



***Check against delivery ***

2 February 2007

TRADE POLICY CONFERENCE, DENMARK

TRADE & COMPETITIVENESS CHALLENGES FOR EUROPEAN BUSINESS

Ministers, Ladies, Gentlemen,

I would like to thank the Danish Ministry of Foreign Affairs for inviting me to give a European Business perspective on the EU's trade and competitiveness challenges. It is a real pleasure to speak in Denmark – a country which has capitalised on openness to international trade and competition despite the many challenges. Denmark is just as much of a model of international competitiveness of its businesses as of “flexicurity”, in my opinion.

Our organisation has recently changed names from UNICE to BUSINESSEUROPE. The name change reflects a willingness to present a more positive image of business at the European level and to engage more directly with EU institutions and the wider public to promote growth and job oriented EU policies. The international dimension of European policies is one of the key issues for BUSINESSEUROPE.

We appreciate the refocusing of EU trade policy around competitiveness because there are concerns that trade policy has been drifting too far away from the EU's core economic and commercial interests. The current EU policy outlined in Commissioner Mandelson's “Global Europe” Communication better reflects the trade policy response needed to address the competitiveness challenge from the emerging economies.

Trade policy will never focus exclusively on the EU's economic and commercial interests because there are always international and domestic political considerations involved. For instance, trade negotiations with ACP countries require a high degree of coordinated technical assistance by the Commission and Member States to ensure that these countries can meet their liberalisation commitments. However, a trade policy which does not prioritise economic and commercial interests would be a recipe for disaster for the EU -- the world's largest exporter of goods and services. Consequently, BUSINESSEUROPE has made a strong case for placing economic and commercial interests at the heart of the EU's trade policy.

With the declining US dollar, Europe is rapidly becoming the world's most expensive currency zone. At the same time, it is facing unprecedented competition from emerging economies such as China on industrial trade, India on services trade, Brazil on agricultural trade or Russia on resource and heavy industry trade. BUSINESSEUROPE believes that European companies can compete with these economic powerhouses but we need to agree to clearer and fairer rules of the game in three main areas.



First, the emerging countries need to progressively bring their tariffs down closer to OECD levels. The argument that these countries – whose exports are increasing by 10-15% a year - require infant industry protection no longer holds any water. Let me remind you that while EU tariffs are around 3% on average, India's average tariffs are still around 25%.

Second, EU trade policy needs to do more to tackle the numerous non-tariff barriers to trade and persistent government interventions in emerging countries that distort international trade and competition. Outdated customs procedures, export restrictions and dual pricing of raw materials, recourse to government export subsidies, discriminatory product and services regulations are but a few of the obstacles to establishing a truly level playing field for international trade.

Third, and although this presents institutional challenges for Europe, the EU must develop an effective policy regarding international investment. At one level, there is a competence sharing problem between national governments and the EU. Clearly, there is a need to protect the legal status of existing (national – eg. Denmark-India) bilateral investment treaties to avoid putting European companies at risk. However, it is also clear that individual member states – even the big ones – are no longer capable of negotiating adequate market access and protection for European companies in the big emerging countries. This EU internal debate must be understood in a context where European companies are facing a number of challenges to their investments – including intellectual property investments and technology transfer requirements – in emerging countries. I am afraid that the recent debates in the EU Council leading to the so-called “investment platform” have focussed too much on internal institutional issues and not enough on external threats to EU investments.

Now I would like to discuss more detailed aspects of EU trade policy: the WTO Doha Round negotiations, new bilateral trade opportunities and the debate over the reform of trade defence policies.

1. The WTO Breakdown

The challenge of concluding the WTO Doha Round negotiations remains the trade policy priority of BUSINESSEUROPE. For obvious reasons, we were deeply concerned about the July 2006 breakdown. A failure would deprive European business of the potential new trade opportunities of a multilateral agreement. On industrial goods and services, BUSINESSEUROPE is looking for substantial market access opportunities to access the rapidly growing emerging markets and offset the slow growth in Europe.

In addition, a failure would remove opportunities to strengthen multilateral rules regarding customs procedures or trade facilitation and trade defence instruments. These two chapters of the Doha Round are vital to reduce delays and increase predictability for European exporters.

There are also concerns in BUSINESSEUROPE about a possible rise in protectionism if the Doha Round fails. We have witnessed a number of proposals in the US – regarding investment, trade and security – which send a worrying signal about its commitment openness. At the same time, some major emerging countries have or are introducing considerable restrictions on foreign investment which also hinder trade. A



Doha deal would send an effective countersignal of an international commitment to defend an open rules-based international trading system.

So how can we move the Doha round forward?

First, we need to overcome the deadlock in agriculture. Throughout the Doha Round BUSINESSEUROPE has called for a more liberal approach to agricultural trade negotiations – not because it wants to give European farmers a black eye but because it believes that European farmers and the food industry more broadly can compete in a more open system. Let's look at the current situation. Food prices are very high because of growing demand from emerging countries and due to technological breakthroughs in the production of bio-fuels. Negotiators in Geneva should start putting their thinking caps on to find an agreement that takes account of this new reality of international agricultural markets because I doubt that we need to maintain high levels of subsidies and tariffs any longer. We understand that there are differences over agriculture between the EU and the US, but those differences need to be seen in the broader understanding of common EU-US interests to open emerging country markets for goods and services in this Round.

Second, BUSINESSEUROPE remains convinced that an “agricultural-only” round will not suffice. Most of the major traders – the EU, China, India for example - are not leading agricultural exporters or do not see gains from the round in agriculture. Even the US has more to gain in industry and services than agriculture in this round. Consequently, we need to look for more ambitious deals on industrial tariffs and non tariff barriers and on services liberalisation between the OECD and emerging countries the increase the economic potential of a round.

Third, the WTO needs to be clearer on trade and development. Sweeping exceptions to WTO rules and commitments will not contribute to development. On the contrary, a well managed and sequenced set of WTO commitments can assist developing countries to take advantage of their comparative advantage in industry, services or agriculture. The stunning export growth from Asia and Latin America confirms this. Of course, there needs to be some special treatment and technical assistance for the poorest countries in the WTO which face major capacity constraints.

Finally, I would like to underscore that business now expects the trade negotiators to put a real effort into concluding an ambitious round. Time and time again, politicians have shirked their responsibility in these negotiations by blaming the perceived lack of business enthusiasm for the Round for their inability to conclude a deal. BUSINESSEUROPE has always contested this viewpoint and to prove that companies want to see an ambitious conclusion – we have asked 40 CEOs from small, medium and big companies and from different sectors – industry, food, services – to speak out on the Doha Round.

2. Delivering on bilateral trade negotiations

I come now to the complexities of bilateral trade policy. I suggest that it is complex not because of the perceived threat to the WTO – which I believe is exaggerated – but because bilateral trade negotiations often require a deeper level of market opening and therefore a clear political commitment to overcome challenges.



There are already several hundred bilateral trade agreements in existence and several dozen are currently being negotiated. The EU is party to at least 25% of the existing agreements – and that has not prevented it from being an active proponent in favour of new WTO rounds or from staunchly defending the WTO dispute settlement mechanism. The real risk, in my opinion, is not for the WTO, but for companies that use global sourcing strategies. For these companies, a WTO agreement is definitely better than any bilateral trade agreement. However, not all companies use a global sourcing model either and many of these companies are requesting new bilateral FTAs to overcome some challenges.

One challenge is that our main competitors – the US, Japan, Canada, China and even some close friends like Norway and Switzerland – have launched active bilateral trade policies to try to get a first mover advantage. As the latecomer to this party, the EU risks gaining the “last mover” disadvantage in the competitive regional game.

A second challenge is that there are limits to what can be achieved in a very large organisation like the WTO. In the Doha Round alone, we have lost important issues such as rules on investment, competition and transparency in public procurement. I think that there is no harm developing broad based bilateral economic integration agreements with key partners to address issues that cannot be agreed multilaterally or that can be agreed much more rapidly at the bilateral level.

So what does European business expect from an EU strategy on bilaterals. First and foremost, business expects the EU to pursue bilateral FTAs that can boost economic growth. This means that as a starting point the EU should:

- Select markets with high growth potential and/or with high market access barriers. (e.g. Russia, India, ASEAN)
- Pursue ambitious trade liberalisation covering 100% of industrial goods and adopting a “negative” list approach to services market access.
- Adopt a pragmatic approach to issues like investment to ensure that EU companies can get the best market access and protection – regardless of the EU company’s country of origin.
- Ensure that rules of origin are as fair and simple as possible for business.
- Keep an open minded approach to agricultural trade liberalisation.

I would like to highlight that the EU has to work better than it does now to deliver on bilateral trade negotiations. The Commission alone cannot deliver strong trade deals. It needs the backing of competent, committed and liberal minded member states to focus on the fundamental economic issues. In this light, I regret that the EU member states have devoted so little time in the WTO negotiations pushing the Commission more on industrial and services issues. Similarly, it is a big mistake that the Commission Delegations and EU Member State embassies in third countries do not coordinate more to tackle tough trade issues. The EU has an incredible amount of combined diplomatic forces – but they are used very ineffectively judging by our experience in international trade matters. At a time when more and more citizens are calling for a stronger EU at the international level, it would be high time to join forces on trade policy matters.



As a final point, I should underscore that business associations – like BUSINESSEUROPE – have a role to play in helping companies prepare for and take advantage of the opportunities of trade liberalisation. Our organisation, for instance, plays an important role in monitoring and expressing business views on trade negotiations. Currently, BUSINESSEUROPE is restructuring to be more effective in following bilateral trade negotiations but we need more transparent information-sharing with the Commission to do our job.

Our Danish federation – Danish Industries – has developed a very interesting business model through its Globalisation Programme to help small and medium sized Danish companies test new markets in Russia, China and New York. I think that this model should be emulated by other European business federations - in particular in the new EU Member States which have more limited resources. I strongly encourage the Commission to look at this model when examining how to help European SMEs develop internationally.

3. Working toward a compromise on trade defence

Now I would like to discuss a final point – trade defence instruments also referred to as anti-dumping and safeguards. I know that trade defence is not always highly regarded in Denmark. At BUSINESSEUROPE, we have a more nuanced view: Of course, we would prefer not to have any trade defence but the realities of trade today make that very unlikely.

To explain why BUSINESSEUROPE gives legitimacy to trade defence – if used within reason and according to the rules – we must look at our trade with a country like China. We have a structural trade deficit with China – it is structural because it is caused not only by an abundance of competitive advantages in China (young, technically skilled workforce, commitment to new technologies, etc.) but also caused by government distortions in the economy – namely hidden subsidies due to the dual pricing of raw materials, the inadequacy of bankruptcy law and accounting laws; large defaults on debt held by state-controlled banks among other measures. BUSINESSEUROPE is not convinced that these problems will be dealt with overnight and hence, we will probably face structural trade difficulties with China for the next ten years.

Of course, EU Trade Defence (TDI) policy needs to be sufficiently flexible to enable European companies to take advantage of international trade opportunities while adequately protecting European industries from unfair trade. I will not deny that within our organisation there is a difference of views on the possibility of making TDI more flexible than in currently the case. In fact, the majority of our members oppose reform. Nevertheless, I would like to outline my personal views on what I consider to be the way forward on this issue.

First, it must be made clear that the intention of Commissioner Mandelson is not to dismantle TDI policy and to leave European industries exposed to unfair competition. Therefore a radical reform is out of the question.

Second, we need to work within the context of trade law which means that proposals to include “outsourced” EU production (other than for raw materials) will be very difficult to include in the calculation of anti-dumping cases. Similarly, politically interesting but



legally and technically difficult changes to issues such as “like product” will not go very far.

In a more constructive light, I believe that some recent cases have shown a problem with the way the Commission defines what is “the Community Industry”. Clearly a complaining industry needs to reflect the actual EU industry – so this could probably be improved.

Similarly, the EU could do a better job calculating market economy treatment in cases involving former/actual Communist countries like China or Vietnam. In my opinion, this was one of the main problems in the “shoes case”.

Finally, clearer EU rules and procedures would benefit all parties to TDI cases. The creation of a “hearing officer” to hear complaints about the evolution of cases is a good starting point but more could be done to clarify deadlines and to increase transparency. On the latter point, I find it rather surprising that the Council does not have the courage to publish Anti-dumping Committee votes.

Thank you for taking the time to listen to BUSINESSEUROPE views on EU trade policy.

I look forward to your questions.

Adrian van den Hoven
Director of International Relations
www.businesseurope.eu