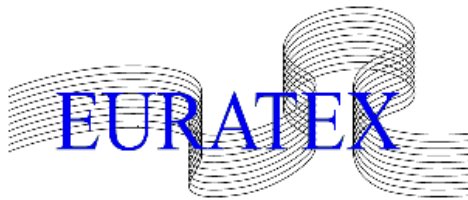


EU Trade Policy Revision *Euratex Position*

A challenging environment

- The economic crisis has placed additional strain on EU T&C companies. On one hand companies had to face increasing difficulties to access credit and credit insurance schemes, on the other hand we have witnessed a surge in protective measures and buy national provisions which are further delaying the needed worldwide market opening. Trade was under strain as the crisis contributed to the stagnation in the main consumption markets (EU, US, Japan) not helped by the comparative strength of the Euro vis-à-vis some of the currencies used by our major competitors (eg. US Dollar, Yuan). Recently the Euro devaluation has rebalanced a little bit this situation. However we are still confronted with unbalanced competition from a country which is a World leading Exporter of T&C and systematically uses its currency-along with other instruments- as leverage for exports (China);
- In spite of all odds EU Industry has kept its Technological and Fashion edge and is striving to invest and maintain core competencies within Europe. Even if some manufacturing activities are being delocalised we have managed overall to retain the entire supply chain within the Paneuromed area. The Industry is conscious of the need to uphold the investment flow in order to respond to a Fast Fashion oriented value chain and to develop an Innovative and Responsive Industry which can provide the best technical solutions for a range of sectors going from Automotive to Aerospace, Transport to Health and Security. As a consequence Investment in Research and Product Development, in Skills Development and Knowledge Proficiency is high on the Industry's agenda;
- In order to successfully respond to the competitive challenges EU T&C Industry has managed to adjust its production capabilities, supply chain and available resources to match the challenge of becoming a more flexible, cost effective and sustainable Industry and in parallel continue to invest in creative and high value added products, development of innovative solutions through research and product development. This continuous effort must be compensated by attaining new markets and finding new business opportunities. At the same time we need to ensure that at EU level the regulatory and legal framework follows the business evolution without jeopardizing the Industry's competitive advantages. In this context it is essential to ensure an efficient coordination between Trade Policy and the other EU policies related to competitiveness and business environment (eg. Internal Market, Environment, Energy, Financial, Industry Competitiveness and SMEs) as highlighted in the EU 2020 Strategy;
- One of the main challenges for our industry is the successful access to Third Country's markets which in a considerable number of cases remain closed or highly protected by Tariff and Non-Tariff Barriers. It is a fact that emerging markets are developing faster and that consumers in these countries are younger and more willing to spend in T&C. Emerging economies are also investing heavily in new infrastructures as a way to foster progress and promote a certain level of health, safety, environment and social standards. Mature markets, on the contrary, are stagnating and in some cases even contracting which is causing a severe problem of concentration and competition pressure. We thus need to promote a better and wider access to high quality T&C products at competitive prices by removing all the barriers and restrictive measures which in practice only serve to safeguard inefficiencies. EU Trade Policy is a key instrument in reaching this goal;





- In parallel our companies are being confronted with increasing problems in areas like access to raw materials, public procurement, standards and FDI. Ensuring transparency, non-discrimination, harmonization and regulatory cooperation is critical in order to guarantee a level playing field in the world markets;
- The political environment in the EU has also changed. Under the Lisbon Treaty a new role and further responsibilities were granted to the European Parliament and this Institution is already having an active and decisive voice in Trade related matters. The further concentration of competencies at EU level in subjects that used to be predominantly driven by Member States, like Investment, will also have practical consequences for Trade Policy.

Our expectations for a Revised Trade Policy

EU T&C Industry is striving to obtain an improved market access that enables Consumers worldwide to buy innovative and sustainable products at competitive prices. The elimination of all Tariff and Non-tariff Barriers is a priority that must be achieved through a Multilateral or a Bilateral approach. In this framework the Revised EU Trade Policy should build on the “Global Europe Agenda” by improving and further developing the main priority areas-in particular market access- and effectively responding to subjects of increasing importance at EU level- Sustainability, Investment, Regulatory Environment ,Access to Raw Materials.

- **Multilateral/ WTO** - Industry still favours the Multilateral approach as the best possible way to obtain a wider market access. However the DDA/NAMA package as it is today is unbalanced and clearly favours some emerging countries already highly competitive in our sector. On the other hand a Sector Agreement could be acceptable only if it includes all major trading partners and covers not less than 90% of the world trade. The Non-Tariff Barriers Package presented by the EU is ambitious and we should strive to obtain its acceptance. Furthermore we should endeavour to reinforce WTO Rules, further developing the role of the Organization as Trade Regulator. Moreover WTO needs to play an increasing role on important Trade related issues such as Sustainability, Access to Raw Materials or the Regulatory aspects. It is also critical that important trade and economic players still absent join WTO soon (eg. Russia).
- **Bilateral/FTAs**- The standstill in the DDA Negotiations is pushing the bilateral approach as an alternative way to achieve effective market access. However particular attention has to be given in the selection of Partners. The EU should only enrol in negotiations with countries whenever we can obtain a substantial and meaningful market access. The decision to initiate negotiations has to be made under objective economic criteria, in particular the market size and its potential for the EU Industry and not be driven exclusively by development goals. We should endeavour for the elimination of all Tariff and Non-Tariff Barriers (including Regulatory measures, Customs Procedures, Standards, etc) on a reciprocal basis and from day one of the agreement’s entering into force. In the case of NTBs if this is not achievable at least we should obtain effective harmonization and mutual recognition. Moreover we should guarantee equal treatment for EU companies as far as Public Procurement access and Investment opportunities. As an innovative and highly creative Industry we need to obtain full respect of Intellectual Property rights accompanied by efficient and transparent enforcement provisions. Additionally we should avoid any derogation to our standard Rules of Origin. In this framework and without promoting a discriminatory treatment negotiations should take into full account the characteristics and specificities of the countries we are negotiating with. It is clear that a different approach must be envisaged for those countries that are not complete



market economies and are more prone to state subsidies or similar measures which can bring about market distortions. Consideration should also be given to different levels of economic and sector development since some Developing Countries try to obtain unjustified asymmetrical conditions in trade agreements when they are extremely competitive and well developed in T&C. Finally on a more pragmatic and business like point of view T&C Industry needs to perceive that each FTA signed will contribute to an improved market access and to open new export and business possibilities for EU companies as these agreements should not be a one way street only improving Third Countries imports. In this context the EU also needs to be prepared to deploy considerable efforts and resources in monitoring and enforcement activities related to the FTA's implementation.

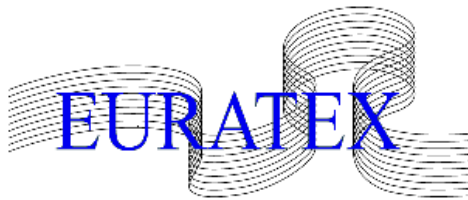
- **Market Access Partnership-** The Economic crisis has been an excuse for some EU Trading Partners to increase protective measures and delay market openings. The measures are diversified ranging from “Buy National” or “Buy Local” Provisions to increasing NTBs- New Standards or Technical Requirements- or creative mechanisms to limit imports. Moreover these measures are not exclusive to Developing Countries as they are also adopted by Developed Countries (USA) or Emerging Powers (China- Buy Chinese, increase in Technical Standards and legislation). We entirely support the Market Access Partnership exercise between Commission, Member States and Industry and are very positive about the work carried out under the specific T&C Market Access Group. Even if it is not always easy to obtain information from the ground, our objective is to further develop cooperation between Commission Services, Euratex, National/Branch Members and Companies. By presenting concrete economic evidence which proves the existence of the barriers and their negative impact on business flows, we will be able to secure a better market access for EU T&C companies. In this framework it is important to further develop SMEs awareness campaigns at Member State level in order to improve the participation of companies in the Market Access Strategy making them fully conscious of the instruments available at EU level, improving their knowledge of existing barriers in Third Countries and how important it is to report any problems they might be facing when entering a new market. The value of the Market Access Partnership should also be considerably enhanced in the context of the FTAs monitoring procedures. The conclusion of an FTA does not mean in practical terms that a market will be completely free of access barriers. In principle the Agreements foresee the necessary provisions to ensure proper implementation and in this context the Market Access Partnership will have a decisive role to play.
- **Preferential Agreements-Paneuromed-** EU T&C Industry has developed investments and commercial strategies based on the preferential relations with the Paneuromed countries. This partnership has been beneficial for both sides allowing the improvement of the competitive advantages for companies operating in this area. The further integration and development of the preferential conditions in the zone depends on the acceptance and harmonized application of the Rules of Origin by all Partner Countries. The expected signature of the Convention by all concerned parties is an important step towards this integration objective. At the same time Industry is conscious that business is evolving at a fast pace and some of the governing Rules of Origin might need to be refreshed taking into account the overall strategic and investment decisions made by EU companies in the area. We believe the existing relationships within the Paneuromed area can be further enhanced by implementing a coherent and harmonized Rules of Origin System which takes into full account current investments and business relationships and at the same time encourages new ventures and growth opportunities. The existence and further development of the Paneuromed Preferential Area needs to play a key role in defining the future Trade Policy for the EU T&C Industry.

- **Customs and Trade Facilitation-** EU T&C operators need a safe and reliable trade environment. The Community Customs Code and the Rules of Origin are essential pillars of a modern, efficient and consistent customs policy. On one side companies need a legal and administrative framework adjusted to nowadays business reality and capable of enabling trade flows. On the other side the existence and enforced application of commonly shared and legally framed rules and procedures, including Rules of Origin, is fundamental to ensure a level playing field and secure investments within the EU and its preferential partners as it brings an element of security and reliability needed in business operations. The EU needs to create an environment conducive to trade and business development without jeopardizing its monitoring and enforcement competences necessary to promote an accepted level of standards and rules. The implementation of new technologies and increased cooperation in the field of customs monitoring and control is the best way to boost efficiency and reliability and at the same time improve resource management.
- **Standards and Certification-** Third Countries are increasingly using standards and certification procedures to protect their markets and safeguard local industries. This is seen as a measure to limit access of imports to the market supposedly favouring local production and it is also a way to increase public revenues. In a time of economic crisis, as the one we have been leaving, this type of measure is quite popular and tends to spread. For this reason we are encountering more and more national regulations which do not follow internationally recognized standards, have their own testing and verification procedures and are usually burdensome and quite expensive. Besides most of these standards and regulations, allegedly designed to protect the consumer's health and safety or the environment, have no real scientific or technical background and fail to respond to genuine consumer demands or societal needs. It is becoming critical, to ensure an effective market access, that an harmonization and recognition of the most important T&C Standards is attained in the relations with our main trading partners. This goal could be achieved through the existing Regulatory Dialogues but also through the bilateral trade negotiations which are ongoing (eg. Mercosul, India, Canada). China is one of the most serious and urgent cases (already presented to the TBT Committee in WTO) as the existing legislation- General Safety Technical Code for T&C- is clearly designed to protect local market and create additional barriers for EU exporters. This matter should also be high on the Market Access Strategy Agenda.
- **Trade Policy Instruments-** A sound and fair competitive environment is critical for companies to plan ahead and develop their business strategies in the hope of obtaining a reasonable return on investment. EU T&C Industry welcomes competition as a way to promote self-improvement, innovation and creativity and to develop new business opportunities. Being a market driver our Industry is adapted to work under severe competitive conditions. However we can not allow that unruly practices and behaviours that defy international trade accepted principles might be tolerated within the EU. Whenever the necessary conditions are met these instruments should be an effective tool to rebalance market conditions. Hence the necessity to safeguard the existence and application of Trade Policy Instruments also in the context of the FTAs.
- **IPR Protection and Enforcement-** EU T&C Industry has successfully mastered the challenge of globalization by investing in Innovation and Creativity as the basis for growth and business development. Being a knowledge driven Industry we believe our core competencies need to be nurtured by creating a favourable environment which promotes investment in R&D at the same time ensuring prompt and sustainable returns. Since EU T&C companies devote a significant part of their resources to develop and create new designs, innovative models and solutions aimed at responding to ever changing consumers' needs, overall efforts must also be channelled to promote Non-Technological Innovation activities.

A consistent investment in Creativity and Innovation needs to find an appropriate legal shelter and for this reason we must ensure that Intellectual Property Rights are properly promoted and enforced. One of the main problems EU T&C companies face in Third Markets is deficient IPR Protection: (a) some major Trade Partners do not sign up to the main World IPR Protection Treaties or they sign the Treaties but abstain from integrating them into national legislation; (b) registration procedures are very long, complex and costly; (c) enforcement procedures are also long and in most cases countries do not have the necessary resources to effectively apply the existing legislation. In this context the EU should encourage Third Countries to sign the main IPR World Treaties and subsequently integrate their main provisions into national legislation, sponsor capacity building actions aimed at simplifying registration procedures and promoting an efficient enforcement of IPR, uphold further cooperation and joint actions in fighting counterfeiting and fraudulent activities.¹

- **Generalized System of Preferences-** The success of this development instrument depends much on which countries we are effectively helping to develop and build a sustainable economic infrastructure. Although we are talking about a generalized preferential treatment we cannot be indifferent to the fact that the main GSP beneficiaries are not the least developed Countries and in some cases the major beneficiaries are powerful and rising world economies. It is a fact that the Graduation Mechanism is already a correction tool which takes into account different development stages. However we should envisage a reinforcement of the Graduation Mechanism by enlarging the criteria and/or by introducing correction instruments which take into consideration sensitive topics like- access to raw materials, trade facilitation measures, protection and enforcement of IP Rights and FDI safeguard. Moreover T&C specificities and sensitivities should be fully integrated in the new GSP. It is evident that the countries with higher rates of GSP utilization (eg. India, Brazil, Bangladesh, Vietnam, Pakistan, Sri Lanka) are also, along with China, the leading suppliers of T&C worldwide. The new GSP should take into full consideration the higher level of development demonstrated by these countries in T&C and thus limit or exclude the given preferences. The noteworthy concentration of GSP utilization in T&C is a clear indication of the expansion and maturity of the T&C Industry in these countries. This said the new GSP regime should also encourage economic diversification in developing countries by promoting the expansion of upcoming industries. Considering the objectives behind the GSP+ it is crucial to ensure that all the criteria are fully met whenever a country applies for this special treatment. The political willingness from a country to sign and implement the International Conventions is not enough. Effective implementation and enforcement should be ensured and monitored before giving any benefit. The other critical condition to obtain GSP+ status is the Vulnerability threshold. The current threshold (1%) should be kept unchanged. Moreover we should consider other elements which might indicate a condition of less vulnerability- eg. Public subsidies to exports, restrictions to raw materials exports, restrictions to FDI.
- **Access to Raw Materials-** This is becoming a critical issue for our sector and the Industry is very concerned about recent developments and especially the measures taken by some major Raw Materials' Suppliers which happen to be as well among our main competitors- eg. Ban on Raw Cotton Export Contracts in India and 15% Export Duty on Cotton Yarn in Pakistan. It is clear that the economic and business development in Emerging Economies is creating additional pressure in worldwide resources. Moreover some of these economies are already today powerful T&C Producers and Traders (eg. China, India, Brazil) as well as important natural and man-made Raw Materials suppliers. The ability to master the complete supply chain is a key element to ensure future development and promote an innovative and creative

¹ Euratex will further develop the sector's views regarding IPR in our answer to the Public Consultation on "Intellectual Property Protection and Enforcement in Third Countries"



Industry. For this reason it is essential to (a) ensure a favourable environment for investments in the EU and in the Paneuromed preferential area; (b) safeguard access to Raw Materials which are not available in the EU. To achieve these two objectives Euratex believes it is necessary to start by reaching a consensus on the concept of “Raw Materials” in the sector and at the same time ensuring that external sources of supply are safeguarded notably by using Trade Policy instruments-GSP, FTAs- as leverage in trade negotiations with Third Countries.

- **Public Procurement-** This is a developing area particularly important in emerging countries and fast growing economies. Progress is aligned to strong investments in infrastructures and public equipments and the business opportunities for our companies are numerous and extremely interesting. In this context the EU should ensure in trade negotiations an equal access for EU companies to public tenders being at local, regional or state level. This indiscriminate access should also be enlarged to include Public Companies as well as the possibility to supply intermediate products to local companies submitting for public tenders. Moreover EU companies should not be discriminated in any way in the selection process or in any technical, economical, financial or other tender conditions. The possibilities to appeal or use the administrative and legal procedures to reverse a decision or seek proper damage compensation should also be equitable.
- **Investment-** One of the consequences of the Lisbon Treaty was the extension of EU competences in the area of Foreign Direct Investment. From now on the EU will be able to negotiate stand alone agreements and dispositions to protect EU Investments. The main objective of negotiating at EU level will certainly be to obtain a better treatment for all EU Investors taking as a basis the “best practices” enshrined in the existing Member States Bilateral Agreements. The EU needs to start setting the standards for investment protection based on the principle of Non-Discrimination, Fair and Equitable Treatment and Full Security and Protection already in the most important FTAs under discussion- Canada, India, Mercosul. Furthermore we should ensure the same principles are fully respected and implemented in those countries where there are important EU Investments but no FTA is foreseen for the near future- China, Russia, USA. So the possibility of stand alone Investment Agreements should be envisaged.
- **Sustainability and Trade-** EU T&C Industry has undergone a significant transformation over the last years to respond in a positive way to the need for a more efficient and sustainable production. Companies have made large investments to become more energy efficient and improve resource management. In this way we have tried to respond positively to increasing social and environment awareness from the part of EU consumers. The high quality and sustainability standards existing in the EU represent a competitive advantage for our companies. Moreover they reflect the needs and demands of EU Consumers. Thus it is vital that the EU ensures that these prominent standards are properly respected and promoted in Trade Negotiations at multilateral and bilateral level.

As a closing remark we believe it is absolutely crucial to ensure coherence and consistency between Trade and the remaining EU Policies, including Development², with an impact in the overall competitive environment of T&C companies. Moreover we trust in an enhanced cooperation between the Commission services and the Industry as the best way to make Trade Policy more efficient and business conducive.

July 2010

² We look forward for the upcoming public consultation on Trade and Development

