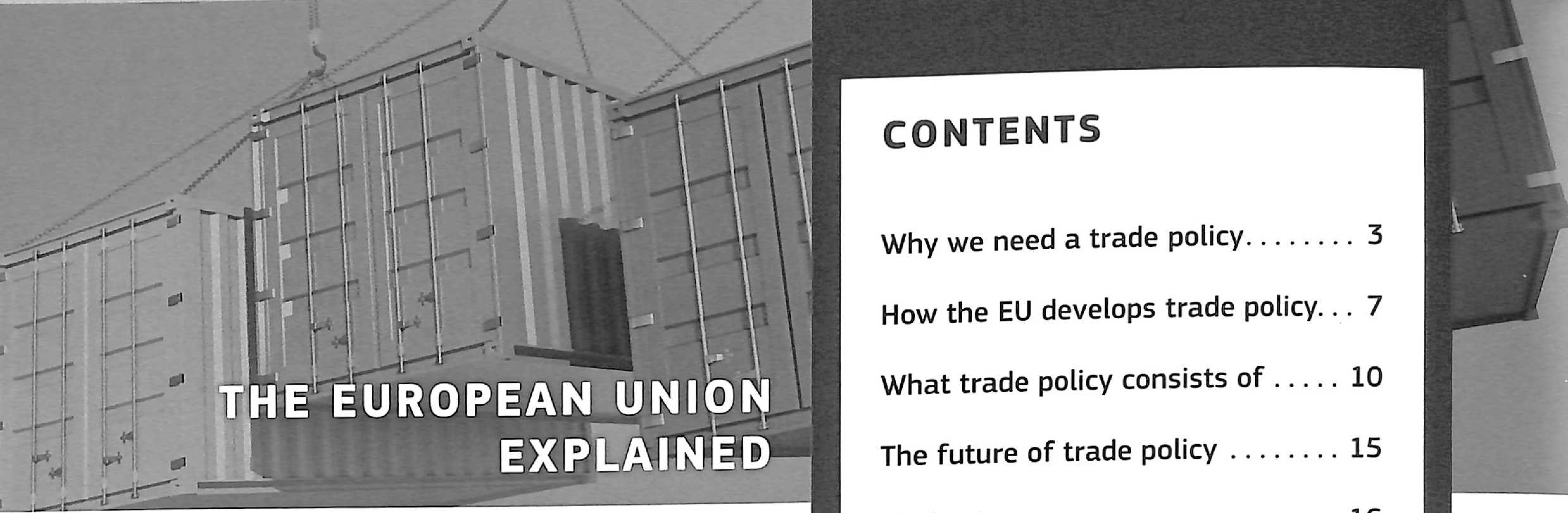
European Commission

THE EUROPEAN UNION EXPLAINED

# Trade

## Free trade is a source of economic growth

Opening new markets makes our economies grow — only an active EU free trade and investment policy can achieve that.



# THE EUROPEAN UNION EXPLAINED

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*This publication is part of a series that explains what the EU does in different policy areas, why the EU is involved and what the results are.*

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**The EU explained: Trade**

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Manuscript updated in March 2016

Cover and page 2 picture:
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16 pp. — 21 × 29.7 cm

PDF ISBN 978-92-79-55739-2
doi:10.2775/42184
NA-02-16-154-EN-N

Print ISBN 978-92-79-55724-8
doi:10.2775/86408
NA-02-16-154-EN-C

Luxembourg: Publications Office of the European Union, 2016

Printed by Bietlot in Belgium

# Why we need a trade policy



The European Union's trade policy must be seen in the context of two of today's realities. The first is the importance of the Union itself as a major world player. The second is the way globalisation is changing the international environment.

The EU is the largest economy in the world, the biggest exporter and importer, the leading investor and recipient of foreign investment and the biggest aid donor. With just 7 % of the world's population, it accounts for over one quarter of the world's wealth as measured by gross domestic product (GDP) — the total value of goods and services produced.

**THE MAIN WORLD ECONOMIES (2014)**

| | GDP at current prices (billion euro) | % of world GDP | Gross public debt % GDP |
|---|---|---|---|
| **European Union (28 member countries)** | **13 946** | **17.1** | **88.1** |
| Argentina | 409 | 0.9 | 45.3 |
| Australia | 1 086 | 1.0 | 33.9 |
| Brazil | 1 766 | 3.0 | 65.2 |
| Canada | 1 344 | 1.5 | 87.9 |
| China | 7 796 | 16.6 | 41.1 |
| India | 1 544 | 6.8 | 66.1 |
| Indonesia | 669 | 2.5 | 25.0 |
| Japan | 3 464 | 4.4 | 246.2 |
| Mexico | 972 | 2.0 | 49.8 |
| Russia | 1 401 | 3.3 | 17.8 |
| Saudi Arabia | 562 | 1.5 | 1.6 |
| South Africa | 264 | 0.7 | 46.0 |
| South Korea | 1 062 | 1.6 | 36.0 |
| Turkey | 601 | 1.4 | 33.6 |
| United States | 13 058 | 15.9 | 104.8 |
| **World** | **58 163** | **100.0** | |

*Source:* IMF WEO.



The single market with the free movement of goods, services, people and capital within the EU's borders is the cornerstone of the Union's ability to create jobs by trading with other countries and regions. The EU, not national governments, is responsible for this market. It also manages trade relations with the wider world. Speaking with a single voice, the EU carries considerably more weight in international trade negotiations than any of its individual members would. It is an active economic and political player with growing regional and global interests and responsibilities.

## EU trade: key figures

- *EU share of world exports and imports: 16.6 % — 2014*
- *Foreign direct investment in EU: €4 583 billion — 2014*
- *EU outbound foreign direct investment: €5 749 billion — 2014*
- *Manufacturing trade surplus, oil excluded: about €350 billion — 2013*
- *Services trade surplus: €163 billion — 2014*
- *EU development aid: €56.5 billion — 2013*

The Union is one of the world's most outward-oriented economies and intends to remain so. Trade with the rest of the world doubled from 1999 to 2010, and currently almost three quarters of imports into the EU pay no, or reduced, duties. Where duties are still payable, the average rate in 2013 was just 2.3 % for industrial products and 3.6 % for all goods overall. The EU is the biggest trading partner for 59 countries. In comparison, the figure for China is 37 and for the US is 23. European external trade in goods and services accounts for 34 % of EU GDP — four percentage points above the US. As a major market, the EU imports as many agricultural products from developing countries as Australia, Canada, Japan, New Zealand and the United States, with a comparable total population, combined.

This openness is a source of strength as the world in which we live is constantly changing. Globalisation — a combination of technological developments and economic liberalisation — enables goods, services, capital, companies and people to reach almost any part of the globe rapidly and easily.


*Today, products like cars are no longer made in one place from start to finish.*

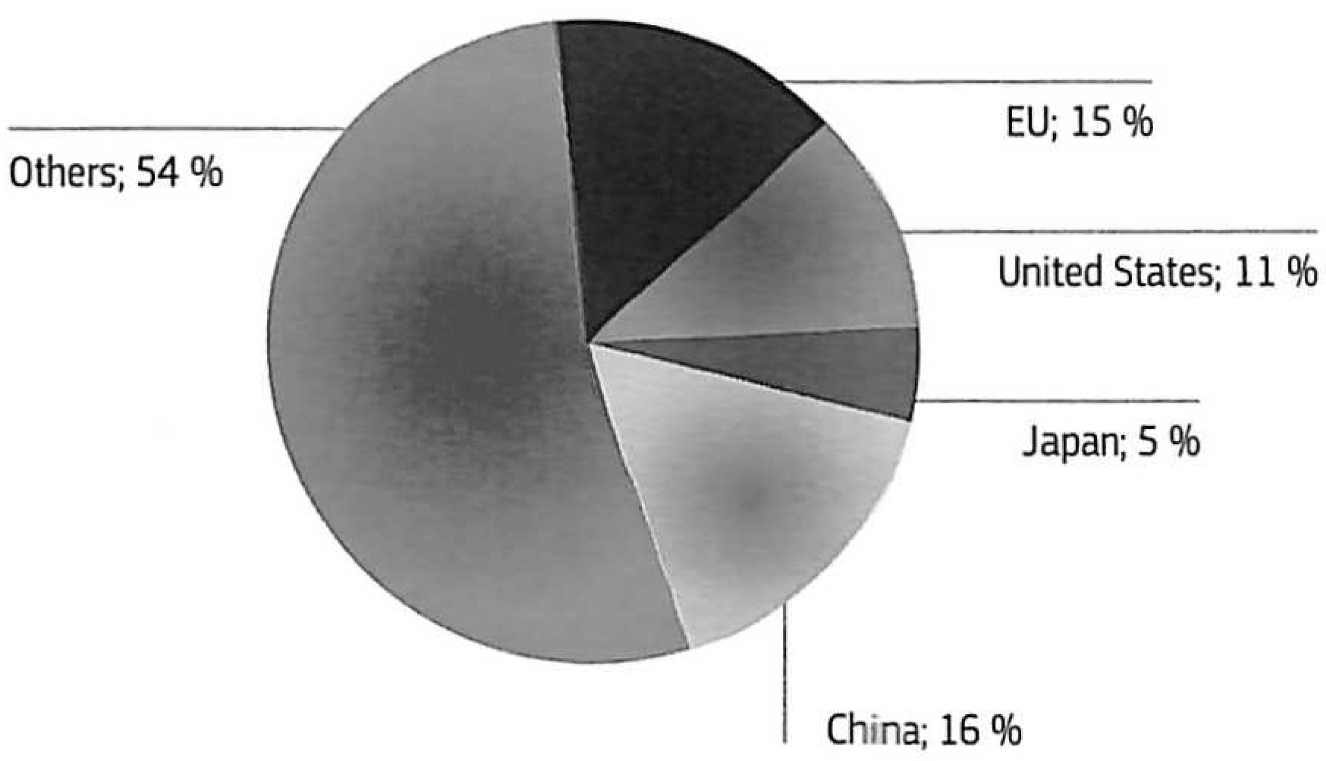
## Globalisation

Today, products are no longer made in one place from start to finish. Instead, they are assembled over a long series of individual steps often located in different parts of the world. The description 'Made in' one single country is now the exception rather than the rule. This means that we need to have a more sophisticated approach to exports and imports than seeing finished goods as simply entering or leaving a country.

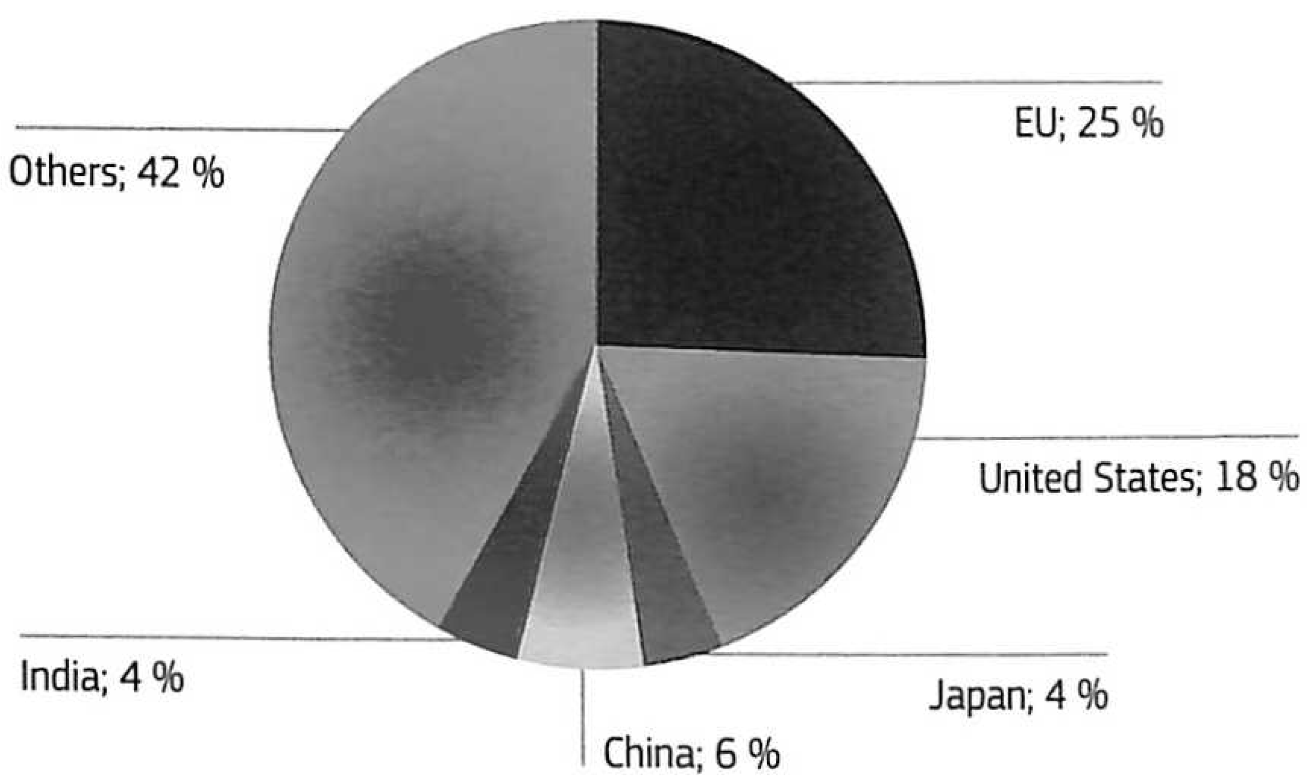
The growth of other economic powerhouses, such as China, India and Brazil, intensifies competition in terms of the price and quality of goods they produce, and, perhaps more importantly, for access to energy and raw materials. At the same time, these countries are creating a new group of affluent consumers and their economies are more open than they were 10 to 15 years ago. Chinese import tariffs fell from 19.8 % in 1996 to 4.6 % in 2013. Over the same period, the decrease in India was 20.1 % to 6.2 % and in Brazil 13.8 % to 10.01 %, although other, less visible, barriers to EU exports remain.

**THE MAJOR WORLD TRADING POWERS**

**% of global exports, goods, 2014**




**% of global exports, commercial services, 2014**




*Source:* Eurostat and WTO.


*Free trade can help to pull the EU out of the current crisis.*

The EU's active free trade policy towards emerging market economies is bringing the Union growth prospects and possible trade openings. By 2020, the International Monetary Fund estimates that 90 % of future economic growth will be generated outside Europe (one third of it in China alone).

### Potential economic gains

*The European Commission calculates that completion of all the free trade talks now under way could increase the EU's GDP by more than 2 %. That is the equivalent of adding a country like Austria or Denmark to the EU economy. It could also support the jobs of more than 2 million people.*

## Free trade and competitiveness

The Union's trade policy is an integral ingredient of its priorities to boost employment and create a more modern, viable and sustainable economy. A vibrant domestic economy requires the Union to be increasingly competitive abroad.

Free trade is more important than ever for economic growth and job creation. Two thirds of imports are raw materials, intermediary goods and components needed by EU manufacturers. Europe's market must remain open to these supplies. Restricting their flow or raising the cost of imports would backfire by increasing the costs and reducing the competitiveness of European companies both at home and abroad.

Free trade can help pull the EU out of the present crisis which began in the United States with the sub-prime meltdown in 2007–08. Along with the deepening of the single market and targeted Europe-wide investment in areas such as research, education and energy, free trade is one of the key triggers to stimulate the European economy.

## Further benefits from free trade

Open markets generate more economic growth and more and better jobs for Europe and its partners. 31 million jobs — or one in seven jobs — in the EU depend directly or indirectly on exports to the rest of the world. This figure has increased by around 50 % since 1995. Foreign direct investment is also a crucial engine for job creation, with in 2012 American and Japanese companies employing over 4.2 million people in Europe.

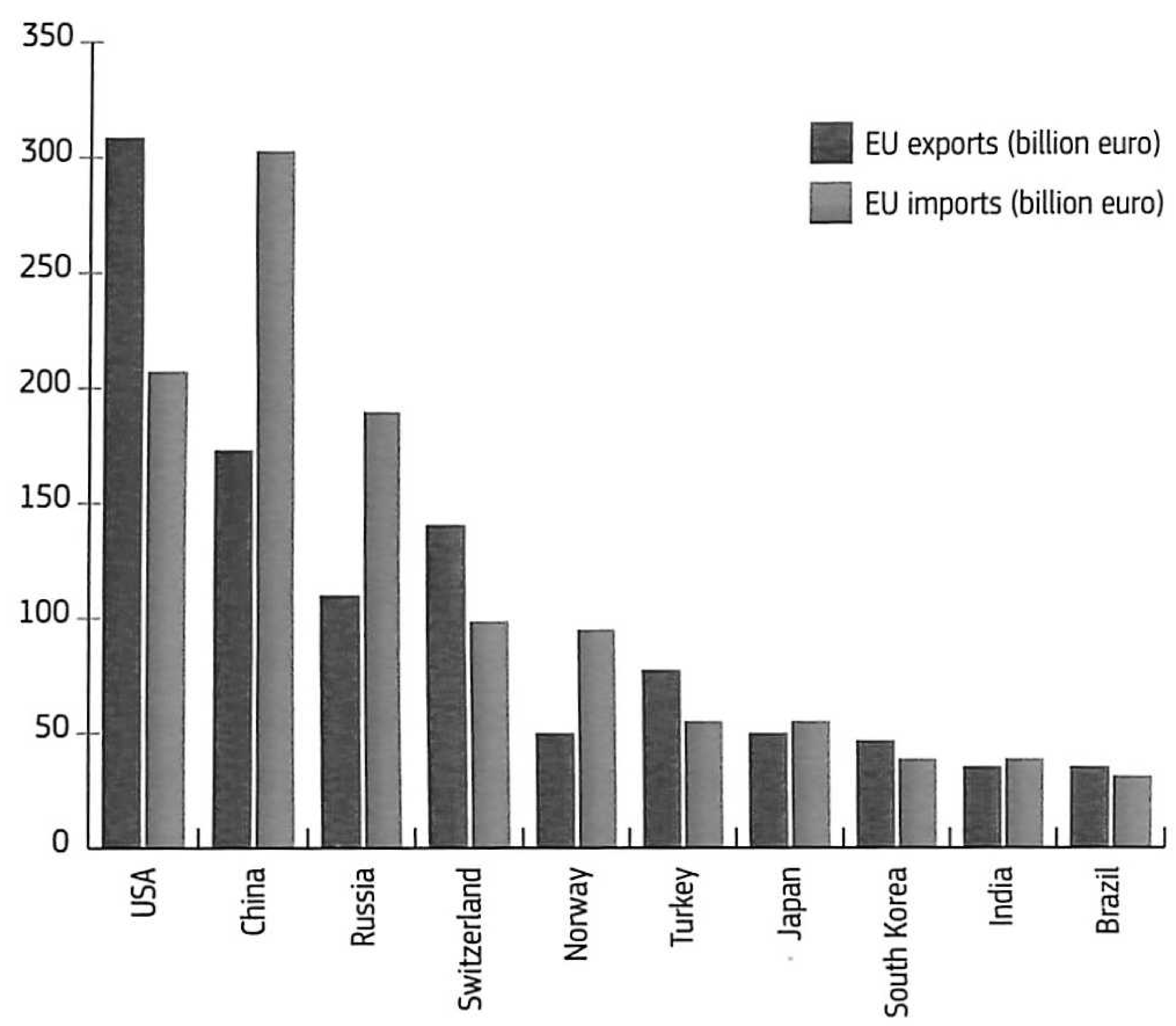
Trade liberalisation creates additional opportunities for innovation and stronger productivity growth. Trade and investment flows spread new ideas and innovation, new technologies and the best research, leading to improvements in the products and services that people and companies use. Experience in EU countries shows that a 1 % increase in the openness of the economy results in a 0.6 % rise in labour productivity the following year.

Benefits from trade include lower prices and greater choice for consumers, as imported food, consumer goods and components for products manufactured in Europe become cheaper.


*Trade is about more than moving physical goods: it also includes services and investment.*

The Union attaches strong importance to wider social and environmental issues. Free trade agreements can also play a role in promoting sustainable development, good governance and respect for human rights. For trade to operate smoothly, it is not enough simply to negotiate lower tariffs for exporters. Respect for the rule of law is essential to provide a stable and predictable legal environment so it is vital to address less visible trade barriers such as customs formalities, red tape and, in some cases, unethical business practices.

**THE EU'S BIGGEST TRADE PARTNERS: GOODS**




**Africa:** imports 156.3; exports 154.6
**Central and South America:** imports 99.1; exports 112.7
**Other European countries:** imports 458.0; exports 431.1
**North America:** imports 233.9; exports 343.3
**Oceania:** imports 14.1; exports 37.1
**Asia:** imports 706.5; exports 589.6

Figures are for 2014.
*Source:* Eurostat.

## Not just goods and services

In bygone days, when trade was limited to moving physical goods from one part of the world to another, negotiations would focus almost exclusively on tariffs and quotas. Now that economies are more sophisticated, trade policy covers a vast array of activities and practices. These include services, intellectual property rights (IPR), foreign direct investment, standards for plant and animal health and for industrial and non-industrial goods, licensing practices and domestic taxes.

# How the EU develops trade policy

The Union itself is responsible for the trade policy of its member countries and the European Commission negotiates on their behalf. This means that no individual member government can contemplate a bilateral trade agreement with a non-EU partner. This division of responsibility is based on the EU Treaties.

### Aims of free trade agreements:

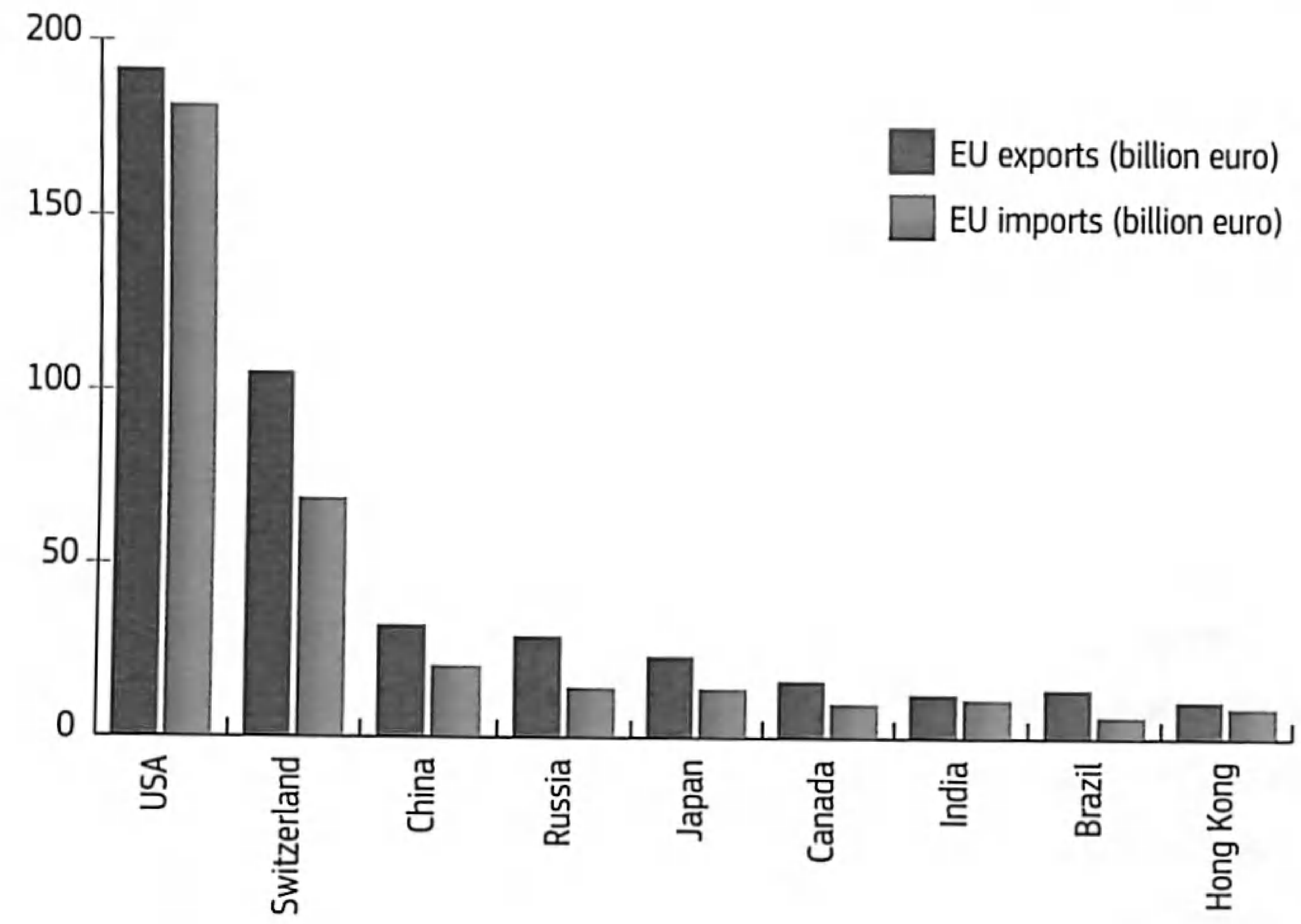
- *Open new markets for goods and services*
- *Increase protection and opportunities for investment*
- *Make trade cheaper by cutting customs duties and red tape*
- *Speed up trade by making customs clearance easier and setting compatible technical and sanitary standards*
- *Create greater certainty through clear rules on intellectual property rights, competition and public procurement*
- *Support sustainable development by fostering cooperation, transparency and dialogue on social and environmental issues.*

## Adapting to new circumstances

The fundamental changes in global supply chains mean that where value added is created becomes more important than where exports are actually recorded. The EU's trade policy, therefore, aims to maintain, and, if necessary reinvent, the EU's place in global supply chains rather than trying to keep every single production step at home. Trade is more and more about adding layers of value from research and development and design to manufacturing of components, assembly and logistics.

The same is true for supply chains within the EU itself where economic frontiers are blurred and trade relations are changing. When firms export, they create jobs not only in the country the goods and services leave, but also across the Union. Services are especially important in terms of integrating the EU into global supply chains and keeping jobs in Europe. Around one third of jobs generated by manufactured goods leaving Europe are in companies that supply exporters with supporting services. Overall, services represent 50 % of the domestic value added in Europe's exports to the world.

**THE EU'S BIGGEST TRADE PARTNERS: SERVICES**




Figures are for 2014.
*Source:* Eurostat.

While small and medium-sized companies may not always export directly themselves, many supply parts, components and services which are included in the exports of larger companies. An item officially registered as a German export may in fact contain elements from the Czech Republic, Belgium or Poland.

### Multinational manufacturing chains

*China offers many examples of the increasing international fragmentation of production. For instance, a certain smart phone 'assembled in China' may contain less than 4 % value added in China, but over 16 % in Europe. Some European 'Made in China' smartphones or tablets may have even more than half their value added produced in Europe. The same may be true for other products from toys to aeroplanes, for example. Still, most countries continue to rely heavily on domestic value added to produce exports. Around 87 % of the value added in EU exports is domestic. In China, this figure stands at 76 %. Even so, value chains are increasingly important in understanding the implications of trade, not least when it comes to labour markets. For example, the growing production links between the EU and China mean that in 2009 over 1.1 million jobs in the EU were sustained by Chinese exporting activity, with 5.5 million Chinese jobs being supported by EU exports.*

## Free trade agreements

The Union is currently pursuing a policy of active engagement with its partners — sometimes within regional groupings — to negotiate comprehensive free trade agreements. These grant privileged access to the markets of the countries concerned and are an accepted exception from the basic World Trade Organisation (WTO) principle that all trading partners should be granted equal treatment.

Agreements vary depending on the level of ambition and capacities of the country, or group of countries, the EU is negotiating with. No one size fits all. Since the EU's many partners have different interests, the contents are tailored to each specific situation. Free trade agreements with developed countries and emerging economies are driven by economics and generally based on reciprocal market opening. Economic partnership agreements with African, Caribbean and Pacific countries combine both trade and development objectives.

EU trade policy is focusing on key partners such as the US, Canada and Japan, although attention is also being paid to emerging economies such as the BRICS (Brazil, Russia, India, China and South Africa). These are seen as the new drivers of the world economy. The benefit of agreements with such countries for EU exporters is clear. The average tariff they face when selling to the rest of the world is still around 5 %. In some countries, tariffs are considerably higher.

A typical agreement will cover different sectors and issues and specify a timetable for individual product tariff reductions. Modern (EU) trade agreements include non-tariff matters ranging from intellectual property to public procurement. They contain various provisions, such as rules of origin, to determine which products are eligible for the tariffs being reduced or eliminated.

*Economic partnership agreements combine both trade and development objectives.*


These agreements strengthen the EU's rules-based system which goes beyond the WTO by embedding this in the international contractual arrangements so that trade and investment are protected and can thrive.

## Intellectual property

Europe's competitiveness in a global economy is largely based on innovation and the value added of the goods it produces. Economic growth and jobs are undermined when European ideas, brands and products are pirated and counterfeited. Protection of their intellectual property rights (IPR) such as patents, trademarks, designs, copyright or geographical indications, is increasingly important for European inventors, creators and businesses to prevent unscrupulous competitors from making illegal copies.

The EU protects IPR in different ways. Within the WTO, it was a major supporter of the Agreement on Trade-Related Aspects of Intellectual Property Rights. It also negotiates relevant provisions in bilateral trade agreements and works closely with authorities in countries outside the EU to strengthen the system for protecting such rights.

## Investment

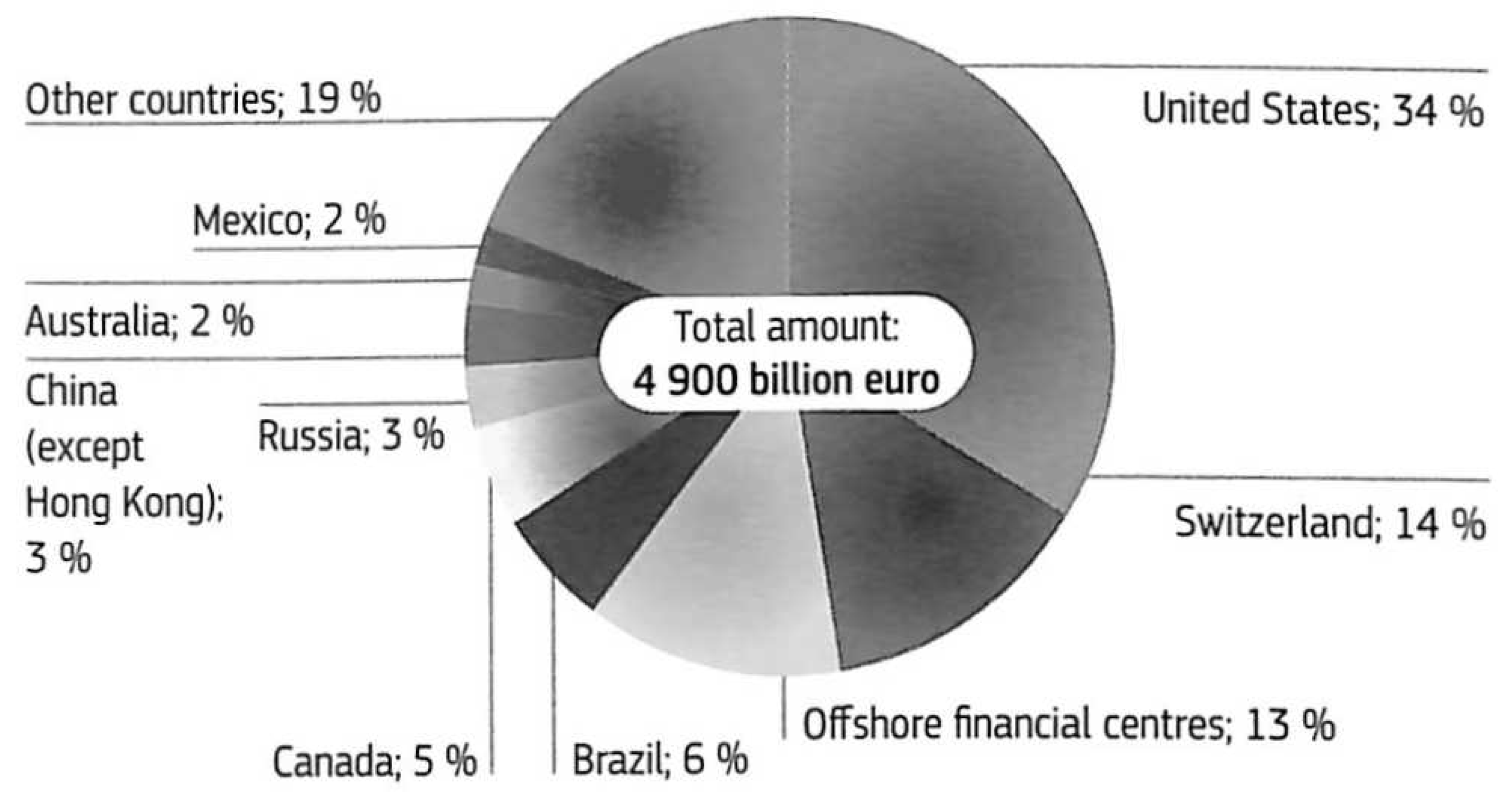
As the largest source of foreign direct investment, the EU supports clear rules to protect this form of finance, which plays a central role in establishing businesses and jobs abroad and building global supply chains.

The aim is to provide investors with legal certainty and a stable, predictable, fair and properly regulated environment in which to conduct business. This is largely achieved through the WTO General Agreement on Trade in Services (GATS) and, where possible, in bilateral agreements.

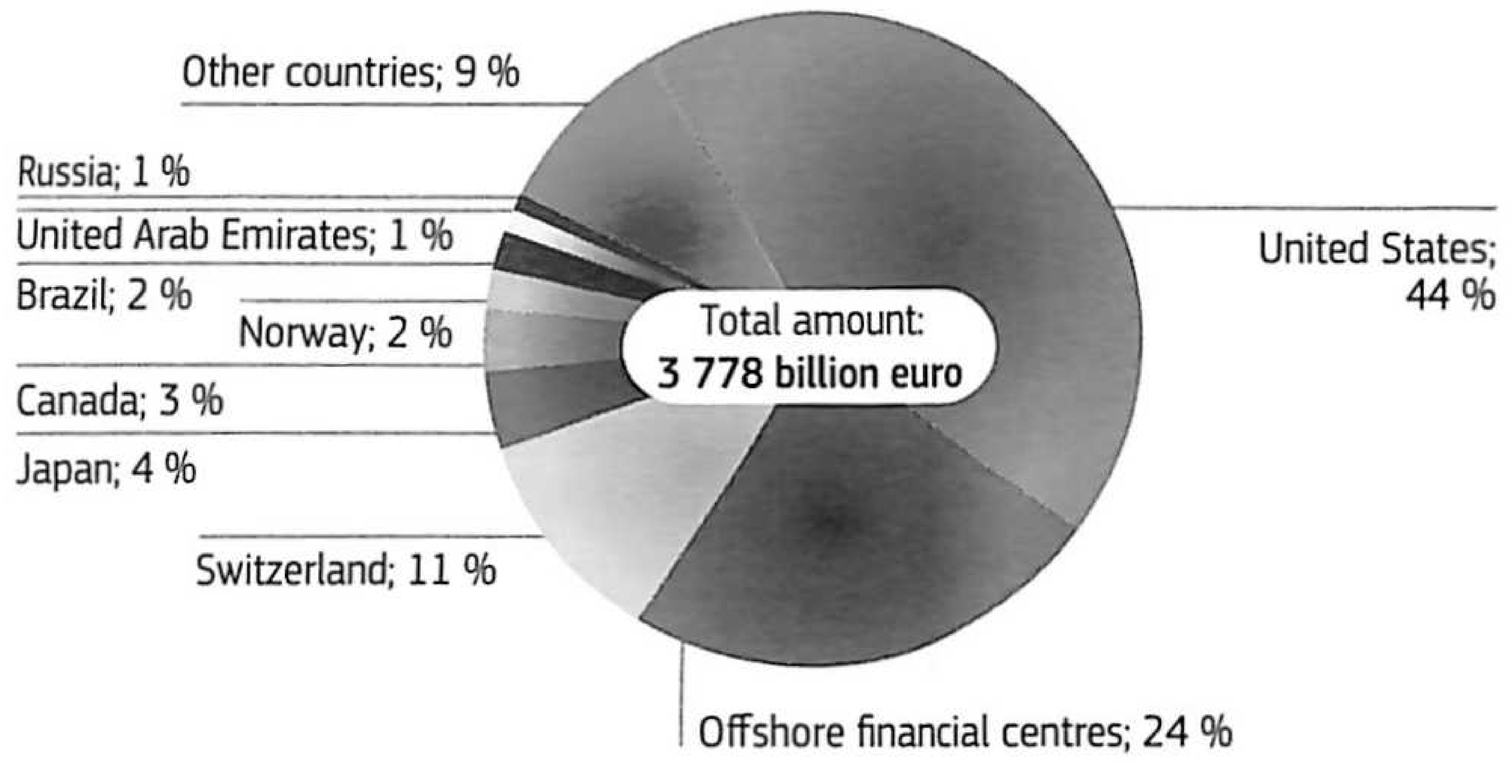
With the entry into force of the Lisbon Treaty in 2009, the EU has acquired the responsibility to negotiate on the protection of European investments in countries outside the EU.

WHERE DO INVESTMENTS GO TO AND COME FROM?

**Outward FDI stocks from the EU**




**Inward FDI stocks into the EU**




'Direct foreign investment' (FDI) means that a person or a company owns a business, or part of it, in another country. So 'outward FDI from the EU' is when somebody inside the EU owns businesses based in countries outside the EU. 'Inward' FDI is the other way around.
Figures are for 2013.
*Source:* Eurostat.

## Public procurement

The European Union is committed to ensuring that European companies have fair access to compete for public procurement contracts outside the Union when public authorities look for companies to provide goods, works or services. These can range from major infrastructure projects, such as roads and hospitals, to the purchase of IT equipment; in terms of trade, they are worth around €1 trillion a year.

In 2011, the WTO agreed changes to its Government Procurement Agreement. These mark an important further step in opening up international public procurement markets. The Commission has taken this a stage further by proposing legislation to prevent companies in countries outside the EU which do not sign up to the WTO rules and discriminate against EU firms from tendering for European contracts.

## How free trade agreements are reached

Many months of careful preparation take place before a trade negotiation begins. This includes public consultation, assessment of an agreement's potential impact on Europe's companies and consumers and informal and formal talks between the Commission and the country or region concerned to determine the issues to be covered. After these comprehensive preparations, the Commission requests authorisation from the Council of Ministers (made up of representatives of EU governments) to open negotiations. They agree the objectives that the Commission should try to secure. During the negotiating process that usually lasts several years, the Commission regularly informs the Council and the European Parliament on the progress being made. The Commission is committed to making the way it negotiates trade agreements as transparent as possible, so it publishes the EU's negotiating proposals on its website, along with factsheets and other information. The Commission also meets representatives of civil society and other stakeholders to discuss the negotiations and sometimes holds public consultations on specific issues.

Once an agreement is reached, its signature is formally authorised by the Council. The European Parliament, using its new Lisbon Treaty powers, may accept or reject, but not amend, the text.

Individual EU countries may also need to ratify an agreement according to their own national procedures as well as the green light they give at international level. The agreement enters into force on a particular day, but may be provisionally applied beforehand.

# What trade policy consists of

The Union has built its trade policy on three main areas of activity.

- An active role in the multilateral negotiations conducted under the auspices of the WTO.
- Deeper bilateral trade relations with individual countries and regions and the application of unilateral measures, such as the granting of preferential treatment to developing countries.
- A strategy to target and remove specific barriers in key export markets.

## Multilateral approach

The Union is a strong advocate of multilateral action. It has firmly supported the Doha Development Round of trade negotiations since it was launched by the WTO in 2001 to negotiate further trade liberalisation for goods and services, improve market access for developing countries and review trade rules.

The benefits from a successful conclusion to the talks would be extensive. It is estimated they would increase world trade by 2 % and considerably simplify trade procedures, logistics and transport. However, the complexities of the issues involved and the differing interests of the participants have prevented an agreement being reached.

### World Trade Organization

*The WTO was established on 1 January 1995 as the successor to the General Agreement on Tariffs and Trade (GATT) set up after the end of the Second World War. The WTO currently has 164 member countries and 20 observers. It has helped shape a system of rules that keeps the global economy open for trade. It administers WTO trade agreements, provides a forum for negotiations, handles disputes, monitors national policies, provides technical assistance and training for developing countries and organises cooperation with other international organisations. A new trade round of negotiations is launched when WTO members wish to update the multilateral rules. The latest (and still ongoing) negotiation is the Doha Round.*

### FREE TRADE AGREEMENTS

The EU is advancing, on an unprecedented scale, a reciprocal market opening agenda with its most important bilateral trading partners. The main vehicle is free trade agreements (FTAs). Before 2006, these accounted for less than a quarter of EU trade. If all the negotiations now under way are successfully concluded, that figure will rise to two thirds. Already, by the end of 2012, the EU had 28 trade agreements in force.

© iWTO

*The EU plays a key role at the WTO.*

**FREE TRADE AGREEMENTS ALREADY OPERATING**

- Eastern Neighbourhood: In 2013 the EU concluded negotiations for a Deep and Comprehensive Free Trade Area (DCFTA) with Moldova, Armenia and Georgia as part of broader association agreements. Negotiations with Ukraine were concluded in December 2011. The association agreements (including the DCFTAs) were ratified by Moldova, Georgia and Ukraine during the summer of 2014. The agreements with Moldova and Georgia have been provisionally applied since September 2014. The association agreement with Ukraine has been provisionally applied as of November 2014, except for the DCFTA, which has been provisionally applied since 1 January 2016. In September 2013, Armenia decided to join the Customs Union with Russia and stopped the AA/DCFTA process with the EU.

- Peru and Colombia: The trade agreement was signed in June 2012. It has been provisionally applied by Peru since March 2013 and by Colombia since August 2013. At the end of the first calendar year of provisional application, trade between the EU and Peru stood at €8.7 billion and trade between the EU and Colombia at €13.5 billion. In July 2014 the EU and Ecuador concluded negotiations for the accession of Ecuador to the agreement.

- South Korea: The EU–South Korea Free Trade Agreement (FTA) entered into force in July 2011. It is the first completed agreement in a new generation of free trade agreements launched by the EU in 2007. It goes further than ever before in lifting trade barriers and making it easier for European and Korean companies to do business together. In the FTA's third year, EU exports of goods to Korea increased by 35% to reach €41.5 billion compared to €30.6 billion in the year before the entry into force of the FTA. During the same period, exports of goods that have been fully or partially liberalised by the FTA increased more than exports overall, with an increase of 46 % for fully liberalised goods and 37 % for partially liberalised goods.

- Chile: The 2002 association agreement included a comprehensive free trade agreement which entered into force the following year. Bilateral trade has more than doubled since 2003, reaching €16 billion in 2014. The EU is Chile's third largest source of imports, while the EU is Chile's second largest export market.

- Mexico: Since the agreement's entry into force in October 2000, total bilateral trade has doubled from €21.7 billion to €46 billion in 2014. The EU and Mexico have agreed to update the agreement, so it is more in line with the newest generation of trade agreements and reflects developments in the Mexican economy.

- South Africa: The trade, development and cooperation agreement in force since 2000 established a free trade area covering 90 % of bilateral trade between the EU and its largest trading partner in Africa.

- Southern Mediterranean: the association agreements with Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, the Palestinian Authority and Tunisia concluded between 1995 and 2002 established FTAs covering trade in goods.

- Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama): The EU–Central America association agreement was signed in June 2012. The trade part of the agreement has been provisionally applied with Honduras, Nicaragua and Panama since August 2013, with Costa Rica and El Salvador since October 2013, and with Guatemala since December of that year. In 2013 trade between the two regions stood at €12 billion.

- African, Caribbean and Pacific countries (ACP): Economic partnership agreements (EPAs) are being put in place and implemented between ACP countries and the EU. For over 30 years, the countries had preferential access to the European market. Yet this failed to boost local economies sufficiently, stimulate growth or increase ACP exports to the EU. The EPAs offer a new approach and are designed to help ACP countries integrate into the world economy, achieve sustainable growth and reduce poverty. Four EPAs are in operation, covering the Caribbean (14 countries), East Africa (Madagascar, Mauritius, Seychelles and Zimbabwe), Central Africa (Cameroon) and the Pacific (Fiji and Papua New Guinea).

**FREE TRADE AGREEMENTS FINALISED, BUT NOT IN FORCE**

- Singapore: The EU–Singapore FTA was for the most part initialled in September 2013, with negotiations on investment protection completed in October 2014. Singapore is the first member of the Association of South East Asian Nations (ASEAN) to reach an agreement with the EU.

- Vietnam: Negotiations on an EU-Vietnam FTA concluded in 2015. The agreement represents an important building block towards an eventual region-to-region FTA between the EU and ASEAN.

- Canada: Negotiations on an EU–Canada Comprehensive Economic and Trade Agreement (CETA) concluded in September 2014. It removes 99 % of customs duties and many other obstacles for traders, meaning potential gains of around €12 billion to EU GDP once fully implemented. The full text is available online. The agreement must now be ratified by both parties before it can enter into force.

- ACP: In 2014 negotiations were concluded on three more EPAs, one with West Africa (16 countries), one with the Southern Africa Development Community (SADC) (six countries) and one with the Eastern African Community (EAC) (five countries).

### FREE-TRADE AGREEMENTS UNDER NEGOTIATION

- United States: Negotiations for a Transatlantic Trade and Investment Partnership (TTIP) began in July 2013. TTIP is the most ambitious and strategic trade negotiation that the EU has ever undertaken. It will strengthen Europe's relationship with the United States, our most important political ally and biggest export market, and provide an effective laboratory for global rules. Although the EU's economic relationship with the United States is unrivalled in its scope and intensity, it still has considerable potential. Given average tariffs of around 4 %, the key to unlocking it lies in tackling non-tariff barriers. According to an independent study, an ambitious TTIP, once fully implemented, could bring the EU economic gains of €119 billion a year. Free-trade agreements are under negotiation.

### Trade negotiations with the United States

*The EU negotiates a future agreement, the TTIP, with the aim of:*

- *opening up United States markets to EU firms, including for public services;*
- *helping cut red tape that firms face when exporting;*
- *setting new rules to make it easier and fairer to export, import and invest overseas. The rules should include high standards in areas such as food safety, health and social and data protection.*

- India: Talks started in 2007. They are the EU's first attempt to engage a large emerging country in a reciprocal bilateral trade opening exercise.

- ASEAN (Association of South-East Asian Nations): Bilateral negotiations are taking place with individual members (see Singapore above). They opened with Malaysia in May 2010, Vietnam in June 2012 and Thailand in March 2013. The EU considers the FTAs with individual ASEAN countries as stepping stones towards a region-to-region agreement, which remains the long-term objective.

*Trade should also benefit developing countries.*

- Mercosur (Argentina, Brazil, Paraguay, Uruguay and Venezuela): In 2013 Mercosur was the sixth largest destination for EU exports, with exports of goods reaching €57 billion. In 2012, EU exports of services topped €21 billion. If negotiations are successful, an EU–Mercosur FTA would create the largest free trade area between two of the world's regions (Europe and South America) and would bring substantial benefits to both.

- Gulf Cooperation Council (Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain and Oman): a major trading partner for the EU. FTA negotiations were suspended in 2008, but informal contacts continue.

- Japan: In March 2013, the EU and Japan officially launched negotiations on a free trade agreement. The ongoing negotiations cover areas such as the progressive liberalisation of trade in goods and services, investment, government procurement and the elimination of non-tariff barriers.
- Morocco: Negotiations for a deep and comprehensive free trade area (DCFTA) with the EU were launched in March 2013.

- Tunisia: Negotiations for a deep and comprehensive free-trade area (DCFTA) with the EU were launched in October 2015.

**FUTURE NEGOTIATIONS**

- Southern Mediterranean (Egypt and Jordan): in December 2011 EU governments approved negotiating mandates to deepen and extend existing free trade agreements. The first talks were launched with Morocco, in March 2013 (see above).

Free trade agreements are a core component of many association agreements. The EU is also linked to a number of its neighbours by customs unions (Andorra, San Marino and Turkey). There are free trade agreements in force in Europe with the Faroe Islands, Iceland, Norway and Switzerland, and the southern Mediterranean (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria and Tunisia). In addition to the Stabilisation and Association Agreements with the western Balkans, an autonomous trade regime operates between the EU and the former Yugoslav Republic of Macedonia, Albania, Montenegro, Bosnia and Herzegovina, Serbia and Kosovo (*).

(*) This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.)

## Strategic relationships

- China: China is now the EU's second trading partner after the United States, and the EU is China's biggest trading partner. In November 2013, the EU and China announced the launch of negotiations for a comprehensive EU–China Investment Agreement. The agreement will provide for progressive liberalisation of investment and the elimination of restrictions for investors to each other's market.

- Russia: The EU is Russia's most important trading partner by far, accounting for over half of the country's imports and exports. Russia's accession to the WTO in 2012 lowered its import tariffs and provides a forum to address bilateral problems. Contrary to the EU's expectations, Russia has since taken a more protectionist course which has been exacerbated by the Ukraine crisis.

## Developing countries

The Union actively encourages developing countries to use trade to build up their own economies and improve living standards. Growth in trade can enhance their export earnings and promote diversification of their economies away from commodities and raw materials. To help developing countries export, the Union was the first organisation in the world to grant a generalised system of preferences (GSP), in 1971, under which it introduced preferential import rates to all developing countries, giving them vital access to European markets.

However, over the past four decades global economic and trade balances have shifted tremendously. Several more advanced developing countries have successfully integrated into the world trading system, while a greater number of poorer countries have been increasingly lagging behind. In the current competitive environment, tariff preferences must go to those countries most in need.

As a result, the reformed Generalised Scheme of Preferences (GSP) — effective from 2014 — focusses the benefits on the least developed countries (LDCs) and other low and low-middle income economies without other preferential access to the EU. There are currently 88 such countries. Countries such as Russia, Brazil, Kuwait and Saudi Arabia, which the World Bank classifies as high or upper-middle income, and partners which have another form of preferential access to the EU similar or even better than GSP (for example, a free trade agreement) no longer enjoy GSP treatment.

A special incentive, GSP+, provides for additional tariff reductions for vulnerable countries that sign up to 27 international conventions on human and labour rights and environmental and good governance standards. The EU's 'Everything But Arms' scheme also gives 49 least developed countries duty-free and quota-free access to the European market for all products, except for arms and ammunition.

In addition, the European Commission operates a special help desk in four languages (English, French, Spanish and Portuguese) offering export advice to companies in developing countries which lack the capacity to provide it themselves.

## Market access strategy

The strategy creates new opportunities for EU companies exporting to third country markets, especially those where a free trade agreement does not exist. A partnership between the Commission, EU member countries, businesses and local expertise, such as chambers of commerce, helps to identify and tackle trade barriers that arise.

A market access database — a free, interactive service — managed by the EU provides information on conditions in countries outside the EU. This covers sector specific trade barriers, import formalities, databases on statistics and various studies.

## Trade defence

Trade negotiations can help prepare the ground for future economic prosperity, but equally important is the need to ensure existing rights and rules are respected and enforced. When this is not the case, the Union's ability to compete internationally can be undermined, harming jobs at home.

The Commission attaches particular importance to proper enforcement. It carefully monitors the behaviour of its trading partners to be able to move quickly if discriminatory or disproportionate barriers to trade, such as difficulties in obtaining patents or licences, emerge or unfair practices are identified.

Enforcement may be achieved in various ways: through diplomatic and political contacts, negotiation, regulatory cooperation and the WTO.

The WTO's dispute settlement procedures provide the main forum for settling trade disagreements. Any of its members may bring a case which a special panel examines in line with the internationally agreed rules in force. If a member does not comply with the recommendations, trade compensation or sanctions may be applied.

In line with WTO rules, the EU has its own range of trade defence tools to guarantee fair play in a competitive world. These are carefully designed to ensure a level playing field for all, while avoiding any protectionist abuse.

Unfair competition can come from two sources: subsidies or dumping. Subsidies are public aid given to a specific sector. They distort competition by making subsidised goods artificially competitive. Dumping is when non-EU manufacturers sell their goods in the Union below the normal sales price on their domestic market.

When the Commission suspects either practice (this refers to subsidies or dumping) or receives allegations of such behaviour, it carries out an investigation. If it establishes that agreed trade rules have been violated, the EU can apply countervailing measures, such as additional duties, to remove the unfair competitive advantages which the respective country had hoped to gain.

# The future of trade policy

The EU remains committed to completing its ambitious trade agenda. It believes in open markets and that trade is part of the solution to the economic crisis.

It is also in the best interest of the EU's individual and regional trading partners to complete negotiations since the Union represents the world's biggest market for their exports.

Free trade agreements are not without their critics. In Europe, they are sometimes presented as exposing EU producers to unfair competition from cheap imports. From a very different perspective, the Union is accused of trying to penetrate markets, particularly in developing countries, and destroying local jobs. However, this criticism fails to take account of the evidence to the contrary and the noticeable benefits the agreements bring to both the EU and its partners.

## Fighting protectionism

It is inevitable that some voices see protectionism as the solution to many underlying problems. The G20 group of major industrial countries has formally pledged not to adopt trade restrictive measures and to tackle immediately any that are introduced.

However, the reality on the ground can sometimes be different from words and principles agreed at high level summits. Despite the pledge, many emerging economies appear more inclined to introduce potentially trade-distorting measures to shield their domestic markets from international competition.

The EU will continue to fight against protectionism. The Union would lose more than it would gain were it to adopt similar protectionist measures, since it is dependent on many imported products. Raising their cost would reduce the EU's competitiveness inside and outside the Union leading directly to a loss of European production and jobs. A 10 % rise in trade restrictions could lead to a 4 % loss in national income.

As the world's leading trade region, the EU has a strong interest in open markets and clear regulatory frameworks. Aware of its strong responsibility towards its own citizens and the rest of the world, it will continue its present strategy and vigorously argue the case for an open and fair global trading system through multilateral and bilateral agreements.


*Rotterdam, in the Netherlands, is one of the largest container ports in the world.*

NA-02-16-154-EN-C

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Publications Office

ISBN 978-92-79-55724-8