

The Future of Europe: The External Trade Dimension

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The recent debate on the “Future of Europe” started around the time of the signature of the Treaty of Lisbon on 13 December 2007. As the Treaty of Lisbon aimed to make the EU more democratic, efficient and transparent, the challenges that the EU would be facing in the future would require a sound set of European values that would stand the test of time. The Treaty also foresees institutional changes that would make the EU a global actor. In this article, I would like to concentrate on the “Future of Europe” as a global economic actor. As the world’s largest trading bloc, the EU27 GDP is now three trillion euros (end of 2008), its total world trade has reached 2.4 trillion euros, and it is a net exporter of high and medium-technology goods and services. The EU’s common external trade policy that aims to open up new markets for EU products and services and to keep a vigilant eye on rising protectionism is indispensable for overcoming internal economic challenges. For example, average EU15 growth rates have been stagnant around 2% compared to 2.3% for the US during 2000-2008 and labour productivity rates (GDP in Purchasing Power Standard/PPS per hour worked) have been below the US rates. Several challenges lie ahead for the EU to make growth sustainable for future generations and an aging society is one of them. Sustainable growth and the creation of quality employment are not only preconditions for the future of Europe as an economic actor but are also necessary for the future of Europe as a global political actor.

Although the institutional reform process gained momentum with the Lisbon Treaty, the debate on the “Future of Europe” goes before that process and is in many ways multi-faceted.

Undoubtedly the Lisbon Strategy is one of the milestones in this process of defining “what” kind of future Europe wants and “how” it can get there. Having acknowledged the economic challenges ahead for the EU, the Lisbon Strategy was first agreed in 2000 and then relaunched in 2005 to make the EU the “world’s most dynamic and competitive economy within 10 years.” The Lisbon Strategy has a clear focus and target on growth and jobs: investment of 3% of Europe’s GDP in research and development by 2010 and an employment rate (the proportion of Europe’s working age population in employment) of 70% by the same date. The way the strategy works involves Member States undertaking reforms at the national level based on National Reform Programmes presented in 2006 and based on the policy guidelines (“Integrated Guidelines”) agreed upon collectively by all Member States. These National Reform Programmes cover a three-year period. To reach the specific targets mentioned, the Member States set ambitious research and development (R&D) targets, and employment rates have been increasing so there is progress towards the main targets. Of course, growth and jobs are not the only economic targets that matter: improved education is another crucial factor where the EU requires investment in order to close the skill gap with the US. All these targets and the reform programmes are part of an internal agenda of sustainable growth for Europe. However, in a globalized world, more and more internal factors are determined or affected by external factors or shocks. In a globalized world, where economic integration, both real and financial, is defined by flows of goods and services and investment, policies toward both trade and investment are crucial for sustainable growth. In this respect, the EU is an important player in world trade, promoting free trade and lowering protectionism, and hence an important actor in glob-

alisation.¹ Over the last two years of the current Commission's trade policy, there has been an important turning point. In the remainder of this article I discuss how a "new" trade policy was taken up by the Commission to contribute to the "Future of Europe" to "make EU the world's most dynamic and competitive economy by 2010." As the EU elections approach it is also timely to have an assessment of the performance of the current commission on trade policy.

External Trade Policy's Contribution to the "Future of Europe"

Unarguably the most important development in the trade policy of the EU is the paradigm shift from an "embargo" on all new bilateral trade negotiations to a renewed mandate on deep and comprehensive Free Trade Agreements (FTAs). Multilateral trade negotiations and successful completion of the World Trade Organization's (WTO's) Doha Round have been the EU's utmost priority. The negotiations for the Doha Development Agenda (DDA) that started in November 2001 with the mandate given at the fourth Ministerial Conference in Doha were followed by the fifth Ministerial Conference in Cancun in 2003. The then Trade Commissioner Pascal Lamy had put an embargo on all new bilateral negotiations in order to show the EU's commitment to multilateral trade negotiations. When Trade Commissioner Peter Mandelson started his term, he also endorsed this policy. However, with the unsatisfactory outcome of the Hong Kong Ministerial in 2005, the Doha negotiations were suspended in July 2006 with Director-General Pascal Lamy's recommendations.

Soon after the suspension of the Doha Round, there was increased global impetus towards new bilateral and regional free trade agreements. In October 2006, a communication from the Commission to the Council, Parliament and the European Economic and Social Committee and the Committee of the Regions was made public. This communication, *Global Europe: Competing in the World* (COM 2006, 567), marked the change in EU's trade policy and ended the long-standing embargo on bilateral trade agreements. The EU decided to pursue a new generation of Free Trade Agreements (FTAs) that are to go beyond what can be achieved at WTO level (WTO+) with utmost atten-

tion being paid to the agreements' WTO compliance. The new generation FTAs were to be "deep" and "comprehensive" and tackle "beyond the border" issues such as regulatory barriers and include services and investment liberalization. In the *Global Europe* communication it was argued that the EU's trade policy was an "integral part of the EU's approach to economic reform and competitiveness" and the "renewed Lisbon Strategy that set out the steps to be taken to ensure growth and jobs" was to be complemented with a trade policy that provides market access to EU companies. Since Mandelson took office in October 2004, the Commission has launched several key trade initiatives and trade negotiations. Table 2 and Table 3 summarize some of the milestones over the last four years:

TABLE 2 EU Trade Initiatives

Consultation period for the Green Paper on the review of the community's trade defence instruments	Jan-07
Renewed market access strategy consultation	Jan-07
Review of the trade defence instruments	Mar-07
Communication on renewed market access strategy	Apr-07
Council Regulation applying generalized system of preferences (GSP) for 2009-2011	
EU-US investment dialogue	Apr-08

TABLE 3 State of Play of Trade Negotiations During the Term of the Current Commission

Doha Sixth Ministerial in Hong Kong	Dec-05
Doha Round suspended	Jul-06
EU-South Korea FTA launched	06-May-07
EU-India FTA launched	28-Jun-07
EU-Association of Southeast Asian Nations (ASEAN) FTA launched	04-May-07
EU-China Partnership and Cooperation Agreement (PCA) launched	Jan-07
Economic Partnership Agreement (EPA) with Caribbean Forum of African Caribbean and Pacific States (CARIFORUM) initialled	16-Dec-07
Stabilisation and Association Agreement (SAA) with Albania concluded	Feb-05
SAA with Bosnia and Herzegovina concluded	Dec-06
SAA with Montenegro concluded	Sep-06
SAA with Serbia concluded	Jul-07
EU-Egypt agriculture negotiations concluded in 2008	
EU-Israel agriculture negotiations concluded in 2008	
EU-Jordan agriculture negotiations concluded in 2005	
EU-Libya Association Agreement (AA) negotiating directive	Jul-08
EU-Tunisia Agreement on dispute settlement mechanism (DSM) initialled	Jul-08
EU-Ukraine FTA launched	18-Feb-08
EU-Gulf Cooperation Council (GCC) FTA	ongoing
EU-Mercosur FTA	ongoing
EU-Canada Trade and Investment Enhancement Agreement	under discussion in Council

Source: DG Trade.

¹ As the EU has a common external trade policy that is conducted by the Directorate-General for Trade (DG Trade) of the EU Commission, the rest of this article will concentrate on trade policy. An external common investment policy is currently also on the agenda.

Below we will discuss some of the most significant trade initiatives that were undertaken during the term of the current commission.

Global Europe Communication and New Generation FTAs

The *Global Europe* communication identified a number of potential FTA partners for the EU based on the following criteria:

- Countries or regions with large market potential (market size usually measured by GDP multiplied by the growth rate) and with
- High tariff and non-tariff barriers.

According to these criteria, three FTA partners were identified in Asia: negotiations with South Korea, India and the Association of Southeast Asian Nations (ASEAN) all started in 2007. Although Asian countries represent large markets with good prospects for growth and an increasing openness to trade, the share of Asia in EU's trade is relatively small compared to their relative importance for the US and Japan. If the EU is to secure sustained competitiveness for the next generations, deep FTAs that enhance trade with a dynamic region can help achieve this goal.

Among the three FTA partners, negotiations with South Korea are the closest to completion, with some moderate progress with India and slow pace with ASEAN. In summary, the choice of new generation FTAs are significant, since when these FTAs are concluded it will open up new markets in Asia for the EU. Currently the EU does not have a bilateral preferential agreement with any Asian nation.

Although the Asian "new generation" FTAs have not yet been concluded, the Enhanced Partnership Agreement (EPA) with the Caribbean Forum of African Caribbean and Pacific States (CARIFORUM) that was initialled on 16 December 2007 is seen as the first "new generation" FTA that has been concluded since the *Global Europe* communication. The agreement covers both goods and services liberalization as well as investment and includes such "beyond the border" issues as intellectual property rights, public procurement and competition. One of the most important concessions in the EC-CARIFORUM EPA is the EU's commitment to open its services market to Caribbean companies and professionals to offer EU work experience in services sectors. In addition

to this, the new rules of origin that are offered in the EPA promote integration of Caribbean companies in the vertical production chain.

Undoubtedly the most significant disappointment of the outgoing commission is the failure to conclude the Doha Round. Despite several missed deadlines before, there was considerable consensus that allowed the finalizing of the revised draft modalities on Non-Agricultural Market Access (NAMA) and agriculture that were both released in May 2008. After ten days of difficult negotiations in July 2008, the mini-ministerial in Geneva delivered no result and collapsed over disagreement on special safeguard mechanisms. Although the negotiations in the Doha Round include rules and services, as well as agriculture and NAMA liberalization, the overarching theme of the Round has been to deliver "development" to the developing countries. Since agricultural goods tariff liberalization and removal of developed country subsidies is at the heart of development issues, developing and developed countries have found themselves one more time at a conflict. The EU has made a generous offer to cut its farm tariffs by 50%, making sure that the highest tariffs get the largest reduction. In addition to this, the EU offered to cut its subsidies by 70% and eliminate all export subsidies if others agreed to do so as well. For much of the negotiations, agriculture has dominated over industrial goods negotiations and this has been the main reason of the collapse of talks in July 2008. For some, the failure of Doha was to be blamed on the US: while demanding significant concessions from some developing countries (i.e. India, Brazil and China) it was not willing to do so itself. Especially the US refused to cut its trade-distorting subsidies. Although negotiations are continuing, the failure to conclude this round in July was a collective failure. However, since delivering sustainable and development-friendly trade liberalisation was one of the priorities of the commission, it is nevertheless a missed opportunity.

What Lies Ahead for the Future of EU-Mediterranean Trade Relations

The political agenda was highly charged over the last year. Sarkozy's proposal of the Union for the Mediterranean was first aired during his election in May 2007. Although it faced opposition at high levels initially, it reinvigorated the Barcelona Process. At

the Paris Summit of the Barcelona Process: Union for the Mediterranean in July 2008, which brought Heads of State and Government together, it was agreed to build on and reinforce successful elements of the Barcelona Process. At the ministerial meeting in Marseille, in November 2008, the final touches on the initiative were described in detail: institutional structures of the Barcelona Process: Union for the Mediterranean were to be governed by the principle of “co-presidency.”

It was agreed that senior officials would be responsible for dealing with all initiatives, to take stock and evaluate progress of the project. The senior officials will be aided by a Joint Permanent Committee that will assist and prepare the meetings and deal with the issues dealt with by the Euromed committee, which is to be dissolved. In addition to this, a joint secretariat is charged with gathering “within the project priorities, regional, sub-regional or trans-national project initiatives.”

Then at the ministerial meeting in November 2008, a work plan for 2009 was agreed upon. This work plan includes 15 ministerial meetings on several mutually important areas ranging from water, sustainable development, energy, environment, food security, agriculture and development, trade and others.

The summit in 2008 was significant as it reemphasized the goal of creating a Euro-Mediterranean Free Trade Area by 2010. At the seventh Euro-Mediterranean Trade Ministerial Meeting held in Marseille in July 2008, the senior officials were given the task of presenting a Euro-Mediterranean Trade Roadmap up to 2010 and beyond. Currently, CEPS is undertaking a study, jointly with the Centre for Social and Economic Research (CASE) in Poland, to provide the commission with recommendations of priority areas for the future “deep” Free Trade Agreements to be negotiated. The results of the study will be presented to the senior officials at the next trade ministerial meeting.

So far the existing research indicates that there has already been considerable progress in 2008 in the area of trade.

- Among the Mediterranean partners, negotiations with Egypt, Morocco, Tunisia, Israel and Jordan are at an advanced stage.

- The EU concluded negotiations on agricultural goods, processed food and fisheries with Egypt and Israel last year. EU-Jordan agricultural negotiations were concluded in 2005. Negotiations with Morocco are at an advanced stage and with Tunisia have just been launched.
- An agreement on dispute settlement mechanism (DSM) was initialled with Tunisia in July 2008 and substantial progress made in the bilateral negotiations with Morocco on DSM.
- Bilateral negotiations with Egypt, Morocco, Tunisia and Israel on the liberalisation of trade in services and the right of establishment, launched in 2008, will continue in 2009.

The “new generation” type FTAs that the Commission is determined to sign with the Mediterranean countries will take current FTAs in the Association Agreements beyond tariff liberalization. The EU’s priorities will be to eliminate non-tariff barriers such as technical standards, certification and testing for industrial products and sanitary and phytosanitary barriers to agricultural products. To achieve this, the progress to date has to be complemented with priority attention given to the area of the agreements on conformity assessment and accreditation. Another important aspect of the future trade relations is the level of intra-regional integration in the Mediterranean. For the South Mediterranean countries it is especially important that as a region they are integrated (i.e. to form a common free trade area) to benefit from the pan-Euromed diagonal cumulation of origin. For the EU, intra-regional integration is important for those sectors where consolidation for the industry rather than market access is the issue. For this reason, it is important to promote such initiatives as Agadir among other members of the Mediterranean. In the long-term and under the European Neighbourhood Policy initiative, the Mediterranean partners will be encouraged to harmonize with the *acquis* in several areas related to trade (e.g. public procurement, competition policy, intellectual property rights/IPR, etc.) to encourage both trade and investment. As the Mediterranean is strategically very important for the EU, all these steps will contribute to the integration of the South Mediterranean countries with the EU and contribute to the Barcelona Process.