs of our partners and the potential impact of any agreement on other developing countries, in particular the potential effects on poor countries' preferential access to EU markets. The possible impact on development should be included as part of the overall impact assessment that will be conducted before deciding to launch FTA negotiations. In line with our position in the WTO, we will encourage our FTA partners to facilitate access by least-developed countries to their market, if possible by granting duty and quota free access.

These are high levels of ambition. Negotiating bilateral agreements can be complex and demanding, but we need to create substantial starting points from which to begin negotiations. We will need to ensure that we share similar ambitions with our prospective partners at the outset in order to avoid negotiations later stalling because of a mismatch of expectations. The decision to launch negotiations should be taken case-by-case, based on these economic criteria but also our partners' readiness and broader political considerations. FTA provisions should be an integral part of the overall relations with the country or region concerned. The best way to achieve this within the wider institutional architecture will need to be established on a case-by-case basis.

The EU's priority will be to ensure that further FTAs, including our own, serve as a stepping stone, not a stumbling block for multilateral liberalisation.

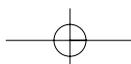
iii) Transatlantic Trade and Competitiveness

The transatlantic trading relationship is by far the largest in the world and the heart of the global economy. The economic gains from tackling non-traditional, behind-the-border barriers are potentially significant in the EU and US. We have been seeking to do so for some time, most recently through the Transatlantic Economic Initiative, launched in 2005, and a range of regulatory dialogues. Despite some progress, this has proven to be difficult territory and a further injection of momentum is necessary.

We must also work together to tackle global challenges. Our weight in the world economy means that co-operation between the EU and US in addressing areas such as IPR protection or trade security will be of great importance.

iv) China

China is the single greatest test of Europe's capacity to make globalisation an opportunity for jobs and growth. China faces huge challenges in addressing pressing social, environmental and economic issues. Europe must get China right, as an opportunity, a challenge and prospective partner.



China is the single greatest test of Europe's capacity to make globalisation an opportunity for jobs and growth. Europe must get China right, as an opportunity, a challenge, and prospective partner.

13

The Commission will set out a comprehensive strategy on China in the coming weeks. On trade and economic issues, the strategy will identify a clear set of priorities, focus on key challenges such as enforcing intellectual property rights, market access issues and investment opportunities and highlight the need for stronger co-operation across the Commission, with Member States and others in tackling these issues.

v) IPR enforcement

The EU should seek to strengthen IPR provisions in future bilateral agreements and the enforcement of existing commitments in order to reduce IPR violations and the production and export of fake goods. The Commission will reinforce its enforcement activity and co-operation with a number of priority countries in particular China, Russia, ASEAN, Korea, Mercosur, Chile and Ukraine; and we will work to improve enforcement in Turkey in the context of accession negotiations. This will include reinforcing customs co-operation, creating and strengthening IPR dialogues, reinforcing our presence on the ground, allocating more resources to support right-holders, in particular SMEs, and building awareness of IPR issues among EU companies, particularly those operating in China.

vi) Renewed market access strategy

The EU's Market Access Strategy was launched in 1996 to help enforce multilateral and bilateral trade deals and open third country markets. It aims to give exporters information on market access conditions and create a framework to tackle barriers to trade. The Market Access Database, created to support this strategy, has helped inform business and policy makers about market conditions, but it has not achieved its full potential.

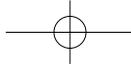
The Commission will bring forward a communication on a renewed Market Access Strategy in early 2007. This is likely to involve setting regular priorities in terms of sectors and markets where the removal of trade barriers would create the greatest gains for EU exporters.

The key economic criteria for new FTAs should be market potential and the level of protection against EU exports.

The Commission will need to concentrate resources in key countries, invest in technical expertise, co-ordinate policy tools and work more closely with Member States and industry/exporters. We should also draw on the experience of existing negotiations to identify what works and what does not when seeking to remove more complex barriers.

vii) Public procurement

Almost all the EU's major trading partners operate restrictive public procurement practices which discriminate against EU suppliers. The Commission is considering presenting a proposal to target these practices in order to ensure a level playing field for EU suppliers in tendering for public contracts abroad.



Trade defence instruments are part of the multilateral system and help ensure that the benefits of openness are not undermined by unfair competition. We need to make sure they are effective and adapted to the changes in the global economy.

14



The best way to address these issues is to encourage third countries to negotiate substantial agreements with the EU. Because open EU procurement markets are important for our own prosperity, the challenge is to find new ways of opening up major foreign procurement markets without closing our own. So where important trading partners have made clear that they do not want to move towards reciprocity, we should consider introducing carefully targeted restrictions on access to parts of the EU procurement market to encourage our partners to offer reciprocal market opening. This approach would not be considered for poorer developing countries.

viii) Review of Trade Defence Instruments

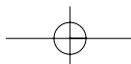
Trade defence instruments are part of the multilateral system and help ensure that the benefits of openness are not undermined by unfair pricing, trading practices or subsidisation. We need to make sure that others apply high standards in their use of trade defence instruments and international rules are fully respected.

We also need to make sure our instruments are effective and adapted to the changes in the global economy. For example, manufacturers in the EU increasingly compete with European distributors who have outsourced production overseas – often the only way to respond to international competition and so help secure jobs in Europe. Suppliers produce in more than one country, often both inside and outside the EU. Goods assembled in one country often contain parts produced in another. Consumers and other manufacturers expect the benefits of wider choice, lower prices and higher standards. We need to consider whether our instruments allow us to take account of this wide range of European interests.

Ensuring Europe's external competitiveness will require new priorities and new approaches in external trade policy, the right internal policies and rules and stronger links between the two.

In the case of unfair subsidisation, we need to strengthen transparency requirements at the international level and reinforce our ability to monitor practices in third countries. Where justified, we will use WTO dispute settlement mechanisms or our own anti-subsidy instruments to remove foreign practices which unduly distort competition.

The Commission will collect views from experts and stakeholders to consider how to strengthen our use of trade defence instruments in the 21st century. This will lead to a Green Paper later this year.



stability

Europe remains strongly committed to multilateralism. The world trading system based on the WTO trading system is essential in providing predictability and stability in the international system, and the conditions for global growth.

5 Conclusion

15

Ensuring Europe's competitiveness in the global economy by removing barriers to trade will require new priorities and new approaches in trade policy, together with high-quality EU rules, and stronger links between the two. It will need to be an integral part of the wider Lisbon strategy. It will require stronger co-operation within the Commission and with Member States, industry and others, in line with the proposals on coherence in the Commission's Communication "Europe in the World".

The principal, substantive means of achieving our goals remains through the system of multilateral negotiation. That is why Europe remains strongly committed to multilateralism. The world trading system based on the WTO is essential in providing predictability, stability and other essential conditions for global growth. We shall need

to pursue new opportunities, sharpening our efforts to open markets and tackle trade distortions within the multilateral system and through bilateral initiatives. We will seek to create the conditions for open and fair global competition and to share our rules and standards with our partners.

This is an ambitious agenda designed to sharpen the contribution of trade policy to growth and jobs in Europe, to contribute to the liberalisation of global trade and to complement other external policy objectives of our trade policy, in particular development and neighbourhood objectives. It will be a central element in judging the effectiveness of European trade policy in the months and years ahead.

In the months ahead the Commission proposes to:

Internally we will:

- > Make sure that **internal policy proposals, while furthering European standards, fit with global competitiveness challenges.**
- > Make sure the **benefits of trade opening are passed on** to citizens by monitoring developments in import and consumer prices.
- > **Equip people for change** through the new generation of cohesion policy programmes and the European Globalisation Adjustment Fund.

Externally we will:

- > Maintain our **commitment to the Doha Trade Round** and the WTO as the best way of opening and managing world trade.
- > Make proposals on priorities in trade and investment relations with **China** as part of a broad strategy to build a beneficial and equal partnership.
- > Launch a second phase of the EU **IPR enforcement** strategy.
- > Make proposals for a **new generation of carefully selected and prioritised FTAs.**
- > Make proposals for a **renewed and reinforced market access strategy**
- > Propose measures to open **procurement** markets abroad.
- > Conduct a **review of the effectiveness of our trade-defence instruments.**

Statistical Annex:

(intra-EU Trade Excluded)

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Table 1: **Market potential and key economic indicators of main EU trade partners**

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

Source:
World Bank, Global Insights and
own calculations.

Note:
* Growth figures from
Global Insights 2007-15.

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

Table 2: **World market shares in 2003 and change over the 1995-2003 period**

	Market share 2003 (in %)	Change in market share between 1995 and 2003 (in percentage points)
EU	21.3	-1.1
Japan	10.5	-4.0
Korea	4.4	0.3
Russia	1.4	0.3
India	1.2	0.2
Ukraine	0.3	0.2
USA	13.8	-2.7
China	1.2	5.1
Hong Kong	1.8	0.5
Mediterranean	1.7	0.3
GCC	0.6	0.1
Mercosur	2.2	-0.1
Brazil	1.6	0.0
ASEAN	8.3	0.2
Rest of the world	18.6	0.6

Source: UN Comtrade – Calculation by CEPII (2006) – report for DG Trade

Note: The sum of figures in the first column equals 100, the sum of figures in the last column is 0.

Table 3: **World market shares in low-, medium-, and high-quality products in 2003 and change over the 1995-2003 period**
(level in percent and variation in percentage points)

	Down-market		Mid-market		Up-market	
	2003	Variation	2003	Variation	2003	Variation
EU	12.9	-1.8	20.0	2.0	32.3	3.1
Japan	6.7	-2.2	11.7	-4.4	15.2	-6.9
Korea	5.1	-0.1	4.4	0.8	3.1	-0.6
USA	12.0	-3.7	13.6	-4.1	17.9	0.2
China	20.4	8.1	8.2	4.6	3.7	1.5
Mercosur	3.0	0.1	4.2	0.6	0.9	-0.1
ASEAN	7.4	-2.8	7.7	-1.5	5.3	-0.3

Source: UN Comtrade – Calculation by CEPII (2006) – report for DG Trade.

Table 4: Contribution to the trade balance by quality of traded goods in 1995 and 2003

	EU	USA	Japan	Korea	India	Russia	China
	2003						
Low-market	-56.6	-47.1	-18.9	74.8	73.2	14.1	182.7
Mid-market	-15.8	5.2	30.1	-19.2	-43.8	39.3	-57.0
Up-market	75.8	20.2	-0.9	-55.4	-36.9	-66.5	-88.9
not classified	-3.4	21.7	-10.3	-0.3	7.6	13.1	-36.8
Degree of specialisation	67.8	35.3	24.8	67.2	65.6	55.2	148.5
	1995						
Low-market	-36.5	-36.4	-16.0	108.4	49.9	59.3	109.7
Mid-market	-20.8	25.1	23.9	-39.0	-29.6	42.6	-41.3
Up-market	61.0	10.1	-4.6	-68.5	-61.3	-112.5	-63.4
not classified	-3.7	1.3	-3.3	-0.9	41.0	10.6	-5.0
Degree of specialisation	52.3	32.1	20.5	94.8	57.3	94.7	94.2

Source:

UN Comtrade –
Calculation by CEPII (2006),
report for DG Trade.

Note:

When quantities are
not available the
breakdown by quality ranges
is not possible.

Table 5: Contribution to trade balance of high technology products by quality in 2003

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

Source:

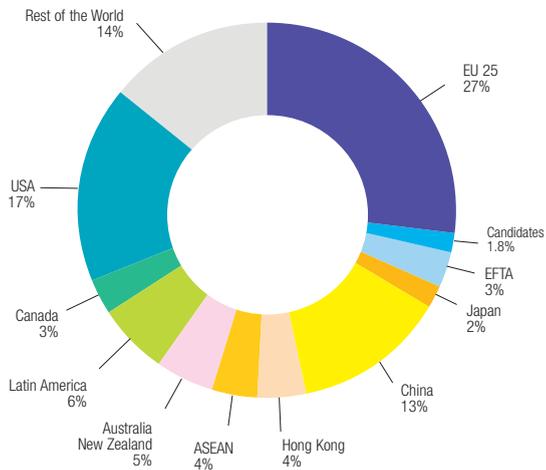
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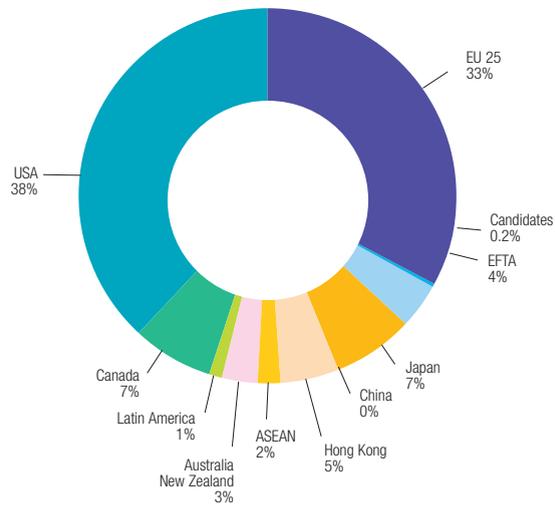
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Share in World FDI Flows 2002-2004

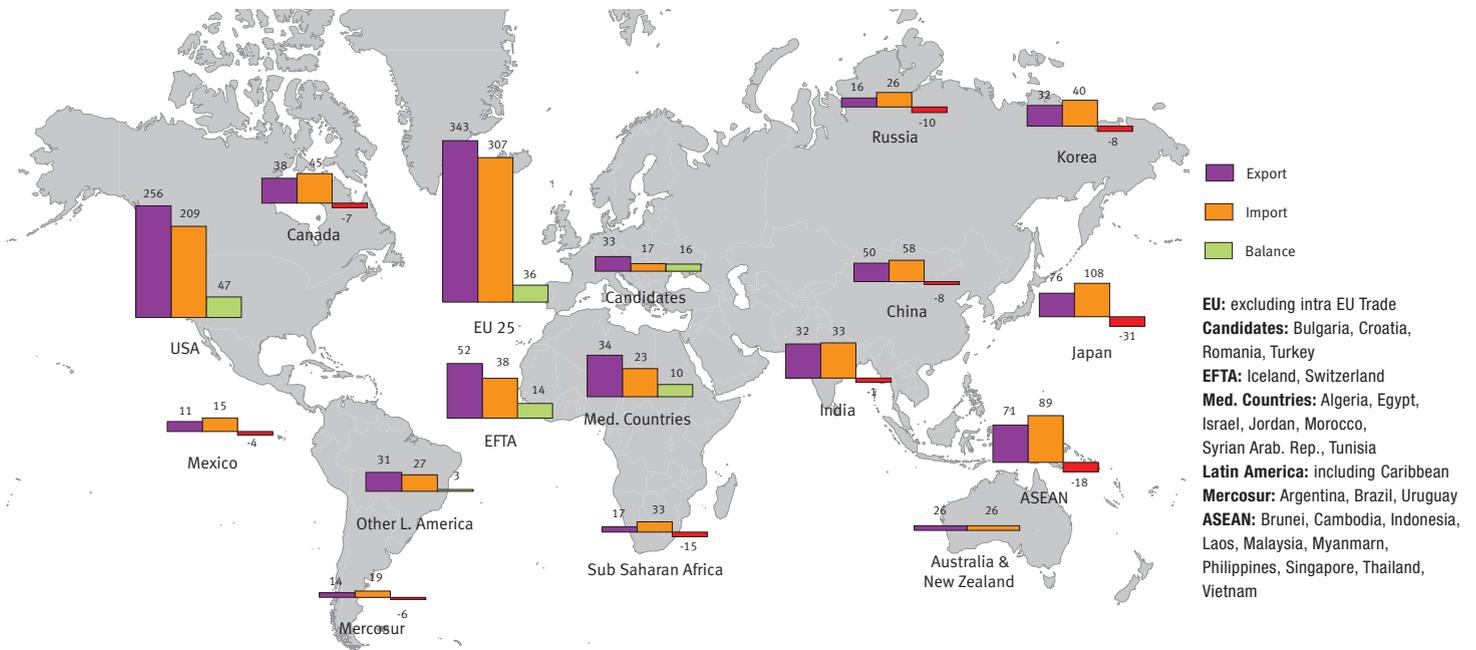
Inflows



Outflows



Commercial Services World Trade, 2004 (Billion of euros)





For more information: <http://ec.europa.eu/trade>

