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A Modern Trade Policy for the European Union

A Report by the EU Trade Policy Study Group:

European and global trade policy need a new direction, according to a group of senior business people who today launches a report on EU trade policy in the next five years. World trade policy is in deep trouble. The past ten years have been a “lost” decade for free trade. While the 1990s was a remarkably successful period of trade liberalization, the engine of trade reforms stopped in the new Millennium. In the past years, Europe as well as other parts of the world has moved towards protectionism. New trade policy leadership is now needed to restore the European and global economy.

Last autumn a group of senior executives with long experience of European and global trade policy formed the EU Trade Policy Study Group to offer strategic advice to the new European Commission and European Parliament. The starting point for the Group has been the past decades of globalization and the new patterns of real-world integration that have emerged as a consequence of supply-chain fragmentation – or the globalization of the value-added chains. This new reality has been difficult to grasp for policymakers of the old mercantilist mindset, believing that export is good while import is a “concession”. But trade policy that does not take account of how modern business operates defaults on its own ambition: devising a trade policy that creates growth, jobs and higher income.

EU trade policy in the future needs to better target strategic economic interests. At the heart of EU’s key priorities should be to improve market access in strategic markets by reducing vexing and costly non-tariff barriers, eliminating tariffs in key sectors, improving investment conditions, and securing much better enforcement of key intellectual property rights, patents in particular. These priorities are a necessity for the new Commission’s 2020 strategy for increased competitiveness and an innovation-based economy. For such a strategy to be successful, the EU must be able to deliver liberalization of equal importance in return.

EU trade policy leadership should be firm and strategic. The right way is not to initiate new bilateral Free Trade Agreements negotiations left, right and centre. In fact, Europe should be careful in its bilateral approach as such deals build discrimination into the trading system, which is costly and cumbersome to take account of in business strategies. Europe should negotiate bilateral deals, but it should choose countries with greater care and go for deals that make sense in real commercial terms.

The Doha Round has not delivered and the World Trade Organisation (WTO) is at risk of sliding into irrelevance. This is a great danger and Europe, the biggest trading bloc in the world, has much more to lose than other countries if the multilateral trading system continues to deteriorate. Time is of essence for the Doha Round. It simply cannot continue for much longer. It will be forgotten, but not gone. And the absence of an orderly end will prevent other activities from taking place at the WTO level. Europe should take the lead and broker a Doha deal soon. In the post-Doha context,

Europe should take initiatives to negotiate new plurilateral agreements in “coalitions of the willing” and improve the Information Technology Agreement, possibly by initiating an International Digital Economy Agreement (IDEA) that eliminates tariffs, reduces NTBs, and offers much stronger disciplines on opaque protectionism in high-tech sectors.

To be successful on the global scene, the EU has homework to do. New steps need to be taken to foster a real single market for services in Europe. Europe is in need of liberalized and competitive energy markets that are not as regulated and nationalized as today. A common patent system should be established to reduce the cost of protecting innovation and to give the Commission a better policy foundation for enforcing patents abroad. The Common Agricultural Policy (CAP) and agricultural tariffs need to be seriously reformed.

Finally, political leaders and policymakers in Europe need to devote much more time and energy to educate and enlighten colleagues and citizens of how the modern global economy works and the benefits to society for an open trading system.

Publication details

A Modern Trade Policy for the European Union:

A Report to the New European Commission and Parliament by the EU Trade Policy Study Group

The report can be downloaded at www.ecipe.org/tpsg

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