

**COMPETING FOR GROWTH AND JOBS IN A GLOBAL MARKET**

**UNICE Preliminary Views on the External Dimension of the Lisbon Agenda**

**Introduction**

The competitiveness of the EU manufacturing industry is declining. An independent economic analysis has shown that the EU has lost more than 10% market share for three times as many high technology sectors than Japan or the US since the mid-1990s and that Europe “has missed the 21st century technological boat.”<sup>1</sup> Moreover, the EU’s comparative advantage in services is being increasingly threatened by competition from emerging countries. This situation must be reversed through an aggressive policy to restore European competitiveness and to allow EU companies to play their role in growth generation and job creation.

UNICE therefore welcomes the participation of the Trade Commissioner in the Lisbon Strategy Commissioners Group under the chairmanship of President Barroso and in the Competitiveness Council Commissioners Group under the leadership of Vice-president Verheugen. This reflects the crucial role of trade and investment and its impact on EU competitiveness and structural change, a dimension which has been insufficiently addressed in the Lisbon agenda. UNICE hopes that this strengthened competitiveness group will ensure that the EU provides “deliverables” through greater coordination and prioritisation within the Commission and the EU institutions on its competitiveness strategy.

With this paper UNICE would like to concentrate on the specific aspect of international trade and investment and competitiveness. UNICE’s basic message is quite simple: it would like the Commission to address all internal and external factors affecting the global competitiveness of European business in a coordinated and coherent manner and to systematically take competitiveness into account when making legislative proposals or when negotiating trade and investment issues with third countries. UNICE does not want to repeat here the many external trade or Lisbon positions it has adopted.<sup>2</sup> Rather it calls on the Trade Commissioner to look at competitiveness from a trade and investment perspective and to help companies create a competitive edge in world markets. A more holistic approach to trade matters would also contribute to counter widespread scepticism in European public opinion toward globalisation.

**I. Strengthening the EU manufacturing and services base**

Whilst the Trade Commissioner’s role mainly lies in international trade and investment, UNICE believes that the Commissioner should also make an important contribution to developing appropriate internal policies, which are a necessary if not sufficient condition, for the creation of a stronger, more innovative and higher value added EU manufacturing and services base. Companies are ready to take up the challenges of increased global competition, but to seize the opportunities offered by globalisation they need policies that are supportive of their competitiveness ambitions.

<sup>1</sup> CEPII-CIREM (July 2004) *European industry’s place in the International Division of Labour: situation and prospects*, Report prepared for the Directorate-General for Trade of the European Commission, pp.23-27.

<sup>2</sup> To download UNICE positions on Lisbon: [www.unice.be](http://www.unice.be). For trade issues: <http://wto.unice.org>

## 1. Pro-competitive regulations

The overall aim of regulation should be to make the EU an attractive location for investment (domestic and foreign) where innovation can flourish. Costs to EU business have risen at unsustainable levels while international competition continues to push down output prices for many of EU products. The Trade Commissioner's international outlook can add value to internal EU policies by ensuring a high degree of coherence between internal and external policies.

- New EU regulations should not only be subject to a generalised **impact assessment**, including an evaluation of the direct and indirect costs,<sup>3</sup> but should also include a proper "necessity test" (regulatory measures based on the proportionality principle), an examination of their impact on trade and investment and a WTO compatibility test. The objective should always be to choose the least trade restrictive form of regulation in line with the WTO. UNICE also insists that impact assessments be based on adequate and proper consultation of the industries/companies concerned.
- The EU should frequently **benchmark** its regulatory approaches, especially for new regulatory issues, to ensure that they are not diverging from the approaches of major trading partners. Otherwise, business will be put at a competitive disadvantage and policies to promote regulatory convergence with major trading partners will be difficult, if not impossible, to achieve. A clear example of where the EU regulatory approach erred in the past is in biotechnology.

## 2. Modernise internal EU trade policies in the light of competitiveness

Internal trade policies should be regularly assessed/reviewed to avoid hindering the international competitiveness of EU industries and services. Close consultation and cooperation with business at an early stage is essential to ensure that trade policies effectively deliver on their promise to increase the competitiveness of the EU.

- **Customs rules** should be based on trade facilitation through harmonised and simplified customs procedures and classification and the rapid development of electronic customs.
- **Rules of origin** need to be simplified in line with the needs of European business competitiveness and restructuring/investment objectives in a global market.
- EU policies, such as the **Generalised System of Preferences**, need to consider the competitive position of the European industries as well as the overall impact of these policies on EU trade negotiations in the WTO while delivering on development objectives. OECD countries should offer similar levels of preferences to developing countries as the EU.
- **EU trade defence instruments** (TDI) should be designed to deal with new forms of unfair trade practices and international market distortions within the strict framework of WTO rules and within an overall competitive framework conducive to growth and productivity in the EU. EU companies should be vigorously defended against abusive trade defence practices and legal harassment in third countries. The EU should also work to improve WTO rules in this area to ensure similar implementation by all WTO Members.

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<sup>3</sup> See the 3 November 2004 position: "*The Alliance for a Competitive European Industry calls for a more systematic approach to business impact assessment of EU policies and regulations and makes recommendations in this respect.*" <http://212.3.246.117/Common/GetFile.asp?ID=27540&logonname=quest&mfd=off>.

- As regards **agriculture**, all WTO Members should pursue reforms with a view to eliminating trade distorting subsidies, removing barriers to trade and reducing the overall level of public financial support for agriculture. This should be done in a coherent manner, without compromising the competitive position of the European food industry. UNICE considers that previous efforts to make agriculture more market-driven and environment-friendly should be enhanced, taking into account third countries development policy issues. The final DDA agreement in the WTO-agriculture negotiations and the internal reform of the CAP should be compatible. UNICE also asks for greater coherence between the CAP and the Lisbon Strategy, by focusing more on innovation and competitiveness in this area.
- Improved coherence between trade policy/analysis and **EU structural funding** could contribute to strengthening regions or industrial sectors that need to anticipate or adapt to global competition.
- **EU programmes** that foster international technological and business cooperation with trade partners should be made more cost-effective and user friendly particularly for SMEs.
- EU **development assistance** should not only focus on export led growth but should also improve internal governance and include developing open and strengthened markets in developing countries.

## **II. The External Dimension of the Lisbon Agenda**

The Trade Commissioner's main role in competitiveness lies in the field of external trade and investment. Consequently, UNICE suggests that all external trade and investment issues should be scrutinised from a competitiveness angle. There are three principal components of the external economic dimension of competitiveness that warrant a substantial rethink.

### **1. Strengthen the multilateral trading system**

European companies believe in a rules-based multilateral trade and investment system as the foundation for a much needed level playing field.

- Further multilateral trade and services negotiations remain the most effective and efficient route to trade liberalisation. The EU should therefore prioritise the rapid conclusion of an ambitious **Doha Development Agenda** (DDA) in 2006 by focusing on the three growth-generating issues for Europe: industrial market access (tariffs and non-tariff barriers), services liberalisation and trade facilitation.
- The WTO also needs to **strengthen the rules** governing trade defence (AD/CVD), regional trade agreements and improve dispute settlement procedures to ensure fair implementation, compliance and enforcement of the rules by all WTO Members – in particular in emerging countries.
- EU **negotiating proposals** in the WTO should be assessed to ensure that they prioritise the competitiveness of EU industries and services.

### **2. Improve market access and investment protection in the largest trading nations**

EU companies need to reverse the loss of market share in major export markets. Therefore, the EU should sharpen its multilateral and bilateral strategies to significantly reduce or eliminate tariffs, remove non-tariff barriers and to open markets for services and investment. Besides its commitment to multilateral trade liberalisation, the EU should concentrate on closer economic integration with its largest trading partners, including OECD and emerging countries by testing their willingness to go beyond traditional WTO commitments. Special

attention should be paid to achieving substantially increased market access and improved legal security for EU companies in the large emerging countries (China, India, Brazil and Russia).

- New EU **trade and investment agreements** should address trade in the broadest sense by focusing on market access for goods, services, public procurement, intellectual property (IP) and investment, by addressing trade facilitation and by recognising the EU's need for resources and skilled business personnel.
- To remove **regulatory barriers**, the EU should become a leader in developing models for advancing regulatory convergence, harmonisation and mutual recognition with EU neighbours and large trading partners. A stronger focus should be devoted to work on international standards.
- The EU should help promote deeper **regional integration** through trade negotiations with regional trade partners (e.g. Mercosur, Mediterranean countries, ASEAN, EPAs).
- In the field of **international investment**, the EU, working with Member States, should adopt a more pro-active approach to improving market access and investor protection in key emerging markets.
- The EU should set up an *ad hoc* monitoring system of the **regional trade negotiations/agreements** (RTAs) of its major trading partners to ensure that EU companies are not discriminated against through these arrangements.

### 3. Address complex trade and competitiveness challenges/barriers

Increasingly, European companies are facing complex trade and investment problems in third countries that are seriously undermining their competitiveness but are not necessarily addressed by multilateral, regional or bilateral trade rules. Consequently, the EU needs to urgently develop innovative trade policy strategies to address these challenges.

- In fields, such as **dual pricing or export taxes**, where third countries are increasingly adopting “beggar-thy-neighbour” policies that starve EU companies of much needed resources or inputs while providing their own industries with secure supplies at lower prices, the EU should aim to improve the relevant GATT rules in the DDA industrial market access negotiations or develop new bilateral rules. More generally, the Commission should develop a better understanding of EU industry resource needs for competitiveness.
- **IP protection and promotion** must be increased. Piracy and counterfeiting, which present risks for consumers, cost companies up to 450 billion euros in lost sales according to the World Economic Forum and undermine their investment in R&D, need to be vigorously tackled to protect heavy EU investments in technology and research. Internally, the EU should resist attempts to weaken international IP rights.
- EU **public procurement markets** have been opened to international competition in conjunction with the creation of the Single Market. The WTO Government Procurement Agreement only offers limited market access for EU companies. Therefore, the EU should explore new ways to open procurement markets to EU suppliers.
- The EU should also systematically resist **extra-territorial measures** imposed on EU companies.
- **Security measures** that affect trade and investment should be proportionate to risk and as trade-friendly as possible (necessity requirement).

- An orderly functioning of the ***international monetary system*** is of paramount importance for the healthy development of world trade. This implies that the currency exchange rates of major trading countries are consistent with the economic fundamentals and adjust in a flexible and non-volatile/predictable way.

### **Conclusion**

UNICE considers the debate on globalisation to be of vital importance for the competitiveness of European companies. It is committed to reaching out to all levels of EU government and to EU citizens and looks forward to debating this issue further with the EU institutions and other stakeholders. This preliminary position will evolve as the debate develops.

We are encouraged by the statements of the Trade Commissioner since assuming office and we urge him to act in close cooperation with European business to enhance EU competitiveness by promoting the policies discussed in this paper. There are, UNICE believes, real benefits for EU companies that can be achieved by an effective pursuit of the links between trade and competitiveness.

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