

# The EU's future trade policy

## The Commission puts the ball in play – but what can we expect from the EU's new approach to trade?

November 2010

On 9 November the European Commissioner for Trade, Karel De Gucht, unveiled a five-year plan for the EU's trade policy. In its discussion paper, entitled *'Trade, Growth and World Affairs'*, the Commission analyses how trade policy can help the EU to accelerate economic growth and create jobs.

The paper proposes a strategy to reduce trade barriers, to open global markets, and to get a fair deal for European businesses. The debate will now move to the Council, for discussion among EU member states, and to the European Parliament, whose powers over trade policy have significantly increased as a result of the Lisbon Treaty.



### The *'Trade, Growth and World Affairs'* discussion paper Some of the highlights

- Proposals for deepening trade relations with other strategic partners, such as the US, China, Russia and Japan, where the main focus will be on tackling non-tariff barriers to trade
- Plans to help European businesses access global markets by setting up a mechanism to redress the balance between relatively open markets in the EU (for example, in public procurement) and those in some of the EU's trading partners, which are more closed
- A goal of starting negotiating comprehensive investment provisions with some of the EU's key trading partners
- The objective of ensuring that trade is fair, and that rights of EU businesses are properly enforced, translating promise on paper into concrete benefits

### The *'Trade, Growth and World Affairs'* discussion paper The objectives and next steps

Karel De Gucht says he intends to help European businesses of all sizes to access global markets. In what is interpreted as a proposal directed mainly at China, Mr De Gucht announced that the Commission would come forward with legislation next summer to "secure improved symmetry in access to public procurement markets" in large emerging economies. "Where the EU is open, such as in public procurement, we need to ensure European businesses can benefit from the same terms of access to our partner's markets... Where Europe's openness is not matched elsewhere, I want to redress that balance".

The Commissioner specified that retaliatory measures should be sectoral, specific and aimed at practices that the EU cannot accept from third countries. Completing the Doha round of trade talks is another top priority for the strategy.

With regard to timing, the Commission aims to conclude negotiations by the end of 2011 "at the latest".

### EU trade policy The wider context

Three other recently-released reports help shed light on the substance of the Commission's proposals.

The **first**, released on Monday 15 November, reports on EU-27 trade balances for January to August 2010. Even a cursory reading reveals wide differences in the performance of EU member states, and between the EU and external trade partners.

Most strikingly:

- Germany's trade surplus stood at some €97bn through August – the highest among the EU member states – whereas the British deficit (at -€74bn) comes last. France, at -€40bn, is the second-worst performer.
- The EU surplus with the US stood at €45bn, and the deficit with China at -€104bn.

The **second report**, released on 9 November with the Commission's proposals, reports the results of a public opinion survey on international trade carried out across Europe in August and September. The Commission said that this report "fed into the preparation of the Commission's renewed trade policy and will form the basis for further reflection".

Support for open trade policies remains surprisingly high considering the fragile state of Europe's economies and high unemployment in many EU member states. 65% of respondents think that Europe has "benefited a lot from international trade", primarily due to wider choice and cheaper products for consumers.

However, when asked about the future priorities for EU trade policy, 61% cite job creation, while 'consumer benefits' are perceived as being less important, at only 39%. Support for job creation rises to 70% in Spain, Greece, Portugal and several other member states that are undergoing severe economic pressure.

A **third report** of note is the Commission's seventh annual Overview of Third Country Trade Defence Actions against the European Union, released in June 2010 and covering developments up to March 2010. In this document, the Commission notes the

#### Contact

Robert Mack  
CEO

Lawrie McLaren  
Chair, EMEA Public Affairs Practice


Peter Linton  
Senior Advisor

Burson-Marsteller Brussels  
37 Square de Meeüs, 1000 Brussels • Tel +32 2 743 66 11 • Fax +32 2 733 66 11  
bmbussels@bm.com • www.bmbussels.eu

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continuing high number of new WTO cases initiated against the EU, notably safeguard actions involving legally-traded products (not products that are dumped or subsidised).

Meanwhile, the Commission's own roster of current defensive investigations is overwhelmingly focused on China and India. Notable among them is case n° AS557, initiated on 17 April 2010 – the first ever anti-subsidies case against China. This was seen by many commentators as a proxy war against an undervalued renminbi, and could have a wide-ranging significance for other sectors should the EU decide that the targeted practices are actionable.

## Analysis

### Some observations from Burson-Marsteller Brussels

- Mr De Gucht's emphasis on a third-market-opening offensive can certainly be justified, and is indeed one necessary ingredient for maintaining a European political consensus in favour of open trade.
- That said, add to this picture the devil's brew of government indebtedness inside the Eurozone and currency wars outside the single currency area: one may reasonably wonder whether the breezy optimism of Mr De Gucht is not perhaps something of a misdirection play.

At the very least the virtual absence of protectionist rhetoric stands in marked contrast to the fraught trade discourse in Washington, DC – and more importantly to the Commission's own increasing resort to trade defence, notably against emerging trade powers.

- Indeed, it would appear that European pro-trade forces are in a race against time when viewed against the foreseeable shift in public sentiment, away from the consumer benefits of trade toward the impact of trade on job creation in Europe. The job-creating benefits of open trade will under any circumstance be a considerably more difficult case to make, but particularly if the public perception is that European jobs are leaking to other parts of the world because trade partners are not playing fair when it comes to trading the fruit of that labour.

In that scenario, Mr De Gucht will face growing pressure to 'play defence' at least as aggressively as he has just promised to 'play offence'.

- The bottom line is that trade policy has not figured prominently among EU priorities over the past few years. However, with this new policy push from the Commission, it is about to re-emerge.

Stakeholders should take careful note: nothing about EU trade policy and practice should be taken for granted from now on.