



# Preferential trade agreements – a path to revitalise multilateralism

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**W**ith the WTO Doha round negotiations being stalled, the focus has turned towards plurilateral and bilateral trade liberalization. There are different voices about this change: some are very critical, warning that turning away from the multilateral approach makes the global trade more complex, contributing to the so-called 'spaghetti bowl' of diverging preferential trade agreements. Others argue that such agreements help to advance on trade liberalisation, as long as they generate more trade openness than trade diversion.

BUSINESSEUROPE, representing companies of all sizes across Europe, sees the multilateral route via WTO trade rounds as the best option for such liberalisation. At the same time preferential trade agreements, permitted under WTO law, also advance free trade and can act as catalysts for multilateral liberalization.

The European Commission has engaged in a large number of free trade negotiations, some of them already concluded - as the one with Korea - others just being launched. Negotiations cover both big trade partners of the EU like India, and smaller ones like Singapore. During the last twelve months, two major trade partners have been added to the EU's negotiating agenda: Japan and the United States. If successfully concluded, both agreements can substantially contribute to European growth and employment. But what needs to be done to make this a reality?

With Japan, the EU officially launched free trade negotiations on 25 March 2013. Japan is the EU's 7<sup>th</sup> largest trading partner, while the EU ranks third in Japan's trade. While trade relations are significant, it is a widely accepted view that trade and investment is far below one could expect from two global economic powers. So from that perspective free trade negotiations make much sense. But in order to be successful and deliver on its potential, courageous decisions will have to be taken in sensitive areas.

Irrespective of the existing bilateral trade, Japan has and continues to be considered as a closed market which is extremely difficult to penetrate. Japan's economic rise in the 70s and 80s has been linked to the very strong export performance of its companies. Consequently, there was no pressure to open up its domestic market – a fact demonstrated by today's low stock of FDIs in Japan. With the

global economic crisis strongly hitting Japanese business as well, there is now more understanding there that Japan has to open up as well.

Therefore, BUSINESSEUROPE expects from the Japanese government to deliver on its promises by taking very concrete and verifiable steps to open up its market to European competition. Free trade negotiations with Japan will only be successful if effective market access is granted to European companies in Japan - comparable to that enjoyed by Japanese companies in the EU. In particular, the following results should be achieved:

- not just concessions on paper but specific, substantive, measurable, and non-discriminatory measures to open the Japanese market;
- the elimination of non-tariff barriers;
- the removal of obstacles particularly in the areas of services, investment, competition and IPR;
- comparable and effective market access in public procurement with the elimination of restrictive measures;
- parallelism between tariff reductions in the EU and elimination of NTBs in Japan for those sectors where Japanese tariffs are already low or inexistent; and
- in general, the resolution of all issues of significant economic interest to either party.

The list of obstacles is long, but their removal also represents a lot of new opportunities. Hence, BUSINESSEUROPE hopes that through the EU-Japan FTA – backed by both sides' highest political levels – longstanding barriers can be removed.

Turning now towards the Atlantic: the EU and the US enjoy the most integrated economic relationship in the world, generating more than \$5 trillion in sales every year. Total US investment in the EU is three times higher than in all of Asia, while EU investment in the US is around eight times the amount of EU investment in India and China combined. Together, the EU and the US economies account for about half the entire world GDP and for nearly a third of world trade flows.

BUSINESSEUROPE strongly supports the launch of negotiation for a Transatlantic Trade and Investment Partnership (TTIP).

Based on conservative estimates, a transatlantic agreement would increase GDP by 0.48% in the EU and 0.39% in the US, and increase income by 86 billion and 65 billion euros in the EU and the US respectively. Bilateral EU exports would rise by 28% and bilateral US exports would increase by 36%, creating thousands of jobs on both sides of the Atlantic.

What we want is a growth enhancing, deep, comprehensive and ambitious agreement covering all areas that have an impact on the business environment companies operate in today: trade in goods and services, investment, procurement, protection of intellectual property rights and regulatory issues. This would deliver the highest growth and jobs benefits for both the EU and the US economy. Therefore, the EU should negotiate on the basis of a very ambitious mandate from the member states.

A mandate on these terms means that all issues should be on the negotiating table to reach an ambitious deal with our largest trading partner. BUSINESSEUROPE recognises that EU and US negotiators will have to address sensitive issues for EU member states or for the Congress appropriately. However, this should not hamper the possibility of opening our economies widely for mutual benefit. We are especially opposed to either side excluding specific issues even before negotiations have started.

As regulatory divergences are a major obstacle to a truly integrated transatlantic market, we call for closer cooperation both at horizontal and sectoral level on this issue and for the agreement to introduce a mechanism that would prevent future divergences. BUSINESSEUROPE also strongly supports proposals on regulatory cooperation and public procurement coming from sector associations, whether made jointly or not with their American counterparts.

National treatment should be granted for investments in as many sectors as possible, including services. Investment protection should be provided in line with the best EU investment model and should be subject to transparent, objective requirements. On Intellectual Property Rights, the agreement should include commitments to preserve TRIPs and WIPO norms, to strengthen and better harmonise protections for trade secrets/confidential business information and areas of divergence should be solved in line with international standards of protection.

## ***“Together, the transatlantic and the EU-Japan free trade agreements can provide significant new business opportunities for trade and investment to companies”***

Given the importance of public purchases of goods, services and works by governments, procurement commitments under the Government Procurement Agreement (GPA) should be expanded in terms of coverage, at all level of government and public entities, lowering the existing thresholds and ensuring transparency as well as open and predictable procedural requirements.

Finally the agreement should strengthen the multilateral trading system by developing rules and standards in key areas (such as IPR, export restrictions, investment, and trade facilitation) that could be adopted beyond the transatlantic market.

Together, the transatlantic and the EU-Japan free trade agreements can provide significant new business opportunities for trade and investment to companies. And this is also to the benefit of other trade partners, as additional growth generated by these agreements will also stimulate trade with other countries significantly, as the EU, Japan and the US are large export markets for the rest of the world.

Additionally, Japan and the US are both engaged in the Trans-Pacific Partnership (TPP) free trade negotiations. All three initiatives will breathe new life into trade liberalization after long years when trade took a backseat. All of them – TTIP, TPP and EU-Japan FTA – can succeed, and can and should be mutually reinforcing. It is for that reason that BUSINESSEUROPE calls upon the negotiators of the EU, US and Japan to be very attentive that the different negotiations are closely aligned, in order to pre-empt any unnecessary regulatory divergence. ■