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EU Foreign Economic Diplomacy

KEY MESSAGES



- 1** The economic dimension should be an integral part of the EU global strategy. The EU should define a long term economic vision that has Trade Policy- including market access for goods, services and resources and modern and effective rules- as the central pillar and aims at retaining world leadership in trade and investment.
- 2** Considering the current geopolitical environment and the political and security challenges the EU is currently facing, economic tools are increasingly used to pursue political objectives. In this context a good balance needs to be found ensuring that the EU's economic interests are not unduly jeopardised.
- 3** Set and commit to clear and consistent political and economic strategy toward key economic partners using the EU single voice in the international arena. As European Union we have superior negotiation leverage that allows us to gain more and better promote our economic interests.
- 4** Ensure clear governance and full coherence between the internal economic policies of the EU intending to promote competitiveness and innovation and the external dimension that aims at enhancing opportunities for European companies abroad.
- 5** Use EU leverage to generate new market opportunities for European companies in third markets, ensuring strong coordination between EU and Member States' actions and most importantly, in close cooperation with business.
- 6** Enhance the EU's Market Access Strategy making this valuable tool more efficient in addressing barriers in third countries by using all available means to solve long standing problems.
- 7** Improve the support to business in third countries by enhancing coordination and complementarity between EU and Member States supporting structures, avoiding duplication and unwanted competition and giving preference to business led initiatives if sustainable in the long run.
- 8** Ensure that economic issues like trade and investment are at the core of political discussions and political and business leaders have the opportunity to openly exchange on these topics. Closer cooperation with relevant business organisations in setting agendas, defining priorities and concrete deliverables is essential.



1- Define a long term economic vision for the EU in the world

In a changing world with the emergence of new political and economic powers, volatility in financial and commodities' markets or the emergence of new growth paradigms it is important to define a strategy for the EU to maintain its economic leadership in the world. Which areas of the world should be a priority for the EU to develop its economic ties, how can the EU's increased presence and engagement help the economic development and political stability of certain world regions and how this can effectively improve the business environment for EU companies are some of the questions that should be addressed.

Overall globalisation has led to increased business opportunities and economic growth. Despite conflicting trends and attempts from some Governments to control the pace of liberalisation, goods and services are today more available to a wider range of consumers worldwide. Investment flows have also been spurred by economic growth in developing markets and by the emergence of new technologies and new business models. Bottlenecks in infrastructure have to be addressed generating new investment opportunities. Urbanization also helps to foster development and create new business and investment opportunities, e.g. creating smart-cities that can bring better and more sustainable life conditions for its citizens in the medium to long term.

At the same time we need to address all forms of protectionism and discrimination including the new ones in the form of forced localisation or technology transfers, local content requirements, support to state owned enterprises, non-transparent and discriminatory public procedures and subsidies, restricted access to raw materials or disregard of intellectual property rights. Most of these practices are not fully addressed by existing multilateral rules. Therefore the EU should use existing plurilateral platforms like OECD and the G7/G20 or multilateral like the WTO-World Trade Organisation to push for clearer and more effective rules on key areas like export restrictions, competition or digital trade.

Although we can discuss how global wealth is being distributed worldwide, we cannot deny an overall improvement of the economic conditions. In this context the OECD-Organisation for Economic Co-operation and Development foresees that by 2030 non-OECD countries will contribute over 50% of global GDP, up from 35% today. We must not forget that developing economies represent already 36% of (FDI) foreign direct investment outflows and about 60% of foreign-exchange reserves.

Asia and China in particular are important engines of this economic growth. China has been responsible for approximately one-third of global growth for the past seven years. Even if the Chinese economy is currently under pressure with economic prospects looking less bright, the country will remain a major economic player in the coming years.

At the same time, Latin America is the region where the EU has signed more Free Trade Agreements, and therefore a strategic priority for our trade and investment flows.

A comprehensive economic vision for the EU needs also to include developed economies. There is still untapped potential on mature and highly developed markets like the US or Japan, as our companies are confronted there with a number of trade



and investment barriers. The conclusion of modern and ambitious free trade agreements with these two economies will lead to a reinforced EU economic presence. Jointly with these partners we can work to create a modern set of trade rules that effectively reply to 21st century trade and investment challenges.

In addition the potential of further market access to neighbouring countries such as Switzerland and Turkey should be provided in key areas like energy, services or processed agriculture products.

The economic vision of the EU has been centred in its Trade and Investment Strategy. In this framework the recent EU Communication "*Trade for All*" sets an ambitious trade and investment agenda focused on a number of bilateral negotiations with key trading partners.

Trade Policy should remain the central pillar for the EU's economic vision in the world. This key role of the EU Trade Policy should be recognised by all European institutions including the Council and the Parliament. In practice this means that the European Commission and in particular DG Trade should be equipped with the necessary resources to deliver results in a shorter period of time.

In parallel it is essential to consider the trade and investment angle in other EU policies. If Trade Policy is incorporating a growing number of concerns relating to other EU policies, social, environment, energy, digital, the reverse is not always happening. For instance when adopting legislative measures it is important to carefully assess how these will impact EU companies' competitiveness not only in the internal market but also in third markets.

The EU's economic vision should define a long term strategy setting clear and measureable economic results e.g. increase in trade and investment flows, more SME's active outside the EU, more EU companies present in fast growing markets, more private-public partnership projects in developing economies, etc.

2- Combining economic and political objectives

Facing a challenging geopolitical environment at its borders the EU is increasingly compelled to take urgent foreign policy decisions with a strong economic impact. The use of economic interests to pursue foreign policy or political objectives has been historically a tool favoured by governments worldwide. In these cases the main challenge is to strike a good balance between promoting foreign policy or security objectives and safeguarding the EU's economic interests. A few examples:

- Concluding free trade and investment agreements could be a way to promote foreign policy objectives taking also into account the EU's economic interests. This is for instance the case of the DCFTA- Deep and Comprehensive Free Trade Agreement that the EU has concluded with Ukraine and is also one of the reasons behind the upgrade of the free trade agreements concluded with Tunisia. The objective is to promote trade and investment but also to assist third countries becoming politically stable and democratic, ruled by law, more developed economically and with standards closer to the EU.



- Unilateral economic/trade measures adopted by the EU for political reasons. In many cases the EU decides to unilaterally grant trade preferences to a certain third country for political reasons. The main aim is to foster growth and job creation in that country through trade. In many cases these measures have an impact on EU business' competitiveness. Without questioning the merits of these decisions the EU should define mitigating actions that effectively address possible negative impacts on the EU or Member States' economy.

- Economic Sanctions are a more extreme tool to pursue political objectives. Of course business will accept the political decision to impose sanctions on a given partner but sometimes the economic impact of the measure goes well beyond what could be initially foreseen for several reasons- the legal text is not clear enough, certain stakeholders refrain from acting for fear of breaching the law, extra-territoriality in the case of US sanctions has a strong impact on the EU. In these cases business is keen to have legal certainty, clarity on the scope of the sanctions, including guidelines on how the sanctions will apply and an assessment of the economic impact of the decision. Visibility on the conditions for lifting the measures is also important from a business perspective.

- Development policies are also a way to pursue economic and political goals. When it comes to Development the increased participation of European companies in projects of international development and cooperation should be promoted. The EU is already the world's biggest contributor to international development but it should more actively promote those projects that involve private-public partnerships underpinning the important role of the private sector in long-term investment solutions. For the first time the role of the private sector is fully recognised in achieving the Sustainable Development Goals (SDGs). EU business is committed to make its contribution in achieving the SDGs but at the same time it needs an equally strong commitment from Governments to better business environment and improved public governance.

3- Set a clear and consistent strategy toward key partners

One of the major challenges for the EU is to define a strategy toward key economic partners that is consistent, clear and actively supported by all EU institutions. Many Third Countries prefer the national approach to develop closer economic ties with Europe. In many cases our economic partners deliberately explore national differences and the variety of interests across EU members to leverage their own interests.

The ability to influence international decisions with an economic impact in Europe and the capacity to effectively defend Europe's economic interests depend on the EU having a clear and single voice in its relations with major economic partners. In our view with major world economies like Brazil, China, Russia or even the US there is a common interest to play the EU card. As European Union we have a different negotiation leverage that allows us to gain more and better pursue our interests. Divided we are more exposed and thus weaker while negotiating with important partners.



Moreover the EU is engaging with its key economic partners in a number of international fora like the G7 and G20 or the WTO- World Trade Organisation, apart from bilateral dialogues and meetings that cover a wide range of policy issues. Therefore it is critical that the EU defines a common and well-targeted economic strategy toward its main partners setting clear objectives and means to achieve them. This strategy should make use of different instruments and policies to achieve its objectives.

Trade Policy is by far the most useful instrument but also in other policy areas like Development, Energy, Raw Materials, Digital and Climate Change just to mention a few, there are specific economic interests that should be promoted when discussing with key economic partners

Improving EU competitiveness and presence in the world markets should be the underlying objective. Two examples:

India- an ambitious EU-India Free Trade Agreement delivering significant market access and investment opportunities for European businesses remains a priority. In the meantime we should work to improve the overall conditions to access the Indian market including the investment conditions. Developing a specific strategy to engage with the Indian government in different international and bilateral settings covering different interest areas including services, investment, infrastructure or intellectual property could be the best approach to address some of the outstanding market access issues that European companies face in India at all levels (national, regional and local).

Africa- Sub-Saharan Africa's growth in 2015 was below the 4.4% annual average rate of the last two decades. The average does not reflect the differences between the different countries but the slowdown is primarily due to a fall in the price of oil and other commodities, the main exports for many countries in the region. The conclusion of Economic Partnership Agreements (EPAs) is the right approach towards more balanced and sustainable trade and investment relations with Africa. However the region has a huge development potential and the EU should develop a holistic approach towards Africa not limited to trade or development but also including migration, energy and raw materials and security.

In parallel geopolitical developments are also conditioning relations between the EU and some of its key partners particularly those in the neighbourhood. Combining political stability with economic development has become the main priority in the EU relations with Eastern Partnership countries and particularly with Northern Africa and the Middle East. One size fits all approach is not the best solution and the EU should define a clear strategy including short term goals to address urgent problems (e.g. refugee crisis) and medium to long term solutions that lead to closer political and economic ties(e.g. free trade and investment agreements). EU business is ready to actively support political solutions with a strong economic component.

4- Coherence between internal policies and the external dimension

Retaining economic leadership in the world depends also on internal policies that have an impact on the ability of the EU to be an innovative and sustainable growth driver.



Promoting a business environment in Europe that generates new investment opportunities in key innovative areas leading to new market opportunities in the EU and abroad is essential to reinforce our international footprint. Two examples:

Migration: In the short-term there is a demand from employers for highly skilled workers, notably in science, technology, engineering and mathematics related fields. In particular it is projected that by 2020 the EU will have a shortage of 825,000 ICT workers. To help meet this shortfall, it is important that the EU has a framework in place that facilitates the entry of highly skilled migrants from outside the EU as well as their mobility within the EU once they are here. For example, to reach the objective of a Europe that attracts and integrates highly skilled people from outside the EU, the existing directives (Intra-Corporate Transferees and EU Blue Card) need to be better promoted and explained to third country nationals as well as to companies in and outside the EU. This could involve pooling relevant information and making it easily available and understandable online. The Commission package on legal migration that is set to be published soon, and which will include a review of the Blue Card Directive, will be important in this respect. At the same time, it is important that national systems for the migration of highly skilled migrants continue to run in parallel to EU schemes, notably in the case of the Blue Card.

Business and Human Rights: the EU agenda cannot be seen in isolation to international policy issues, such as trade and development, or to international frameworks, such as the UN Guiding Principles. However, EU action must not duplicate existing international actions, frameworks or structures. The UN Guiding Principles on Business and Human Rights, approved with broad stakeholder support, clarified that there is a clear distinction between the state's responsibility to protect and companies' responsibility to respect, both in an EU and global context. The division of roles through the three-pillar "Protect – Respect – Remedy" approach should be respected. Moreover European companies that are active internationally in challenging environments often face difficulties in obtaining valid information on the concrete situation on the ground, for instance regarding human rights. In this respect, the EU could help European companies obtain this information, for example via the EU and Member States' Delegations on the ground.

5- Use EU leverage to improve the business environment for European companies in third markets

The EU represents a market of 500.000 million consumers with 4 economies that are part of the G7. This gives the EU as an entity a negotiation strength that individual members might not have. This means that the EU should maximise the use of its resources in third countries to effectively support economic interests. Likewise in all its contacts with third countries both at political and technical levels the EU institutions should "make the case" and promote a better business environment for EU companies.

In this process we need strong coordination and complementarity between EU and individual Member State's actions. We have to clearly define in which areas and under what conditions it is more beneficial for the EU to appear instead of the Member States. This is not always easy as there are different interests and sensitivities across the EU. However there are also areas where we have common goals and where we should



focus, for instance reducing barriers to trade and investment worldwide or ensuring good implementation of International Agreements (e.g. COP 21).

Having targeted messages and objectives that can be shared by the EU as whole as well as by individual Member States will increase our international footprint and ensure more effective results. This means that both the EU and its Member States should commit and engage actively in the process at high political level.

Using Europe's image in the world in public diplomacy actions that run in parallel with high level political events should be fully explored. These activities should be complementary to the actions taken by Member States and serve as multipliers of the campaigns and efforts undertaken by national governments.

For business it makes sense having a Foreign Economic Diplomacy at EU level (because it exists already at national level) only if it contributes to improve the business opportunities and the presence of our companies in third markets. Creating additional layers of work and competing initiatives will not help in promoting more business opportunities for companies when resources are also limited.

With a growing number of bilateral trade and investment agreements, setting the framework for our economic relations with many of our key trading partners, it makes more sense to use EU resources to ensure compliance and effective implementation. Moreover the new generation of EU trade and investment agreements is based on the concept of "living agreements" committing parties to an on-going process of implementation monitoring and re-negotiation. The more comprehensive our trade and investment agreements become the more important it is to ensure proper implementation, involving in the process not only EU and Member States but also the business community and other relevant stakeholders.

6- Enhance the EU's Market Access Strategy

The Market Access Strategy is part of the EU Trade Policy aiming to improve access to third markets for EU companies by identifying key barriers and ultimately working for their removal. It involves close work between business, Member States and the Commission including EU delegations in Third Countries. This is a very important tool for companies as it helps to solve their concrete problems. The EU is not negotiating Free trade Agreements (FTAs) with all its trading partners and we need efficient ways and means of addressing market access barriers. Taking into account existing resource constraints a more coordinated approach between EU delegations, member states embassies and business organisations in the EU and also in the Third Countries to identify and especially address market access problems is of paramount importance.

Back in 2014 BUSINESSEUROPE identified a number of priority areas that needed to be improved to make this valuable tool more efficient. These remain valid today:

- Better identify the channels to address market access barriers

Bilateral consultations with the trading partners concerned constitute a possible way to address market access problems but it should not be the only one. Trade negotiations provide the ideal framework to tackle persistent and substantial market access issues.



However on-going FTA negotiations should not prevent the use of other policy tools to resolve urgent market access issues. As regards countries with which the EU does not currently hold FTA negotiations, international rules provided by the WTO and the OECD should be used as primary instrument. Moreover it becomes increasingly urgent to have a transparent and efficient mechanism to monitor and address problems related to the implementation of the increasing number free trade agreements.

- Not limit our efforts to the Key Barriers List

Companies and business organisations spend considerable time and resources to identify the different problems of access to third countries' markets. Therefore we should not limit our actions to the *Key Barriers List* that are identified for each country and discussed in the Advisory Committee.

- More attention to market access barriers in services and public procurement

Considering the service's sector share in EU's economy and the increasing importance of trade in services and its close relation to goods, it is important to give more priority to market access barriers in this sector. Establishing a services' barriers database could be the first step in this direction.

- Dedicate more resources to the Market Access Unit in DG Trade

The Market Access team in DG TRADE is relatively small in relation to the ambitious target of removing market access barriers. Although negotiations for new and deeper access to third countries' markets are of utmost importance for European business, enforcement of the agreements and WTO rules are equally important.

- Member States should increase their engagement towards the Strategy

More involvement and close cooperation at EU and national level is key if we want to achieve a successful outcome when addressing market access problems with third countries.

- Enhance communication and transparency on the progress of the Strategy

Further information and regular exchanges with business on the progress of bilateral consultations with third countries, as well as on the efforts undertaken by the Commission and the Member States via the Market Access Teams (MATs) on the ground would be welcomed. This should also include updating on a more regular base the Market Access Database a useful tool that helps exporters, especially SMEs, to understand better the access conditions in foreign markets.

7- Improve the support to business in third countries

Another area where we could benefit from a more coordinated approach at EU level is in the support given to business in Third Countries. Many EU countries have their own business support organisations locally and also their embassies that serve as primary contact point and assistance to companies trying to enter the market or companies already established in the third country. However others do not have those structures and could benefit from an EU support. Our aim should be to promote an efficient use of existing resources in third countries, both private and public, both EU and Member States, but not duplicate what exists.



As pointed out in the new EU Trade and Investment strategy “*Trade for All*” we should increase the number of SMEs- Small and Medium Sized companies that are exploring business opportunities outside the EU. To achieve this objective a number of conditions should be met, ranging from setting more favourable market access conditions to providing targeted services that can help companies on the ground.

The inclusion of an SME dedicated chapter in all EU free trade agreements, containing specific provisions that will ensure companies’ access to information on the benefits of the preferential agreement and the new business opportunities, is a good step in the right direction. But many companies have resource constraints and need more targeted support when they decide to explore opportunities in a given market. In this case supporting structures on the ground are essential.

The main question is then: should this support be provided by Member States’ structures or do we need EU support as well and should this support to business be provided by the private sector or should it also involve public entities. We believe the answer is not unique and depends on the third country’s reality. However before the EU decides to create additional structures (e.g. European Business Centres) and support them financially it is important to demonstrate that there is a gap and that this gap can be fulfilled by an EU driven initiative. Otherwise we will be creating unwanted competition among different entities, wasting resources and generating structures that are not financially viable in the long run.

Business led initiatives have the merit of being more tailor-made to the specific needs of the companies in a given market. However it is also important to ensure that the interests of companies not yet present in the market are taken into account. It is not easy to find the right balance but a good cooperation and communication between the business organisations on the ground and the business organisations in Europe should be part of the solution.

EU delegations in third countries can have also an important role to play in supporting business. Promoting trade, economic diplomacy and cooperation with business should be a priority. In particular they should enhance relations and information exchange with the business community in the EU and also with the EU business present in the country. Facilitating contacts with local authorities and business organisations and promoting a better understanding of business and development opportunities both locally and in the EU should also be part of their activities. To accomplish this work they should have human resources with the necessary competencies and skills. Reinforcing the number of trade and investment experts in the main EU delegations should be a priority.

8- Increase the economic dimension in key political events

Currently political summits with key partners or regions are usually organised in parallel with business summits and BUSINESSEUROPE has a leading role in the organisation. However the two parts political and economic remain substantially apart. Even if political leaders attend part of the business summit and business leaders go to political summits to present the conclusions of the business discussions, the objectives and



agendas remain in many cases distanced. They should be brought closer together by ensuring that economic issues are a central part of the political discussions and political and business leaders have the opportunity to openly exchange on these topics.

Apart from the summits there are many on-going political dialogues between the EU and its key partners throughout the year. It is important to ensure that these dialogues take in due consideration the economic dimension and that the EU economic interests are fully taken into account and supported. Close cooperation with business organisations in setting agendas, defining priorities and concrete deliverables should be ensured.

State and high level visits are also an opportunity to discuss economic issues and raise problems that hamper EU business in a given market. Close cooperation and coordination between different EU institutions, within the different DGs in the European Commission and the EU delegations on the ground is essential.

Finally there should be more transparency and exchange with relevant business organisations on the outcome of high level discussions with third countries. Many times business is asked to provide input for these discussions but there is no feed-back on the results.

