

## Modernising EU Trade Policy Recommendations for the new legislature

### Executive summary

Retail and wholesale are inherently dependent on free global trade flows for goods and services. They are also the engine of global trade. The global trading environment has changed substantially over recent years and protectionism and economic nationalism dominate the trade policy debate in and outside the EU. The threat of trade wars is prevalent. In this contribution, EuroCommerce is setting out the key elements needed to secure the global trading system, and the benefits it offers importers, exporters and costumers.

#### Our priorities:

Free trade and open markets	<p>A properly-functioning <b>multilateral trading system</b> is key for economic growth and prosperity across the world. The EU must play an active role in overcoming the present impasse at the <b>World Trade Organisation</b>. The WTO is the ideal platform for simplifying and harmonising complex rules of origin as well as for encouraging e-commerce. It is also the best way to avoid a confusing set of overlapping bilateral agreements.</p> <p>Trade talks with the <b>United States, China</b> or <b>India</b> should be pursued rigorously. The EU should also aim at creating a better trading environment with its <b>neighbouring countries and regions</b>, including EFTA, Western Balkans, Turkey and the Euro-Med region. Unnecessary trade restrictions need to be avoided with the <b>United Kingdom</b> after the country's withdrawal from the EU.</p> <p>In addition to the dismantling of tariffs, modern FTAs need to offer opportunities in the field of <b>regulatory cooperation</b>. The proliferation of trade agreements also shows the importance of their <b>proper implementation</b> and better and easily accessible information for businesses, in particular for SMEs.</p>
Promoting sustainable trade	<p>Free and fair trade can be an engine for inclusive economic growth and poverty reduction, and an important means of achieving sustainable development. EuroCommerce strongly supports the EU in its <b>incentive-based approach</b> when negotiating with partner countries and regions. Well-established models such as the <b>Generalised System of Preference (GSP)</b> should be improved and modernised.</p>
Ensuring level playing field with third countries	<p>Retailers and wholesalers welcome the removal of trade barriers with third countries and regions. But it is necessary to make sure that <b>all market participants respect EU rules</b> and to avoid third country suppliers obtaining an unfair advantage by ignoring them. Customs and market surveillance authorities have a crucial role to ensure compliance. <b>Trade Defence Instruments</b> need to ensure predictability.</p>
Reducing bureaucracy	<p>The <b>reduction of red tape</b> should be a key element in customs legislation in order to strengthen the competitiveness of EU businesses. The sheer complexity of <b>rules of origin</b> often discourages companies from making use of trade preferences obtained through trade agreements. Compliance costs need to be reduced by simplifying the rules and seeking alignment at WTO level.</p>

## Background

Retail and wholesale operate on a global stage, trading goods and services worldwide. As a result consumers today have access to products from all corners of the globe. In a globalised economy, trade policy plays a pivotal role in strengthening the competitiveness of supply chains. Trade-restrictive measures penalise both consumers and traders, especially SMEs. It is imperative that the EU helps in dismantling barriers for the import and export of goods and services.

Over the past few years, the global environment for trade has changed substantially. **Protectionism and economic nationalism** dominate the trade policy debate inside and outside the EU. Populists seek to widen their constituency by calling for economic isolation as a simple answer to complex economic developments. Furthermore, international cooperation is often illustrated as less effective than unilateral action undermining multilateral and plurilateral solutions which can make everyone benefit, and ultimately making the industries it seeks to protect weaker and the country poorer.

There is no lack of concrete examples of recent trade challenges. The current US administration has imposed, or threatens to introduce, additional tariffs which might trigger a trade war. This will result in **many losers and few winners** across the globe. At the same time China has pursued its trading interests single-mindedly while not delivering on rules it has agreed to observe. The negotiations in the WTO have been in stalemate for years and the US is blocking nomination to the Appellate Body. New economic sanctions' regimes against Russia and Iran add to downturns in trade. Not least, the EU is burdened with the Brexit discussion.

Against this background the **global commitment to open markets** can no longer be taken for granted. EuroCommerce members rely on a liberal global trading regime to do business, and argues in this paper for its maintenance and growth.

## Free trade and open markets

### *Strengthening WTO for a robust multilateral trading system*

EuroCommerce strongly believes that a well-functioning multilateral trading system is key to economic growth and prosperity in industrialised as well as developing countries. We therefore deeply regret that the **World Trade Organisation (WTO)** currently fails to get the support it should to carry out its task of creating free trade and open markets. Key players, such as the United States or India have all too often not played a constructive role to overcome problems. The EU needs to take a leading and constructive role in reforming the WTO, and building alliances with countries committed to free trade to the benefits of businesses, workers and consumers worldwide.

Businesses need a reliable dispute settlement system. It is therefore essential to resolve the current impasse in the appointment of new judges for the **WTO appellate body** or failing this, agree the use of alternative means foreseen under the WTO agreement. It is also imperative to deal with open issues which could not be concluded under the Doha round such as improved market access for industrial and agricultural goods and services but also trade rules.

Despite modest progress at the WTO, retailers and wholesalers welcome the ratification of the **trade facilitation agreement** and the commitment of 76 countries to negotiate a plurilateral framework on **e-commerce** that businesses and consumers could rely on to make it easier and safer to buy, sell and do business online. We support any efforts to tackle trade barriers that prevent cross-border sales, to permanently ban customs duties on electronic transmissions, guarantee the validity of e-contracts, address forced data localisation requirements and improve market access conditions for retail and wholesale.

The WTO is also the best platform to address a harmonised approach on a simple set of **rules of origin**. The increasing servicification of the economy requires new approaches on the customs treatment of goods by creating the possibility of excluding domestic value added of imported products ("**mode 5**"). It would be in the mutual interest of EU importers, a wide range of European services sectors and of the manufacturing industry to reduce the customs value of an imported product by the share of EU know-how and services contained in them. Global value chains make trade policy solutions for mode 5 a real necessity. EuroCommerce encourages the European Commission to explore the means to achieve necessary multilateral level changes to current rules.

### *For ambitious bilateral trade agenda*

It is worth remembering that the GATT was established to rationalise a very complex web of overlapping bilateral tariff agreements, and the multiplicity of bilateral FTAs being concluded globally will lead to similar complexity.

We would preferably see trade barriers dismantled at WTO level. We acknowledge however that progress in the WTO remains a challenge due to lack of commitment by many WTO members. EuroCommerce therefore welcomes an ambitious EU trade agenda with key trading partners. The EU has in the past decade delivered a number of important trade agreements, with e.g. **South Korea, Ukraine, Canada and Japan**.

It is important to bring ongoing negotiations to a positive and rapid conclusion. We appreciate the European Commission's efforts to finalise the trade negotiations with key partners as **Australia, New Zealand, Indonesia or Chile**.

We also support efforts for a meaningful trade agreement between the EU and the **US**. We regret that the TTIP negotiations were terminated by the current US administration. However, the **dismantling of tariffs** on a broad basis would be an encouraging first step in counteracting protectionist tendencies. We also believe that there should be no taboos when it comes to reducing tariffs on agricultural products, while upholding EU food standards. Both sides across the Atlantic should enhance efforts to find common grounds on **regulatory cooperation**.

EuroCommerce supports the European Commission's aim set out in its strategic outlook paper on **EU – China relations** to deliver on existing joint EU-China commitments, e.g. on WTO reform, subsidies and forced technology transfer, and concluding the bilateral investment agreement with the EU by 2020.

We regret that the trade negotiations with **India** have shown no substantial progress over the past few years. This is frustrating for our sector, because barriers to trade with India are excessively high, both on tariffs and investment conditions for retailers. The EU needs to continue dialogue with India, and a separate investment agreement could be a first step to a fully-fledged FTA.

### *Improve contacts with neighbouring countries*

Retailers and wholesalers have a vital interest in close relations and smooth trade with the EU's neighbouring countries and regions. The relations with **Russia** have worsened over the past few years following the crisis in Ukraine. Trade sanctions and Russian politically-driven countermeasures have hit importers and exporters substantially. EuroCommerce would welcome the creation of a solid basis for closer economic cooperation, while not compromising European values on human rights and states' territorial sovereignty.

The EU should also improve relations with Mediterranean partners through the creation of a deep **Euro-Mediterranean Free Trade Area**, aimed at removing barriers to trade and investment between

both the EU and Southern Mediterranean countries and between the Southern Mediterranean countries themselves. Euro-Mediterranean Association Agreements are in force with most of the partners.

With the likely withdrawal of the **United Kingdom** from the European Union, we are about to lose an advocate for liberal trade rules in the EU. This means that supporters of free trade among the EU27 must work together to counteract strong protectionist forces emerging in many Member States. Both the UK and the EU27 must now look forward and create clarity on the future trade relation. Unnecessary trade restrictions and barriers to the mutual recognition of standards need to be avoided.

The EU should improve the dialogue with **EFTA** neighbours. Although trade with EFTA countries shows fewer frictions than with many other trading partners, several barriers remain which should be tackled. EuroCommerce also expects progress on freeing trade with the candidate countries and potential candidates for EU accession in the **Western Balkans** region.

**Turkey** is an important trading partner for the EU. Retailers and wholesalers have a vital interest in a well-functioning international trading system, including the customs union with Turkey. Therefore, dialogue between the EU and Turkey should be enhanced on a constructive basis. The abolition of the Turkish embargo against Cyprus shipping is an indispensable prerequisite for further cooperation.

### *FTA implementation is key*

Bilateral trade agreements are only of benefit if they work in practice. Small companies without the resources to handle unnecessary barriers and bureaucracy simply give up, and it is vital that they can make use of them easily. The EU has concluded a number of modern trade agreements with some major trading partners, and to benefit both sides, it is vital that they actually deliver.

FTA negotiations often take many years, with tough discussions and the most difficult issues resolved towards the end. Once the deal has been concluded, therefore it is frustrating for retailers and wholesalers to have to wait several years for the slow ratification process to be completed. The EU-**Vietnam FTA** is a negative example on how the ratification process can be slowed down artificially through the translation process and the reluctance of the European Parliament to allow a **swift application** of the agreement. We support the European institutions with any means to ensure a swift ratification of the EU-**Mercosur FTA**, an emerging trading block with more than 260 million consumers.

Importers and exporters need **clear and easily accessible information** on how to benefit from a concluded trade deal. EuroCommerce welcomes initiatives by the European Commission to improve the **databases** to facilitate access to information on trade opportunities, in particular by small operators (Market Access Data Base, Trade Helpdesk). Additional information is also needed on non-tariff aspects, as well as on new opportunities in **regulatory cooperation**. In this respect the European Commission should recognise the importance of imports and help businesses importing from third countries. EU households save 60 billion euros per year in tariffs on imports through trade agreements.<sup>1</sup>

### *Export sector as major job creator*

Removing trade barriers for exporters is essential for the prosperity of the EU economy. More than 36 million jobs were supported by exports in 2017, every additional billion euro in exports generates

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<sup>1</sup> European Commission, DG Trade, Chief Economist Note, Issue 1: Consumer benefits from EU trade liberalisation: How much did we save since the Uruguay Round? by *Lucian Cernat et al.*, February 2018, p. 15, retrieved 25.07.2019: [http://trade.ec.europa.eu/doclib/docs/2018/february/tradoc\\_156619.pdf](http://trade.ec.europa.eu/doclib/docs/2018/february/tradoc_156619.pdf).

13,000 new jobs.<sup>2</sup> EuroCommerce strongly support the European Commission in its efforts to improve market access conditions to third countries. The **Market Access Advisory Committee (MAAC)** is a very useful platform for Member States and businesses to address concrete discriminatory measures imposed by third countries. Workable ways to comply with **dual use** exports need to be sought. European companies need to be protected from being indirectly affected from **trade sanctions** which are not supported by the European Union. Exporters, particularly but not exclusively SMEs, are often unsure how to alert the Commission to ongoing problems of FTA implementation, and we would be happy to work with DG Trade, companies and national trade associations to support the Commission's outreach activities and raise awareness of the real help the Commission can give EU exporters in enforcing existing FTA obligations.

## Promoting sustainable trade

EuroCommerce is a strong proponent of cooperation between the EU and partner countries in order to **promote trade and sustainable development (TSD)**. A strong civil society is key - we believe that trade should deliver benefits to all, without detriment to mankind or nature. We strongly support the EU in its **incentive-based** approach when negotiating and enforcing trade agreements. Trade sanctions and suspension of trade agreements linked to trade and sustainability have hitherto proven to be less effective. We warn against indirectly imposing **compulsory CSR/RBC (Responsible Business Conduct) standards** on European companies via trade agreements. Importers, particularly SMEs, but also larger companies, do not have the capacity to operate burdensome due diligence systems for a multitude of products throughout the entire supply chain.

Free and fair trade can be an engine for inclusive economic growth and poverty reduction and an important means to achieving sustainable development. Trade also creates and secures millions of jobs in Europe each year. EuroCommerce believes in the importance of the TSD chapters, but urges the Commission to take care that core trade topics are not marginalised by other issues in agreements, but remain in their very centre. Non-trade concerns can often be more effectively addressed at appropriate institutions such as the **International Labour Organisation (ILO)**.

The **European External Action Service (EEAS)** and EU Member States could help companies' efforts to follow EU sustainability legislation through **active support in third countries**, informing third country authorities and relevant suppliers of EU standards, rules and requirements. This would help EU importers and EU consumers to receive goods that are in line with EU CSR/RBC standards, reducing the burden of due diligence measures.

### *Keep GSP simple, stable and predictable*

Granting preferential access to the EU to developing countries through the **Generalised System of Preferences (GSP)** has turned out to be a win-win situation for European importers, as well as for developing countries. We support the prime objective of assisting developing countries in their efforts to reduce poverty and promote good governance and sustainable development. GSP can help them generate employment, industrialisation and additional revenue through international trade.

The current GSP system, which has been in place since 2014, has widely met the needs of importers, where predictability in the planning process is key. Retailers and wholesalers stand by to contribute positively to the review of GSP, to further improve the system for the new period starting in 2024.

Agreed rules need to be respected. We therefore urge the governments in **Cambodia** and **Myanmar**

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<sup>2</sup> European Commission, DG Trade and DG Joint Research Center, Chief Economist Note, Issue 4: How important are EU exports for jobs in the EU? by Zornitsa Kutlina-Dimitrova and José M. Rueda-Cantucho et al., November 2018, p. 4, retrieved 25.07.2019: [http://trade.ec.europa.eu/doclib/docs/2018/november/tradoc\\_157517.pdf](http://trade.ec.europa.eu/doclib/docs/2018/november/tradoc_157517.pdf).

to take action and to avoid the loss of the beneficial **Everything but Arms (EBA)** status, which would inevitably lead to job losses in the concerned countries, and to higher prices for EU consumers. The EU also needs to ensure that the trading conditions with **Bangladesh** will not deteriorate after the possible loss of its Least Developed Country (LDC) status in 2024.

### *Active civil society engagement*

The European Commission has enhanced communication with the civil society on ongoing trade negotiations. EuroCommerce appreciates the Commission's commitment to the **Civil Society Dialogue** and the **increased transparency** and is interested in continuing discussions in various platforms, including the **Expert Group on EU Trade Agreements**.

The **Domestic Advisory Groups (DAGs)** as part of the Trade and Sustainable Development (TSD) chapters in FTAs have often been used for specific interests of certain stakeholders and done little help to achieve the intended objectives of the DAGs. EuroCommerce therefore suggests **expanding the scope** and including topics more closely related to trade to make the format more attractive for a wider group of stakeholders, including businesses.

## Ensuring level playing field with third-country players

EU-based retailers and wholesalers have a vital interest in removing any existing trade barriers when trading with third countries. It is therefore important to secure **comparable frameworks** for EU and non-EU businesses selling into the EU. EU rules need to be respected by all market participants whether they are based in the EU or outside the EU. We call on customs authorities to increase efforts to counteract fraud related to customs duties or importation-VAT for shipments directly imported from third countries. The existing customs duties exemption for imports below a value of 150 euros is an example of competitive distortion to the disadvantage of EU retailers and should be abolished. The longer term goal, however, should be the removal of customs duties altogether.

We also call for an efficient market surveillance, ensuring that all products placed on the EU market are compliant with European rules and standards put in place to protect the health and safety of consumers and contribute to a sustainable future.

The reform of **Trade Defence Instruments (TDI)** has led to more transparency in the process, but has not sufficiently considered importers' need for more predictability. Retailers and wholesalers need enough notice in order to adjust their supply chains and deal with existing contracts before antidumping duties are imposed. We also call on the Commission to put in place a more comprehensive assessment process for decisions on TDI measures. For instance, the annual Commission report on trade defence should take into account the adverse effects on the importing sector and consumers which TDI measures inherently imply and assess whether these outweigh the claimed benefits for domestic manufacturers. We also ask the Commission for improved communication when it comes to expiry reviews of TDI measures.

## Reducing bureaucracy

### *Simple and harmonised rules of origin*

EuroCommerce welcomes the conclusion of modern FTAs over recent years. The proliferation and multiplication of bilateral FTAs has, however, also added to the **complexity of rules of origin**. The different agreements contain distinct clauses which define the licit percentage of non-originating materials as threshold for preferential and non-preferential treatment under the agreements. Furthermore, diverse **rules of cumulation** are in force. This discourages trade and compliance costs, often outweigh the benefits created by the abolition of tariffs. Against this background,

EuroCommerce asks, as a first step, for a gradual alignment of the different rules of origin in the trade agreements currently under negotiation. In the longer run, the EU should seek harmonisation of the rules of origin regime, and introduce less stringent rules for granting preferential origin. Ultimately, harmonisation needs to take place at global level. We therefore call for an **alignment of rules of origin at WTO level**. Alongside, the possibilities for cumulation should be improved so that they reflect the global supply chains in the 21<sup>st</sup> century.

### *Make customs work for competitiveness*

EU customs legislation needs to focus more than hitherto on the impact on competitiveness for business rather than focusing primarily on the interests of customs authorities. EuroCommerce therefore encourages the Commission to seek more, proactive involvement of traders and industry in the development of customs policy proposals with a direct assessment of their impact on traders and competitiveness both at EU and national level.

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