



Foreign Trade Association

FTA Comments
on the
Trade and Competitiveness 'Issues Paper'
by the EU Commission, DG Trade

The FTA is the association for European commerce that specialises in foreign trade issues. It is committed to achieving its goal of a true free trade environment. For almost 30 years it has supported its members, consisting of national trade associations and companies from all over Europe, by providing expertise and up-to-date information and by campaigning on their behalf against protectionist measures in the European and international arena.

Introduction

The European Commission (DG Trade) has published on October 1st an 'issues paper' on trade and competitiveness (see http://trade-info.cec.eu.int/doclib/cfm/doclib_section.cfm?sec=285&lev=2&order=date) which aims to show how trade policy can contribute to competitiveness and which trade policy measures should be used to maximise this contribution. The paper shall serve as a basis for a more politically oriented paper in April 2006.

The FTA fully agrees to the principles outlined in the issues paper but cares to highlight some contradictions between theory and practice:

1. EU Commission condemns protectionism

The paper highlights the benefits of free international trade for the European economy and comes to the overall conclusion that a liberal trading climate fosters competitiveness for European industry.

The first recommendation made in the issues paper is consequently that the EU must

“Reduce our own protection in the few areas where it remains”¹. And:

“Border measures should not shelter industries from the benefit of the introduction of more competitive disciplines, itself a key effect of openness.”²

The FTA has campaigned for free trade and against protectionism for nearly three decades and therefore highly welcomes this recommendation.

However, the mere intention to abolish protectionism while often acting in contradiction to this commitment can be considered as window-dressing:

The EU Commission lately presented a proposal for compulsory origin marking of several consumer goods, i.e. textiles and clothing, shoes, furniture and ceramics. Following the EU Commission, this new kind of labelling is necessary for consumer protection. The FTA is of the opinion that regarding the worldwide division of labour such a labelling is more apt to mislead the consumers and only serves to protect those industrial sectors in Europe, that produce the same kind of low-price goods under uncompetitive conditions.

The EU Commission must refrain from giving in to political pressure from industries that have not restructured in time to meet international competition. This not only hampers the overall economic development; it also has a negative impact on the competitiveness of European retailers and

¹ Page 6

² Page 3

importers. The long-term effect will be a loss of jobs in the distribution sector while industrial jobs without a long-term perspective - especially in the textiles industry - are artificially sustained.

The FTA calls on the EU Commission to streamline its actions with the liberal trade policy principles outlined in the issues paper.

2. EU Commission defines European non-agricultural trade regime as open

The issues paper states:

“The borders of the EU are now largely open to trade; the only exceptions are in certain sectors of agriculture.”³

What is true for the biggest part of industrial goods cannot be confirmed for the import of certain textiles and clothing (T&C) categories from China. The EU implemented a new quota regime in June 2005 which led to import embargoes for several T&C products in the same summer. This action was taken in spite of the WTO agreement on textiles and clothing (ATC) which was made 10 years earlier and regulated the phasing out of a quota system for T&C until the end of 2004. Instead of being granted free trade with China, EU retailers are facing another three years of quota restrictions that have led and will probably lead to further import embargoes.

The outdated sections of the European textiles industry are unjustifiably protected. The modern sections of the European textiles' industry are being punished: they also suffer from the import embargoes as many have outsourced their production to China.

European retailers also suffered from prominent financial losses in 2005 owing to the import embargo. They are still not free to source in the most competitive T&C market of the world without restrictions, while the uncompetitive parts of the EU textiles industry still get no pressure to restructure. The extension of the quotas from China is contra productive and will not improve competitiveness.

The FTA calls on the EU Commission to avoid any further quota regimes that restrict imports of consumer goods from China especially in the T&C sector.

3. EU Commission strives to improve the performance of third countries in the application of trade defence instruments, especially anti-dumping (ad-) procedures⁴

The FTA is of the opinion that the ad-procedures within the EU also need to be improved.

The issues paper states that the negative impact of ad-procedures on downstream industries is well controlled because of the “community interest” test which is applied on a case-by-case basis⁵.

³ Page 4

⁴ Page 6

This statement is in principle correct; the daily practice though often proves the opposite. The ad-procedure against upper leather shoes from China for example was initiated without sufficient proof of injury. What is also often ignored is the fact that goods from third countries cannot be compared with the relevant products from the EU. The FTA has no knowledge of any ad-case in connection with consumer goods, where the “community interest” test prevented the EU from introducing ad-duties. This indicates that the needs of the commerce sector and of consumers need to play a bigger role within the community interest than before.

The distribution sector – representing a prominent part of the European service industry – faces legal uncertainty once rumours on possible anti-dumping duties come up. Importers who place their orders six to nine months in advance are forced to postpone decisions on supplier countries and prices in order to avoid financial damage.

Once an investigation has been officially initiated, legal uncertainty remains: provisional ad-duties are implemented at very short notice. The selling price cannot be adapted within such a short period, neither can the goods be ordered in alternative third countries within a couple of weeks.

Ad-duties of any kind should therefore only apply after an acceptable period of time after their determination and publication. In addition the procedure should be handled in a more transparent manner. The EU Commission is more than reluctant to provide information on deadlines and duty margins. This hampers European importers and their competitiveness.

The FTA calls on the EU Commission to improve the European performance in the application of anti-dumping investigations and procedures to provide more transparency and predictability for all parties involved

4. *The FTA fully supports the following recommendations made in the issues paper:*

- The EU should reduce the number of measures that aim to protect the EU market from fair competition.
- The EU should encourage their trading partners to open up their markets.
- The absence of international rules on competition limits market-access in third countries and endangers fair trade in the EU domestic market.
- The WTO DDA negotiations must be completed.
- The DDA should lead to improved anti-dumping rules and intellectual property rights to avoid misuse.

- International norms and standards should be strengthened both multilaterally and bilaterally.

Conclusion:

The issues paper demonstrates that the EU Commission is striving for a liberal trading climate to foster competitiveness of European companies. The FTA fully supports this trade policy and calls on the EU Commission to implement this approach in the planned political paper on trade and competitiveness.

However, the EU Commission still concentrates its trade policy measures on industrial companies. The service sector is considered part of European industry but not recognized as entity with special demands on trade policy - despite the fact that the commerce sector provides for 26 million jobs and represents 13% of the gross domestic product.

Commercial activities of distributors as well as importing producers demand individual policy measures, namely transparency and predictability. The EU trade policy must make these items a prerequisite for future action. If the EU Commission acts according to its commitments, European industry and commerce will become more competitive in world trade and help achieve the Lisbon target.