

IN-DEPTH ANALYSIS

The future of the EU trade policy

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SUMMARY

After years of relative stagnation and emphasis on multilateral negotiations (WTO), the European Union has instigated an impressive number of trade negotiations, some successfully concluded. The scene is currently dominated by negotiations with the US (TTIP) and Japan. The success of the current Commission will greatly depend on the outcome of these negotiations.

The Union's trade strategy cannot be limited to the creation of new negotiation tables, but must also ensure the proper implementation of negotiated agreements and combat the rise of new non-tariff barriers. The European Union and its bodies must also be able to convince civil society that its actions are correct and secure the solid support of Member States and public opinion for the new international agreements which will gradually come into force.

This significant objective can only be achieved if the Union's trade policy is able to incorporate the aspirations of European citizens and provide coherent responses, based on the ongoing and unconditional defence of the common interest. Obviously, this objective does not merely involve the Commission, but calls for a proactive and credible contribution from the European Parliament and the Council.

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Table of contents

Introduction	4
1 A profoundly altered scenario	4
2 The European Union's new trading policy	9
2.1 A new negotiating strategy?	12
2.2 Industrial policy or foreign policy?	13
2.3 The new generation of trade agreements	15
3 The institutional framework	16
3.1 Relations with Member States and the Council	17
3.2 The role of Parliament	18
3.3 Public opinion	20
3.4 Assessment of trade agreements and legislative proposals of the Commission	22
Conclusions	24
Bibliography	26
Annex	27

Introduction

In the second half of 2015 the European Commission will publish a new strategic Communication on trade

The European Commission will shortly publish a new strategic Communication, intended to underpin the actions of the Community Executive in the years to come. After years of relative stagnation and emphasis on multilateral negotiations (WTO), the European Union has instigated an impressive number of trade negotiations, some successfully concluded. The scene is currently dominated by negotiations with the US (TTIP) and Japan, on which the success of the current Commission will greatly depend.

The Union's trade strategy cannot be limited to the creation of new negotiation tables, but must also ensure the proper implementation of negotiated agreements and combat the rise of new non-tariff barriers. The European Union and its bodies must also be able to convince civil society that its actions are correct and secure the solid support of Member States and a segment of public opinion for the new international agreements which will gradually come into force.

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1 A profoundly altered scenario

Thanks to advances in technology, the very concept of 'international trade' has altered radically in recent years.

The European Union's trade policy has undergone a profound alteration in recent years. Trade negotiations have for some time been limited to trade in goods and the progressive elimination of customs tariffs. Advances in technology have only recently made it possible to create a genuine trade in services at international level. Until the entry into force of the Treaty of Lisbon, foreign investment remained within the sole remit of individual Member States.

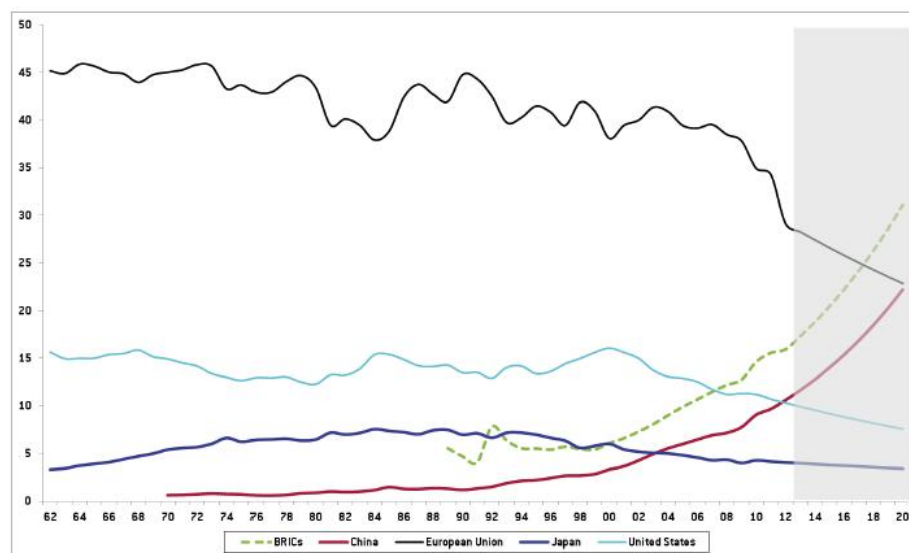
The explosion of international trade, introduction of new technologies and progressive affirmation of integrated production systems ('global value chains') have revolutionised the world's trade system. The European Union has certainly derived benefit from this commercial and technological revolution, but also suffered its effects which have not always been positive (deindustrialisation, delocalisation and frequently unfair competition).

The European Union has benefited from the ongoing globalisation process, but also suffered some negative consequences of it

The progressive affirmation of new trading powers has in fact sorely tested the economic supremacy enjoyed by Europe for centuries. The persistent financial crisis and low economic growth have contributed to accelerating the economic decline of our continent. Although the European Union remains a world economic power, Europe will in future be a secondary, rather than a lead, player.

Diagram 1:

Shares of world trade (in %)



Source: Bruegel calculations based on World Bank data.

The multilateral method embodied by the WTO has entered a period of profound crisis

The multilateral trade system (the GATT and, thereafter, the WTO), once managed jointly by the US and European countries, has now become a political football for the (frequently divergent and contradictory) interests of emerging countries, not always accepting of the rules of the game. One should not be deceived by the recent Bali agreement (December 2013). In its current configuration, the 'Doha Development Round' is in stalemate and the WTO itself – which recently celebrated its 20th anniversary – is highly 'outdated' and requires radical restructuring and modernisation. Yet, as matters stand, conditions are not conducive to serious consideration of the future of the international trade system.

As a response to the persistent stalemate in multilateral negotiations, the European Union has, gradually and with great reluctance, modified its trade strategy based on the primacy of WTO negotiations, a change which marks a new era based on bilateral and plurilateral agreements, the most significant of which is certainly the agreement with the US (the TTIP or Trans-Atlantic Trade and Investment Partnership).

The new generation of trade agreements also includes services, investments and other matters not directly associated with trade

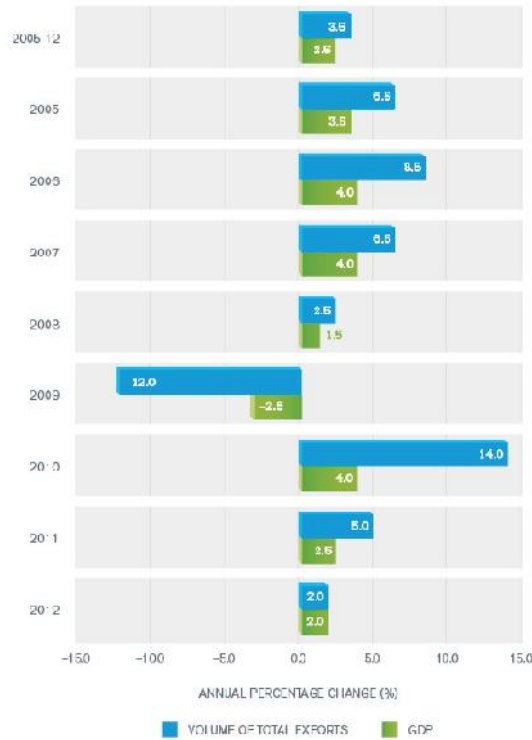
The essential nature of trade negotiations has undergone a radical change. Customs and tariff issues have in fact given way to agreements providing for stronger cooperation and harmonisation in terms of technical and scientific standards. The new generation of trade agreements extends not only to economic and trade issues, but also protection of the environment, social standards and cultural values. 'Non-tariff barriers'¹ will have a growing role in the definition of trade priorities. The new trade agreements

¹ Non-tariff barriers (definition): Protectionist measures other than tariffs, the purpose of which is to reduce imports (or exports). These may consist of quantitative restrictions or rules, applied in a manner which makes it impossible, difficult or exceptionally costly to achieve their implementation and/or compliance by foreign producers. Examples: Embargoes, import quotas, quantitative restrictions, licences, technical and standard-related barriers (source: Il Sole 24 Ore).

will have an entirely different appearance in future and cover matters traditionally regarded as beyond the scope of the trading sphere. This 'revolution' will certainly have an impact on the manner in which trade negotiations are conducted and the very structure of the Union's decision-making process in this matter.

The European Union's economy is highly dependent on domestic trade and trade with third countries. The Union imports the majority of its energy and raw material requirement and exports a wide range of industrial goods, agri-foodstuffs and consumables. The progressive integration of the world's economies and plummeting transport costs have led to ever-increasing internationalisation of the production and marketing of goods and services. The sharp fall in trade recorded in 2008-09 as a result of the 'sub-prime' loans crisis in the United States demonstrated the extent to which the world's economies have become interdependent.

Diagram 2:
Volume of world exports of goods and Gross Domestic Product, 2005-2012



Source: WTO International Trade Statistics 2013

The world trade system is very fragile and at risk in the event of external conflict or generalised crisis

Recent crises on the borders of Europe (Ukraine and the Middle East) and also latent conflicts in areas which are more remote, but decidedly strategic for the European Union (disputes in the Southern China Sea and East for example), can have highly negative effects on European trade performance and, in more extreme cases, cause huge damage to the economy of the Union as a whole. In other words, globalisation has resulted in an expansion of trade and the integration of national economies at a level unprecedented in the history of humanity but made the world trade system far more fragile and sensitive to external events than was previously the case. This is especially important for Europe which, despite its relative decline, remains the leading world power in terms of trade and investment.

The economic crisis, which began in 2007 and is still not entirely over, inflicted serious damage on the European economy and that of other countries. Contrary to the situation in the 1930s, when the Great Depression triggered a protectionist spiral, reducing world trade by two thirds (see below), no protectionist measures liable to impair the proper functioning of the system have been imposed.

After a promising start, the G20 appears to be marking time and the system lacks a reliable governance body

This significant result has been achieved thanks to the combined mobilisation of the leading world economies (brought together in the G20 forum), supported by the world's main economic and financial institutions. At the end of the last decade, the G20 appeared capable of relaunching the DDA and securing increased transparency in major international finance. Unfortunately, the G20 appears to have lost its momentum and appears incapable of contributing to strengthening and reforming the world's economic and financial system. There is therefore a 'vacuum' in terms of *governance* at world level, which could have severe consequences if the world's economic and political situation deteriorates further.

A number of alternative scenarios can be envisaged: (1) more globalisation; (2) less globalisation (3) latent conflict situations (4) wars on a world scale. The speed of the integration process depends primarily on the readiness of States to cooperate on economic and commercial issues and reach new understandings (frequently bilateral and plurilateral rather than multilateral) which facilitate the progressive integration of the world economy. Persistent tensions with Russia and the confrontation between China and the US in the South China Sea could trigger a latent conflict capable of inflicting substantial damage on the interests of the European Union. An open and generalised conflict in strategic areas of the world could have incalculable effects on the economy of the European Union, even if European Member States are not directly involved.

The recent reduction in the trade deficit and rise in exports are a cause of the economic crisis

As already indicated, the European economy has not yet recovered its former lustre. The recession has further eroded Europe's industrial base, causing millions of job losses, and impacted negatively on the modernisation and competitiveness of the European economy. Internal differences in competitiveness became more pronounced in the last decade. Domestic demand for goods and services remains depressed and the risk of deflation cannot be excluded. The fact that the European trade balance is currently showing an appreciable surplus should not be misinterpreted. Although exports are rising or remain at pre-crisis levels (assisted also by the recent depreciation of the euro and fall in the price of oil), imports have fallen sharply, an indication that the economy as a whole has not yet returned to pre-crisis levels.

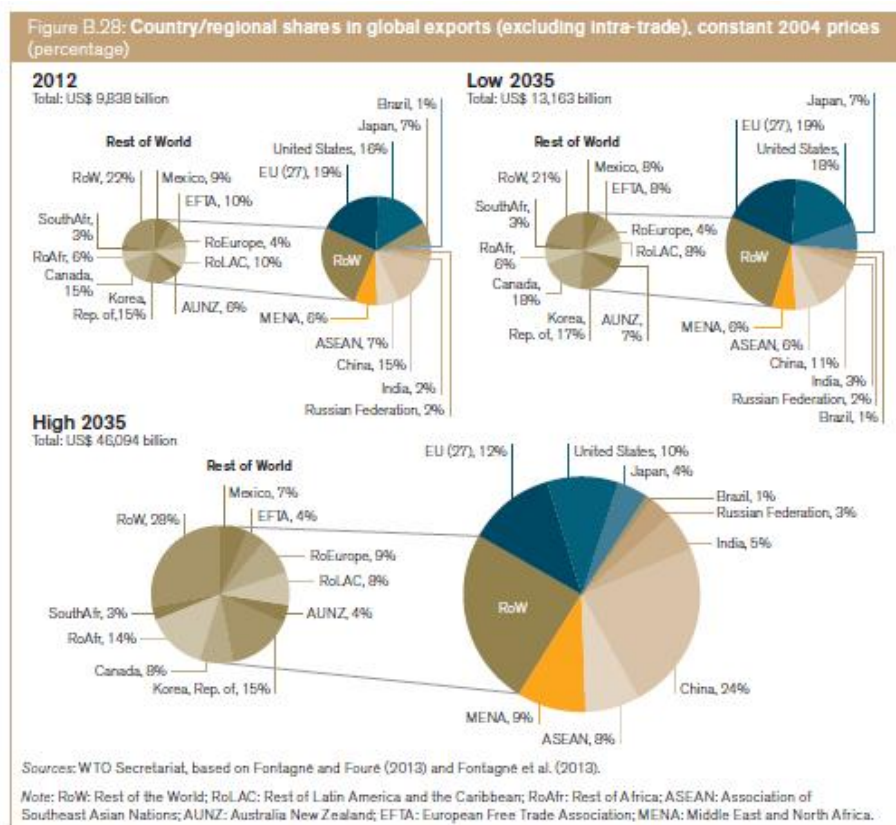
Foreign trade can play a key part in the economic future of Europe

In a situation such as this, the contribution of foreign trade to the recovery of the European economy is crucial. The conquest of new emerging markets, defence of European products 'of excellence' and struggle against all types of protectionism are obviously also priorities for the Union and Member States. In future years, the Union's economic growth will remain at levels lower than before the crisis, in effect making the role of foreign trade

still more central in the definition of the Union's economic policies. The 21st century has frequently been referred to as the 'century of Asia' and, according to current predictions, the emerging countries (especially the Asiatic countries) will provide a decisive contribution to world growth. The economic centre of the world is slowly but inexorably shifting from the Atlantic to the Pacific ocean. The (as yet uncertain) agreement with the United States (TTIP) cannot restore the central trading role enjoyed by the European Union in recent decades.

According to the WTO, the 'weight' of the European Union in international trade may be appreciably reduced or (in the best case scenario) revert to pre-crisis levels (see table 1).

Diagram 3:
Global exports: national and regional percentages (constant 2004 prices)



The definition of trade policy must take greater account of factors such as demography, access to raw materials and energy and education

Other variables will play an important part in the future of international trade. The world is entering what Nobel prizewinner Paul Krugman has termed a period of 'demographic transition'. The falling birth rate is becoming more marked, not only in the more industrialised countries but also in many emerging nations. The ageing population, migration, access to further education in developing nations, female participation in the production cycle and the emergence of a strong middle class outside the industrialised nations are also phenomena liable to have an inevitable impact on trade flows in the 21st century.

Access to raw materials, water and energy sources will become increasingly important. Countries which will have access to abundant energy sources at low prices (which could be the case in the US if the 'shale gas revolution' gathers pace) will have a 'comparative advantage' over countries such as

those in Europe, which are almost entirely dependent on fossil fuel imports. The recent (and temporary) slump in crude oil prices has benefited the European economy as a whole by strengthening its recovery, but there can be no doubt that the cost of energy will be a key factor in determining the competitiveness of European foreign trade.

Europe has to regain its technological primacy to be competitive in world terms

Technological progress is generally regarded as one of the drivers of economic growth. The phenomenon of globalisation is based essentially on advances in technology, which have cut the timescales and costs of transporting goods and passengers and made it possible to market services which, until a few years ago, could not be sold. This has facilitated the impressive growth in trade recorded in recent years, which however necessitates a (frequently radical) reappraisal of the very concept of international trade. Technological primacy is also essential in order to retain the position of economic and commercial privilege enjoyed by Europe in past centuries. However, from this standpoint, statistics reveal a constant decline in research and development in recent decades and the difficulty encountered by many Member States in achieving the (albeit limited) targets in the EU 2020 strategy, launched some years ago.

The Union's new strategy must provide clear responses to the above questions rather than merely 'status quo' strategies

The rapid changes we are currently witnessing call for a strong and rapid reaction and a strategy which, while commercial, is above all economic, dynamic and modern. It is therefore important to ask whether the European Union is equipped to cope with these epoch-making changes and whether there is awareness on the part of the Union that, in economic and commercial terms, the future of our continent and European integration are very much at stake.

2 The European Union's new trading policy

Global Europe 2006: From the DDA to the explosion of bilateral negotiations

The impossibility of concluding the Doha cycle (DDA), notwithstanding the limited agreement reached in Bali in December 2003, has had severe repercussions on the European Union's trade policy. Progressive dissociation from the multilateral approach preferred by the European Commission and concomitant instigation of an impressive number of bilateral negotiations by commercial competitors of the Union called for a drastic change in strategy.

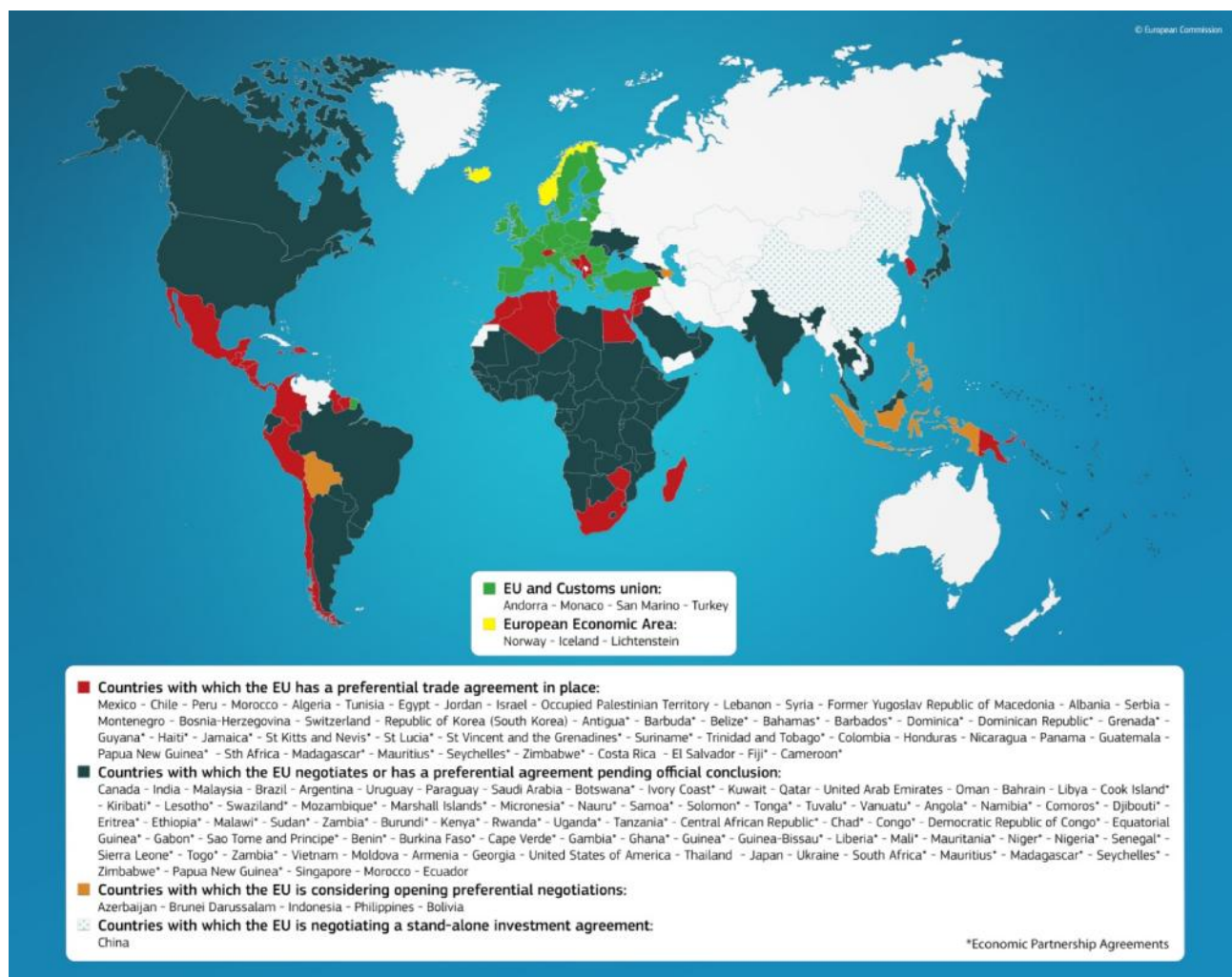
While the European Commission had previously negotiated numerous free trade agreements (essentially of goods) with third countries, the majority of these involved developing nations or countries in the Mediterranean area and Eastern Europe. The only exceptions related to two countries in Latin America (Chile and Mexico) and South Africa. Even in these cases however, the significance of the agreements was political rather than economic.

The launch of the 'Global Europe' Communication (2006) signalled the gradual abandonment of the multilateral approach in favour of the bilateral or plurilateral approach. After a difficult start, the negotiation tables created by the European Commission proliferated. Some negotiations ended with the entry into force of relatively ambitious free trade

agreements (South Korea, Colombia and Peru) while others have been successfully concluded but the agreements in question have not yet come into force (Singapore, Canada).

The map reproduced below provides an overview of the status of current negotiations, but some aspects are misleading. Negotiations with certain countries (Mercosur, Gulf Cooperation Council – GCC and India) have in fact been suspended and negotiations with key commercial partners are very far from any conclusion (see the TTIP for example).

Diagram 4:
European Union: Trade agreements in force and under negotiation



Source: DG Trade (14 November 2014)

The organisational effort lavished by the Commission is certainly laudable in view of the complexity of the new agreements and the fact that many of the most recent negotiations involve industrialised nations with a highly

diversified economy and strong positive and negative commercial interests.²

The Commission's negotiating strategy covers a good proportion of the world, with some significant exceptions

The few exceptions are explained by eminently political factors (Russia, Belarus) and more significant economic factors (China, but also Australia and New Zealand). Nevertheless, it cannot be excluded that a political decision or altered international circumstances could allow fresh negotiations to be launched, for which provision has not always been made in the Commission's strategic documents. Negotiations for a free trade agreement with the US and Japan were instigated just months after the Commission's Communication 'Trade, Growth and World Affairs' (2011) had in fact excluded their short-term feasibility.

The TTIP and the agreement with Japan will be the acid test of the Juncker Commission

Not all negotiations have the same political weight. The success of the Union's new trade strategy will essentially depend on the outcome of negotiations with the US and, to a lesser extent, Japan. While important, the other negotiations instigated by the Commission have neither the scope nor the political and economic relevance of these two agreements (see attached table). The possible failure of the TTIP negotiations would trigger an outright institutional crisis and imperil the very concept of a common trade policy, as emerging from the Lisbon Treaty and implemented by the European Commission for over 30 years.

Diagram 5:
Potential impact of trade agreements on GDP, exports and employment

	USA*	Japan	Canada	ASEAN	India	Mercosur	China Investment*	Total	Productivity effect**	Total (incl. productivity effect)	Jobs*** (1000)	SOUTH KOREA (applied since 1 July 2011)
GDP (%)	0.52	0.34	0.08	0.035	0.03	0.17	0.03	1.2	0.8	2.0		0.075
(€ billion)	65.7	42.9	10.1	4.4	3.8	21.5	3.8	152.2	103.1	255.3		9.5
Total Exports (%)	1.40	1.20	0.69	1.60	0.55	0.65	0.07	6.2			216	1.20
(€ billion)	29.4	25.2	14.6	33.7	11.6	13.7	1.4	129.6			4	25.2
Total Imports (%)	1.35	1.20	0.39	1.40	0.55	0.66	0.06	5.6				1.10
(€ billion)	29.0	25.8	6.0	30.1	11.8	14.2	1.3	118.2				23.6

Source: Based on studies commissioned by DG Trade. Comparisons between different agreements should be done with caution due to different methodologies used. Note: Absolute figures refer to EU GDP and trade figures for 2011.

Other important negotiations involve other emerging nations, whose tumultuous growth provides a significant resource for economic recovery in Europe. The Commission has instigated negotiations with a number of countries in the ASEAN [Association of South-East Asian Nations]³ (Vietnam, Thailand, Malaysia), countries in the Mercosur and India (currently in stalemate). China is a separate case. Negotiations for a bilateral agreement on investment began in 2014 and have progressed quite

² One aspect which requires clarification with the Commission is whether the current overexposure in fact makes it possible to follow the negotiations and monitor agreements already in force effectively and on an ongoing basis.

³ Negotiations with Singapore have ended, but the ratification process is at a standstill due to the appeal introduced by the Commission against the Council regarding the judicial basis of the Treaty.

rapidly, although the EU appears reluctant to give consideration to the Chinese offer to enter into an historic free trade agreement.

As demonstrated by Mercosur and GCC, arriving at a trade agreement is not always an easy and rapid process

The Commission's next strategic Communication on trade must therefore necessarily take account of the significant number of negotiations in progress and undertake to conclude those negotiations rapidly and successfully. This outcome cannot be taken for granted due to the persistent political difficulties impacting on many of these negotiations and the real complexity of the issues discussed.

2.1 A new negotiating strategy?

China and other countries in the Asia-Pacific region are pressing for trade negotiations to be instigated with the EU

The Commission's new Communication should certainly focus on agreements currently under negotiation on which the future of the Union's trade policy essentially depends.

Many States have recently expressed interest in creating new negotiating tables with the European Union. The Single Market at any rate continues to be an irresistible magnet for foreign economic operators, who for various reasons consider it a priority to strengthen or establish a strong trading base in Europe. Notwithstanding their strong presence in the Asiatic and US markets, Australia and New Zealand in particular appear to be reconsidering their presence in Europe and are pressing for an agreement which would allow them to export their products (essentially agricultural in the case of Europe). The volumes involved are not substantial, but the agri-foodstuffs sector is inherently sensitive. It is only by equipping itself with a clear and consistent strategy of penetration and consolidation of its presence in the Asia-Pacific region that the European Union could derive benefit from such agreements.

A further priority of the Commission is to give serious consideration to the Chinese offer to launch global trade negotiations

China is a case apart. China presents an unprecedented opportunity and challenge. The new generation of trade agreements entered into with industrialised nations (primarily the TTIP) has revealed a range of negotiating issues, never before seen and associated primarily with the regulative scale of the latest generation of trade agreements. Prospective negotiations with China could prove even more complex and laden with unknown factors, in view of the vitality and competitiveness of the Chinese economy and its gradual modernisation and internationalisation.

For geopolitical and economic reasons, China has shown a strong interest in instigating negotiations with the Union. The increased US presence in the Pacific, negotiation of regional mega-agreements in Asia (TPP, Trans Pacific Partnership) and the north western hemisphere (TTIP) and the relative growth of new emerging countries (in particular in Southeast Asia), in direct competition with Beijing, has had a marked impact on the Chinese Executive. While not abandoning its traditional policy, designed to secure access to energy sources and raw materials and consolidate its trading primacy in Asia (especially in the light of the increasing role of *'global value chains'* in the Chinese economy), China has clearly opted for a trading strategy which accords far higher priority than in the past to access to the

market of the industrialised nations, primarily Europe. The main purpose of the visit of President Xi Jinping in March 2014 was to promote the instigation of negotiations in the direction of an innovative free trade agreement between the European Union and China.

China ascribes increasing importance to an agreement with the EU in response to the proactive negotiating approach of the United States

The Chinese proposal merits careful consideration. While, evidently, the time may not be ripe for an agreement of this scope with a country whose dimensions, potential and capacity for growth are huge, it could be a mistake to let such an offer slip. The Union could in fact launch negotiations from a position of strength and, as with Japan, impose preliminary conditions governing access to the market and removal of the more insidious non-tariff barriers. On the other hand, preferential access to the Chinese market could have substantial comparative advantages because it could make it possible to strengthen the position of European industry to the detriment of that of its direct competitors and, at least in part, introduce European technical regulations and standards. The conclusion of such an agreement could not fail to have positive repercussions in terms of bilateral political relations with Beijing and would of course strengthen the European political and trading position throughout the Asiatic continent.

'West against the rest' or a tripartite agreement?

Agreements such as the TTIP and a possible free trade agreement with China are evidently not merely trade agreements. The TTIP has been described as an 'economic NATO', which suggests that its commercial significance is merely one component of the agreement and perhaps not the most important in the current negotiations. The concept of '*West against the rest*' is dangerous and no longer current, in view of the progressive multi-polarisation of the world. The European Union could secure a number of major advantages from the agreement with the US, if not compelled to forfeit any of its autonomy or scope for manoeuvre.

Nevertheless, it would also be expedient to reflect seriously on a consistent regional strategy in Asia, but also in other continents, and seek as far as possible to avoid a situation in which Europe in fact becomes the *junior* partner of the US and is incapable of formulating a coherent, aggressive and modern trading strategy in response to the pro-activism of our key partners.

2.2 Industrial policy or foreign policy?

A trade policy cannot at the same time serve the objectives of foreign policy and industrial policy

The Lisbon Treaty has defined the common trade policy in the context of the Union's external action (Article 207 TFEU): 'The common trade policy shall be conducted in the context of the principles and objectives of the Union's external action'.

It is hence clear that the common trade policy cannot and must not be separated either from the guidelines governing the Union's external action or from its underlying principles, enshrined in Article 3(5) of the Treaty on the European Union:

5. In its relations with the wider world, the Union shall uphold and promote its

values and interests and contribute to the protection of its citizens. It shall contribute to peace, security, the sustainable development of the Earth, solidarity and mutual respect among peoples, free and fair trade, eradication of poverty and the protection of human rights, in particular the rights of the child, as well as to the strict observance and the development of international law, including respect for the principles of the United Nations Charter.

Nevertheless, the application of Article 3(5) TEU to the common trade policy has important implications, which must be borne in mind when defining the Union's economic and commercial objectives. Although many of these factors have already been included, or at least taken into account, in previous negotiations (for example: Economic Partnership Agreements with ACP – African, Caribbean and Pacific countries), it would be appropriate for the new Communication to clarify the scope of these principles and ensure their implementation with coherence and consistency over time.

Trade policy as a core component of the Europe 2020 Strategy

Nevertheless, the common trade policy is also an indispensable pillar in the Union's industrial and economic policy. The Europe 2020 Communication regards external economic relations as a potential catalyst for economic growth and job creation in Europe and acknowledges the need to improve coordination of the Union's external and internal policies.

In the Communication in question, the European Commission has pledged to promote the European Union on the world scene by the most effective means, contributing actively to the creation of 'the future global economic order' and defending European interests throughout the world. The EU 2020 strategy has set itself the following targets:

- Strengthening of external aspects of the Union's internal policies (energy, transport, agriculture and research and development) and
- Assuring the pursuit of foreign trade and international macroeconomic policies with greater efficiency and coordination.

In this Communication, the Commission acknowledges that a serious effort is required to ensure that goods and services produced in the Union can benefit from free and fair access to the markets in emerging countries, in particular countries in which economic growth will be the strongest and demand the most sustained. This imposes an obligation on the Commission to adopt a more aggressive and determined strategy for access to the market and promote initiatives (such as technical negotiating tables) designed to combat non-tariff barriers and ensure the harmonisation of technical standards.

The targets here are strictly economic. It is important in this context that the new Communication should clarify the nature of the balance between the Union's 'political' and economic targets and how it intends to bring both to completion.

A better balance between the political and economic objectives of the trade policy is necessary to achieve appreciable results

This debate is essential to facilitate an assessment of the effective scope of the strategy proposed by the Commission and ensure that it responds to the underlying principles, but also the economic interests, of the European

Union. This will not be an easy exercise. The European Union is currently divided into producer countries (which tend to follow a more defensive approach in foreign trade relations) and importer countries which favour a more liberal line. While it is clearly inappropriate to defend outdated sectors which have ceased to be competitive, it is equally clear that decisions taken on trade policy may have significant consequences on the competitiveness of specific industrial sectors, in particular in view of the distortive and protectionist measures and behaviour of our trading partners.

The major ideological and strategic choices underpinning the Commission's proposals must be the subject of more detailed analysis

The Commission has frequently demonstrated a preference for liberalisation of the services sector (in which Europe is an undisputed leader) to the detriment of industrial sectors, some of which have already been affected by the economic crisis and plummeting demand in Europe. While this is a legitimate choice, it would nevertheless be expedient for it to be formally discussed and approved by the European Parliament and Council rather than merely 'implied' when negotiations begin or at the moment of definition of the negotiating mandate by the Council.

2.3 The new generation of trade agreements

The new generation trade agreements are far more complete, but also more comprehensive than those which preceded them

Traditionally, trade agreements related to liberalisation of the trade in goods through the reduction or elimination of customs tariffs and quotas. The new generation of agreements is far more complex than before and includes important provisions relating to services and investment.

However, the new trade agreements do not merely relate to customs barriers which, with regard to the industrialised nations, are relatively low, but also and primarily to technical and regulative standards (frequently in fact regarded as non-tariff barriers). Here the task of the negotiator is more important because, in addition to eliminating potential barriers to trade, he must introduce mechanisms to facilitate harmonisation of the rules in question and hence extend and prolong the advantages achieved as a result of the negotiation.

The definition of technical and regulative standards is at the heart of today's trade negotiations

The new trade agreements hence relate to sensitive sectors, hitherto regarded as within the exclusive competency of the Union and relating to matters associated with the Single Market and policies generally defined as internal. In cases where the European Union imposes its own standards on third countries, the question does not arise because such countries are in fact bound to accept European rules, which are inalterable. The question changes radically where there is a need to negotiate with industrialised and developing nations. The most striking example is represented by the negotiations with the US (TTIP). The European Union and US have frequently found themselves in disagreement on various technical standards and had recourse to the WTO's dispute settlement mechanism to resolve their dispute.

The Commission must be in a position to provide

Although the Commission has on several occasions provided assurances that a possible agreement with the US will have no impact on the Union's

assurances on the risk that the new agreements will weaken the Union's legislative autonomy

capacity to legislate autonomously, the lack of cohesion and political and economic attraction of the US makes a weakening of the single market theoretically possible. This is certainly an aspect which requires further clarification with the Commission and which, unless adequately analysed, could impact on the powers and margin for manoeuvre of the European Parliament with regard to legislation.

The Commission has in the past failed to distinguish itself for its high level of internal coordination

A further important aspect of these second-generation agreements relates to organisation. In matters of an internal nature, it is inevitable that other Directorates General (DGs) of the Commission collaborate with the Directorate General for Trade (DG Trade) in the conduct of negotiations. In the past, the coordination of different Directorates General in trade matters has not been ideal, as demonstrated by the frequent disagreements expressed by the DGs for Agriculture and customs or industrial policy. Internal coordination is hence a potential Achilles heel for the Commission and it is to be hoped that the reorganisation activated by President Juncker will produce concrete results (further details, see paragraph 3).

Trade agreements also require organisational review on the part of Parliament

Parliament must also give consideration to the evolution of international agreements on trade matters. The role of the Committee on International Trade (INTA) must be maintained, but it would be necessary to ensure, firstly, a more intense level of cooperation with the Committee on Foreign Affairs (AFET) and, secondly, an increased sense of responsibility in Parliamentary Commissions handling the Union's internal policies, given that, at some point, they will be called upon to implement the agreement reached according to their specific competencies. In this instance, the proposal for increased cooperation among Parliamentary Commissions, put forward some months ago by the Cabinet of the Secretary General of the Parliament, can only be welcomed.

3 The institutional framework

The Commission continues to have a key role in definition of the European trade policy, but its task is not always easy

The European Commission has a key role in the definition and execution of the common trade policy (CTP). The Union's Executive Body retains a solid power of initiative in legislative matters, represents the EU at the WTO and is tasked with conducting multilateral and bilateral trade negotiations. The DG Trade is responsible for the Union's trade policy within the European Commission.

The Union's traditionally technocratic trade policy (in fact co-managed exclusively by the Commission and Council) has been sorely put to the test as a result of the entry into force of the Lisbon Treaty, which, in addition to ascribing new competencies to the European Union (in particular in the matter of direct foreign investment), has guaranteed the European Parliament the role of co-legislator on an (almost) equal footing with the Council.

The Lisbon Treaty has substantially increased the powers of the European Union in trade matters, depriving Member States of their competency in the matter of the protection of foreign investments and services and

guaranteeing the European Parliament a leading role in definition of the objectives and aims of the common trade policy.

However, the reference framework has substantially altered. In spite of the new powers gained under the Lisbon Treaty, the Commission finds itself in a difficult situation. The traditional division of roles among Member States, which guaranteed political 'coverage' to the Community Executive, in turn responsible for the implementation of this political mandate, has gradually been eroded.

3.1 Relations with Member States and the Council

The European Commission is suffering from lack of political support from Member States

The European Commission has recently found itself in difficulty due to the reluctance and frequent hostility demonstrated by a number of Member States in supporting some of its initiatives politically. A case in point is represented by the ACTA [Anti-Counterfeiting Trade Agreement], at first strongly wished for (or at least not opposed by any Member State) and then, once the pressure of public opinion had become insupportable, suddenly 'inconvenient' and criticised by many of the Governments which had previously supported it.

A second example is the TTIP negotiations, which demonstrate once again the relative isolation of the Commission in the face of the hyper-activism of some Member States and frequently radical criticism from strong segments of civil society.

The Commission has in some cases sought to 'force the hand' of legislators, frequently with negative results

The Commission is in need of political support from Member States (in particular the largest and most influential), yet finds itself in competition with them at a political/institutional level. A more 'aggressive' strategy on the part of the Commission and a more transparent and effective information-sharing policy are pre-requisites in order to strengthen the role of the Community Executive and increase its internal political weight. It must be remembered that, in the past, some initiatives strenuously defended by the Commissioner in office, but not endorsed by the Council and/or Parliament, ended with a crashing defeat for the Community Executive (for example, the reforms of the Union's trade defence instruments under Commissioners Mandelson and De Gucht), which on that occasion also lost some of the credibility previously accorded by its institutional contacts. It would therefore be expedient for a 'bolder' strategy on the part of the Commission to be combined with tactical and strategic policies dictated by good sense, if not political rationale.

Member States have delayed agreement on the importance of the trade policy and now seek to 'run for shelter'

However, such a strategy can only unnerve Member States who, in spite of the Lisbon Treaty, are interfering to an increasingly severe degree in determination of the policies and choices of the Commission. Many Member States have profoundly underestimated the importance of international trade in their external relations and internal political dynamics and are now, one might say, 'running for shelter'.

This thinly veiled attempt to prevent the European Union and its bodies from autonomously deciding on international trade agreements is obvious.

The inclusion of clauses and articles frequently beyond the scope of the agreement in question (for example, the trade agreement with Colombia and Peru) with the aim of turning these agreements into mixed agreements, i.e. agreements subject to the process of national ratification, has now become the rule rather than the exception. While accepting this state of affairs with clenched teeth, the Commission has demonstrated intolerance and recently attacked the Council before the Court of Justice with regard to the contested nature of the trade agreement with Singapore (in relation to the foreign investment provision).

The European Commission should, in the coming years, therefore seek to review its relations with Member States, aiming as far as possible to involve them more closely in political decisions (in particular the more inconvenient and controversial decisions) without thereby renouncing its powers or the fundamental principle that the common trade policy is within the exclusive competency of the European Union.

The language used in the Commission's Communication is an important aspect. Translation, however costly, into all the official languages of the most important documents relating to trade policy could make such documents more accessible, even to those not fluent in English (or, in limited cases, French and German).

3.2 The role of Parliament

Parliament has an increasing role in trade policy, yet there is room for improvement

The role of the European Parliament has been considerably strengthened after the entry into force of the Lisbon Treaty, thanks to the new powers (co-legislator on terms of near-equality with the Council and right of consensus on international treaties) vested in it.

Contrary to the predictions of many commentators, Parliament has opted for a responsible stance, conducive to a gradual 'democratisation' of the European debate on international trade. Notwithstanding a number of disagreements and sporadic clashes (cf. the ACTA and the doomed reform of trade defence instruments), relations between Parliament and the Commission have been generally good, facilitating real progress with regard to the common trade policy. Nevertheless, the picture is not as positive as would appear at first sight.

The 2014 elections saw the success of Eurosceptic factions, in ideological terms frequently contrary to the 'free trade' policy defended by the Commission. This trend could in the long-term influence the role and actions of Parliament in trade matters unless the traditional political forces have the determination to defend certain well-defined positions of principle.

The Commission has, in response to Parliament's legitimate requests, partially adapted its

The Commission is well aware of the importance of extending the basis of consensus of the trade policy in our Parliament, to include non-trade-related aspects for negotiation (promotion of human rights, defence of trade union rights, protection of the environment, etc.), strongly supported by moderate and/or reformist political factions not necessarily and

strategy

unconditionally prepared to endorse the Commission's decisions on trade.

Parliament can still appreciably strengthen its role and become a true point of reference for public opinion

The Commission hence has an overall interest in maintaining and strengthening its links with Parliament, although necessarily to the detriment of the, far more sensitive, relations with the Council and Member States. The search for a dynamic and functional institutional balance will in all probability be a prime objective of the Juncker Commission.

It is in this context legitimate to ask what Parliament can do to consolidate its role and be perceived as a credible reference point, not only for the Commission and Council, but also and primarily for public opinion:

- 1) Strengthen its role of scrutiny of the Union's trade policy

Strengthen its role of scrutiny of the Union's trade policy

Discussions behind closed doors with the Commissioner and Director General for Trade have become the norm. Yet, while important and politically sensitive, these debates require better preparation and should form part of a broader process of political assessment and monitoring of the Commission's actions;

- 2) Dictate the political agenda rather than react to the Commission's proposals

Dictate the political agenda, rather than react to the Commission's proposals

Although the Commission has the important right of initiative with regard to trade policy, it is nonetheless clear that Parliament should not merely 'respond' to proposals of the Executive, but also be capable of dictating in advance its own political line, focusing on the principles and fundamental choices involved in the trade policy in terms of both foreign policy and the internal dimension;

- 3) To verify the faithful implementation of Community policies

Verify the implementation of Community policies

The new challenge which awaits Parliament will not be merely the – media-related – task of monitoring and possibly approving major international agreements. It will on the contrary be important to ensure democratic scrutiny, extending to the implementation of existing agreements. This process, still at the embryonic stage, will in all probability become the primary remit of the INTA Committee and call for particular discipline on the part of members and radical reorganisation of the working methods hitherto applied.

- 4) To increase Parliament's competency level and ability to anticipate

Increase Parliament's competency level

Parliament has made a significant organisational effort to cover its new competencies in terms of trade and the activities of the European Commission. The INTA Secretariat has more than doubled in size over five years and the technical support services, Legal Service, Policy Department and European Parliamentary Research Service ('EPRS') have also been strengthened. These measures have facilitated more specific and diligent coverage of a sector known for its technicality and complexity.

In spite of this major reorganisation, Parliament is far from being in a position to compete on equal terms with the Commission's Directorate General for Trade and the technical services of Member States, in particular

the larger States. As matters stand, the services in place are able to cover the broad outlines of the trade policy, but have neither the resources nor the technical expertise to provide detailed coverage of legislative proposals and major international agreements, even by commissioning external contracting authorities. This situation, common to many Member States, should be given serious consideration when defining Parliament's priorities with regard to foreign trade.

A number of corrective measures could readily be implemented:

- a) Investment in employee specialisation and promotion of an enhanced exchange of information (including confidential information) and good practice among the Services concerned.
- b) Guarantees of 'technical' coverage of all proposals and communications originating from the Commission and any matters which, although not directly concerning the Union, are liable to have a major impact on the EU's political and economic interests.

Consolidation of links with comparable bodies in the Commission and Member States, as far as possible establishing 'work groups' to assess proposals of the Commission, under formulation or in the process of finalisation.

3.3 Public opinion

European trade policy is followed by an increasing number of European citizens

The European Union's trade policy has in the past been marked by a high level of technicality and frequent poor transparency in the management of negotiations. The majority of negotiations did not attract the interest of public opinion or media attention. Only economic/financial and third sector (NGOs) pressure groups appeared interested in the definition and implementation of the common trade policy. The decision-making process was entirely in the hands of the Council, which frequently arrived at decisions rapidly and often without the real involvement of national parliaments, even when the latter were called upon to ratify important international agreements.

The future of the trade policy will depend on the capacity of European institutions to explain and secure acceptance for the broad outlines of the economic integration process under way

The Lisbon Treaty has brought about change, laying the foundations for a more transparent and democratic trade policy. Public opinion is increasingly interested in the dynamics of globalisation and the major international agreements currently under negotiation. Although the opposition expressed has frequently shown itself to be ideological and poorly informed, there can be no doubt that the future of the Union's trade policy will depend, as never before, on the capacity of the European institutions to explain and secure acceptance for the broad outlines of the economic integration process currently under way. The use of new technologies and social media has made possible an unprecedented circulation of information and the creation of new civil society forums, which have already shown themselves capable of influencing the decision-

making process on trade matters (see the example of the ACTA).

Although improved, the Commission's Communication remains inadequate

The Commission has successfully grasped the importance of what is at stake and is relatively open to civil society, seeking to create a broader basis of consensus for its initiatives and direct contact with public opinion, no longer mediated by national governments. The quality and quantity of information available on the Commission's website is decidedly better and the quality of communication (previously very poor) has greatly improved. However, although appreciable, these efforts are still not sufficient.

The Union's pre-eminent role in trade matters is frequently 'usurped' by Member States

Public opinion has demonstrated (not always fairly) a poor level of respect for the Community Executive, which in turn is frequently contradicted, if not obliterated, by the far more robust capacity for communication of Member States. This situation, in itself unacceptable, has negative results in both Europe and third countries. As is the case in other sectors within the competency of the Union, in many Member States the role of the European Union is frequently minimised when it seeks to ascribe to itself one or more successes, although exaggerated when, for various reasons, the results obtained are not achieved, or the Union is confronted with strong internal criticism, even when Member States have previously supported or indeed exerted pressure for a given legislative proposal and did not see the light.

Lack of clarity in the division of roles has a negative impact, not only within the Union, but also in its external partners

This state of affairs not only prevents European citizens from gaining a clear perception of the true responsibilities within the Community, but also has serious effects on its foreign image. In many cases, although understandable, the activism of some Heads of State and Government, who unilaterally undertake to achieve a given result vis-à-vis foreign partners in the Union (for example market economy status for China and the launch of trade negotiations with other third countries), damages the role and image of the European Union throughout the world. Many foreign interlocutors are frequently confused at the Union's inability to speak with one voice and the multiplicity of (frequently contradictory) messages emerging daily. However, the Commission is too weak and dependent on Member States to be in a position to offer real opposition to this unacceptable state of affairs.

The position of the Council is, for the reasons outlined above, far more isolated. As a single entity, the Council does not appear ready to give consideration to the aspirations and desires of public opinion and allows national governments an ample margin. However, in national terms, the quality of (even parliamentary) debate is frequently inadequate and fragmentary and influenced by matters of internal policy or local interest.

Parliament has put transparency and accessibility at the core of its actions

The European Parliament has made a number of efforts to provide clear and convincing responses to public opinion. Parliament's website makes it possible to follow in detail the activities of the Institution and contact with civil society is ongoing and often highly fruitful. In the last legislature the INTA Committee, under the Chairmanship of Professor Vital Moreira, invested significant resources in communication, for example opening up access to workshops to citizens who, uniquely rather than rarely, were

placed in the position of being able to participate actively in the Parliamentary proceedings, frequently in the presence of the Commissioner for Trade and top-level academic hosts.

The real challenge for Parliament is to be able to speak to citizens to provide reassurance and guarantees that their legitimate aspirations will not be forgotten

Parliament should therefore invest further in its image and communication, making its activities still more open and accessible to the general public. In addition to the workshops described above, it could be important to consider organising top-level international conferences and increase the number of technical/information-sharing publications available on the internet. It would also be important to increase the involvement in the proceedings of the national parliaments of Member States which, although having a limited role to play in trade matters, could serve as a bridge between the institutions in Brussels and citizens. It would also be important to launch surveys which are autonomous (in comparison with those launched from time to time by the Commission) to establish trends in public opinion on this matter. In other words, to achieve success, Parliament should allow citizens greater access to its offices, or alternatively leave Brussels and meet citizens, accrediting itself as their key interlocutor and guarantor of the trade policy in Europe. If Parliament is capable of achieving this significant result, its role and capacity to influence the Union's trade policy will be enhanced.

In this internet society, the Union must be capable of resisting potential 'manipulation' by well-orchestrated but minority pressure groups

Parliament should not however be excessively dependent on the moods and demands of (frequently minority) groups in civil society. The single European democratic authority should instead consolidate its role as representative and guarantor of the aspirations of the Europeans which, unlike other organisations not democratically elected, have received their mandate directly from citizens. Credibility and visibility are the pre-requisites for the achievement of this major result.

3.4 Assessment of trade agreements and legislative proposals of the Commission

To be credible, the trade policy should have a more serious and accepted technical basis

The Commission is currently preparing an impact assessment on the new legislative proposals it intends to present to the Council and Parliament. In many cases, this does not involve detailed analytical documents and the impression is that they will be 'self-serving', that is leaning towards the position defended by the Commission. Although the practice of impact assessment is centralised at Secretariat-General level and represents a step forward from past practice, the system is patchy and requires reappraisal and strengthening.

With reference to international agreements, the Commission relies on external contracting authorities (frequently university consortiums), whose mandate is to produce a Sustainability Impact Assessment. These (frequently complex and detailed) studies provide useful information on the predicted effects of an international agreement, but are clearly based on mathematical formulae and criteria which remain imprecise and are exposed to the effects of political and economic events after they have

been finalised.

An ex post impact analysis is essential to assess the true effects of trade liberalisation

For some time, the Commission did not produce an ex post analysis. This, recently corrected, decision made it impossible to verify the true incidence of international agreements signed by the Union with third countries or verify that the hypotheses included in ex ante studies were sufficiently accurate. The recent decision to examine the effects of free trade agreements entered into with Mexico and Chile is hence positive and should become the norm for any agreement entered into by the Union.⁴

However, the Commission could go further and consider the creation of an academic platform of some kind, managed by the contracting authority selected by the Commission or Community Executive itself, but open to debate and ongoing dialogue with other experts and academic representatives wishing to be involved in the process. An academic platform of this kind would not only have the merit of relaunching the debate on the trade policy in an academic environment, but could also contribute to the improvement of the Union's trade policy, making it less arbitrary and discretionary.

From a static to a dynamic and shared impact assessment

The analysis should also not be static (in the sense of providing a snapshot of the situation at the moment of finalisation of the study), but dynamic, hence making it possible to modify it if the basic parameters alter as a result of future unforeseeable developments. An analysis of this kind should also be available while the negotiations are in progress and at the moment when the legislative proposal or agreement is voted on. From this standpoint, any form of inter-institutional cooperation could prove both useful and necessary for the success of the initiative.⁵

The impact assessment should also analyse the 'internal' aspects of the trade policy and, where necessary, allow for its correction

A key element in such an analysis should be the impact on the European economy, not only as a whole, but in individual sectors and Member States and it is necessary to pinpoint the sectors and categories of employee damaged by the agreement in question.⁶

⁴ The Court of Auditors has recently criticised the actions of the Commission, concluding that the Union's preferential agreements are not always monitored to an ideal standard and proposing a number of corrective measures, some of which have been taken on board by the Commission.

⁵ The Commission has recently tackled this problem, seeking to correct some of the distortions described in this chapter, but the reform has not yet come into effect.

⁶ If well-negotiated, a trade agreement can bring benefits to both parties. However, these agreements can have negative results in certain employee categories, specific economic sectors and other areas determined by the Union. This applies in general to less-skilled employees, females and sectors which are less competitive, in particular industrial sectors. The European Union is currently guaranteeing a limited amount of financial assistance (subject to stringent conditions) through the European Globalisation Adjustment Fund (recently extended to victims of the economic crisis). An analysis of this kind, if accompanied by adequate political will, could correct the worst distortions of (otherwise positive) trade liberalisation and secure more solid support from public opinion (frequently averse to the risks generated by the entry into force of new trade agreements).

Conclusions

The European Union should review its trade policy to keep pace with its partners

The European Union will be called upon in the coming years to review its trade strategy. The relative economic decline of the Union and emergence of new trading powers call for more intense economic, and indirectly political, integration.

The crisis of the multilateral method embodied by the WTO has paved the way for an impressive series of bilateral and plurilateral negotiations. After a difficult beginning, the European Union has launched itself decisively into bilateral negotiations, not only with traditional partners, but also and primarily industrialised and emerging nations. In spite of the high number of negotiations under way, there can be no doubt that the success of the Juncker Commission will depend essentially on its ability to reach a satisfactory agreement with the US and Japan.

The implementation of trade agreements is the Commission's new priority.

The priority of the common trade policy will no longer be the creation of new negotiating tables, but the conclusion and implementation of negotiations already under way. A substantial portion of the resources of the DG Trade should therefore be dedicated to monitoring free trade agreements to prevent the introduction of new non-tariff barriers by our trading partners in defiance of agreements reached. The Commission should however provide convincing responses to China's demands to enter into a free trade agreement which, due to its importance and political sensitivity, is no less important than the TTIP. Such a choice should take account not only of current trading flows and the Union's need to open up markets in emerging countries, but also the need to strengthen its position in mature markets such as that in the US. From a political standpoint, it will be necessary to decide whether to become a partner increasingly linked to Washington (creating what has been defined as an 'economic NATO') or whether it would be expedient to increase the stakes and seek to secure a competitive advantage over our direct competitors.

The institutional competencies arising from the Lisbon Treaty require further clarification

To achieve this however, it will be necessary to proceed without delay to clarify the respective institutional competencies in the Union and with regard to individual Member States, as determined by the Lisbon Treaty. The Commission should preserve the delicate balance between its aspirations to autonomy, the (not always justified) demands of Member States and the growing political role of the European Parliament. The task of the Commission will not be easy in view of the scarce political support and (frequently ideological) hostility of a section of public opinion. From this standpoint, it will be necessary to invest in a more effective and generalised communication policy to facilitate a better understanding of trade matters and more solid political and institutional support.

Parliament should continue in its task of democratisation of the trade policy and become

In the coming period, there must necessarily be a strengthening of Parliament's function of scrutiny and assessment of the Union's foreign trade policies and initiatives. Parliament must not only be capable of providing a rapid and effective response to the requests of the Commission,

the preferred interlocutor of
European public opinion

but also and primarily become the fulcrum of a new more democratic and transparent trade policy. For our institution, the real challenge is to be able to secure accreditation as the single true democratic authority at Community level in the matter of foreign trade and gain the trust of European citizens in the mandate they have conferred on their deputies.

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Annex

Status of the EU FTAs

Implemented	Under negotiation	Under consideration
Neighbourhood countries		
Georgia	Morocco*	Egypt*
Moldova	Israel*	Jordan*
Ukraine (concluded)	GCC	Tunisia*
Albania		Libya
Bosnia-Herzegovina		
FYR of Macedonia		
Montenegro		
Serbia		
Switzerland		
Algeria		
Lebanon		
Palestine		
North and South America		
Canada (concluded)	USA (TTIP)	Bolivia
Chile	MERCOSUR ⁷	
Central America ⁸		
Colombia		
Mexico		
Peru		
Ecuador (concluded)		
Asia		
Republic of Korea	China (investment treaty)	
Singapore (concluded)	Myanmar/Burma	
	India	
	Japan	
	Malaysia	
	Vietnam	
	Thailand	

* - upgrading of already existing preferential trade agreements

⁷ Mercosur region consists of Argentina, Brazil, Paraguay, Uruguay and Venezuela.

⁸ Central America region consists of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

ACP regions

West Africa region (ECOWAS) (concluded) ⁹	
Madagascar, Mauritius, Seychelles, Zimbabwe - iEPA (concluded)	Eastern and Southern Africa ¹⁰
Cameroon (concluded)	Central Africa region ¹¹
Eastern African Community (concluded) ¹²	
Southern African Development Community (concluded) ¹³	
CARIFORUM	
Papua New Guinea	Pacific group ¹⁴
Fiji	

Source: PolDep and European Commission

⁹ The West Africa region consists of Mauritania and 15 members of Economic Community of West African States (ECOWAS): Benin, Burkina Faso, Cape Verde, Ivory Coast, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo.

¹⁰ The Eastern and Southern African region has a very diverse composition. It consists of countries in the Horn of Africa (Djibouti, Ethiopia, Eritrea and Sudan), countries that are located in Southern Africa (Malawi, Zambia and Zimbabwe) and several island-states in the Indian Ocean (Comoros, Madagascar, Mauritius and the Seychelles). All countries are member of COMESA.

¹¹ Central Africa region consists of Central African Republic (CAR), Chad, Congo, Democratic Republic of Congo (DRC), Equatorial Guinea, Gabon, Sao Tome and Principe; Cameroon has already signed a separate agreement.

¹² The Eastern African Community (EAC) consists of Burundi, Rwanda, Tanzania, Uganda (all of which are Least Developed Countries or LDCs) and Kenya (which is non-LDC).

¹³ The Southern African Development Community (SADC) EPA group consists of Angola, Botswana, Lesotho, Mozambique, Namibia, Swaziland and South Africa.

¹⁴ The Pacific EPA negotiating group consists of 12 island states in the Pacific: Cook Islands, East Timor, Kiribati, Marshall Islands, Micronesia, Nauru, Niue, Palau, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu; Two states, Papua New Guinea (PNG) and Fiji, have signed EPA.