

The new deals: the 2015 EU trade strategy

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Summary

The European Commission has this week published its new trade policy strategy, the most comprehensive restatement of EU trade policy since 2010. It is exceptionally ambitious - adding more FTAs to the already crowded stable of EU open and recently-concluded deals. It is also highly defensive in its attempt to win back political ground lost in the Transatlantic Trade and Investment Partnership (TTIP) and anti-globalisation debates over the last two years. From this balance come some interesting new ideas, a lot of practical questions about implementation, but also an opportunity to widen the way the Commission thinks about its own key role in improving trading conditions for EU businesses.

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The TTIP legacy

The strategy makes a strong case for freer trade and uses the language of global value chains to make the EU's public case for trade for the first time. This is set out as the basis for the promotion of an open approach to imports for transformation, which reflects an empirical shift in EU production over the last decade to much greater dependence on imported inputs. This is far from the political

line of least resistance and it is hard to imagine an equivalent US policy statement making the same calm case for imports. Flipped around, it is also a potentially strong basis for making the case for services trade liberalisation as a way of encouraging less capital-intensive but more labour-intensive service-based development in trading partners.

A number of interesting and useful ideas flow from this view of trade. It also underlies the instinct to look more closely at the way in which rules of origin and 'cumulation' in EU trade agreements act as a check on extended supply chains - although only among the EU's own FTA partners and within a general context of tightening rules of origin, which constrains some of the potential of the idea. It underpins a commitment to make the case for liberalising flows of sectoral skilled professionals alongside the goods and services the EU seeks to liberalise - although the EU's own approach to migration will be a factor here. The Commission's desire to think through these globalisation problems in a coherent way is to its credit, at least until politics or practical constraints get in the way.

The legacy of the domestic debate on the Transatlantic Trade and Investment Partnership on this strategy is clear. Much of it is in fact targeted at a domestic audience and its concerns over the governance, transparency and normative content of EU trade policy. It commits the Commission to greater level of transparency and disclosure of both negotiating directives and deal texts. It reiterates the Commission's commitment to overhaul its approach to investment protection and it restates its intention to make trade agreements and import privileges (both in FTAs and in sectoral initiatives like the EU Timber Regulation and conflict minerals) contingent on high social, labour and environmental standards. Some of this reiterates existing protocols, but greater transparency on ongoing negotiations is likely to be material, less in the extent to which it brings a new level of reassurance than in the degree that it helps defensive interests mobilise early.

The FTA agenda

While the FTA agenda is unquestionably ambitious, it raises a number of practical questions. The EU has

proposed, on top of ongoing negotiations, to add a number of negotiations, including Australia, New Zealand, the Philippines, and Indonesia to its list of open negotiations. It will also announce that it will review its agreements with Mexico, Turkey and potentially South Korea (updating the FTA or at least negotiating an investment chapter). It is also open to restart negotiations with Malaysia and India, and Thailand when domestic politics allow. There is also an objective of reviving region-to-region agreements with Mercosur and ASEAN, finishing investment agreements with China and Myanmar and launching investment negotiations with Hong Kong and Taiwan (Figure 1). This will be a strain on the Commission bureaucracy, but it also raises more fundamental questions about implementation and delivery.

Many of the current open EU negotiations have been suspended or have struggled to move beyond high-level political signals of intent because of a reluctance in EU negotiating partners to meet the EU's ambitious demands in areas such as services, regulatory convergence, investment protection and non-trade

EU-US TTIP <i>Launched in July 2013</i>	10 rounds of negotiations have taken place. The next round will take place in October 2015, in Miami.
EU-Canada CETA <i>Concluded in September 2014</i>	Currently undergoing legal scrubbing and translation into other EU and Canadian official languages. The Commission ratification procedures to start in the first quarter of 2016.
EU-Japan FTA <i>Launched in November 2012</i>	Expressed desire to conclude negotiations by end 2015. Number of important issues unresolved, including issues around Japanese non-tariff barriers.
EU-Singapore FTA <i>Concluded in October 2014</i>	Commission requested an Opinion from the European Court of Justice (ECJ) on Commission's competency to negotiate certain aspects of the agreement. After the ECJ issues its opinion, text needs approval by Commission and European Council, and ratification by the European Parliament (EP).
EU-Vietnam FTA <i>Political agreement reached in August 2015</i>	All the substantive parts of agreement concluded, except for Investment Chapter and Investor State Dispute Settlement. Expected completion by year end. After legal scrubbing and translation, it will be submitted for approval by the Council and ratification by the EP.
EU-Malaysia FTA <i>Launched in October 2010</i>	Negotiations <i>de facto</i> suspended since August 2013. Commission awaiting Malaysian offer on services. Potential meeting before year end to explore relaunching negotiations.
EU-Thailand FTA <i>Launched in February 2013</i>	Negotiations suspended since the military coup in May 2014. No negotiating rounds have been scheduled.
EU-ASEAN FTA <i>Launched in July 2007</i>	On hold since 2009. Commission announced relaunching of negotiations when the 'time is right'.
EU-India FTA <i>Launched in June 2007</i>	Negotiations <i>de facto</i> suspended since summer 2013. Both sides have expressed a desire to overcome to current gridlock but prospects of conclusion remain slim.
EU-Andean Community (Peru, Colombia, Bolivia and Ecuador) FTA <i>Partial conclusion in 2010</i>	Negotiations with Colombia and Peru finalised in 2010. Provisionally applied to Peru since March 2013 and to Colombia since August 2013. Negotiations with Ecuador concluded December 2014. Still requires ratification in all markets. Negotiations with Bolivia still at the scoping stage.
EU-Mercosur FTA <i>Launched in May 2010</i>	After being suspended in 2012, negotiations were relaunched in 2014 but have been <i>de facto</i> in a standstill, awaiting for a reviewed offer on tariffs from Mercosul.

Figure 1: Key open EU FTA negotiations

issues, which reflect its own economic structure and export potential for both capital and services. The EU in this respect finds itself with limited leverage: its market has become increasingly open for most of its non-OECD partners' export and the EU's highest tariffs have fallen sharply over the last two decades (Figure 2). The appetite for greater access for their own capital and services from these markets is not yet sufficient to get them to the table given the access they already have.

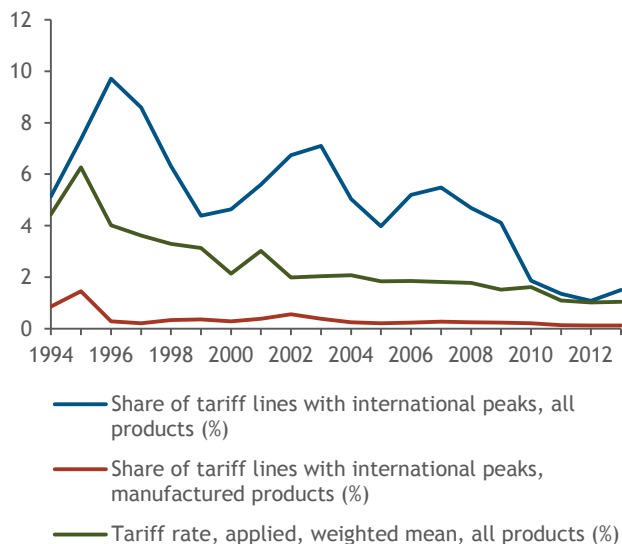


Figure 2: Falling EU border protection - and negotiating leverage - over time

Source: World Bank. A tariff peak is a tariff over 15%. Average tariffs are weighted for actual trade flows.

All of these deals have the potential for important gains. The EU-Japan FTA is among the most promising if the delicate political coalition for the deal in Tokyo can be sustained (the public and political response to TPP will be an important factor here) and if European domestic concerns about the impact on the - suddenly politically challenged - car sector can be resolved. But across the board, the FTA framework inevitably holds isolated wins hostage to wider deals and deals have proven a lot easier to open than to close at the level of ambition sought by the EU. This raises a difficult but inevitable question about whether the focus on FTAs creates the impression of strategy at the expense of concrete tactical gains.

The case for more commercial diplomacy
 Besides a sprawling negotiating agenda, the Commission could arguably be a lot more confident in asserting its role in - and the value of - simple commercial diplomacy alongside EU embassies and businesses. Much of the improvement in EU exporters' market access over the last decade, and much of the potential improvement over the next decade stem from unilateral regulatory reform of trade barriers in the EU's trading partners, often for reasons of domestic competitiveness and, in financial services, market deepening and prudential stability. These debates are often contentious, but they have the merit of chiefly pitting

domestic vested interests against each other rather than uniting them against the demand for concessions from an external trading partner.

As negotiations like TTIP tacitly argue, the value for EU exporters in regulatory convergence is substantial - the EU has much to gain from exporting its best practice and technical standards alongside its 'values'. In principle, these things can be achieved in bilateral negotiations and FTAs can create channels of collaboration for driving regulatory convergence in the future. But they can also flow from constructive day-to-day engagement from EU diplomats and businesses in domestic regulatory reform debates. The EU's interest in participating in the multiple working groups pushing regulatory convergence in ASEAN is a good example of the value of this and, for all the difficulty involved, such efforts are worth persevering with and expanding as a model. The Commission's self-identity as a trade negotiator is long-standing, but it needs more to say about trade policy outside of the box of set piece deals.

This mix of positioning and policy add up to a trade strategy that does not feel particularly strategic. This is in large part because of the defensive posture the Commission believes it has been forced into by the internal TTIP debate, which the strategy tries to turn into a positive assertion of policymaking principle to rebuild domestic political support. It also reflects the dependence of the EU over many years on the strategic coherence provided by commitment to multilateralism and a Doha deal. The external agenda that it replaces here lacks the strategic focus brought to US trade policy by the tacit decision in Washington to use the Trans-Pacific Partnership (TPP) to establish a strategic trade framework on China's doorstep in the Asia-Pacific region, even at the cost of lowering its market access expectations.

The EU's renewed interest in a region-to-region agreement with ASEAN is the flicker of a response, but will require compromise from both sides, not least in Jakarta. TTIP also represents a clear strategic instinct to cement a North Atlantic coalition around regulatory standards and trade policy disciplines in a decade in which emerging market prerogatives will count for a lot more. A generous assessment of the clear attempt to rebuild a political platform for defending open trade in Brussels would have to acknowledge that any trade strategy has to start with a degree of domestic legitimacy - as TPP may yet discover in the US Congress. The EU's roving agenda may yet pick off enough small wins to add up to success and this 'trade strategy' has the considerable merit of starting a debate about how strategic EU trade policy can and should be.

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