

EU-Singapore Free Trade Agreement

Stimulus for negotiations in the region

OVERVIEW

Singapore is the first member country of the Association of Southeast Asian Nations (ASEAN) and second Asian economy after South Korea to have concluded a free trade agreement (FTA) with the EU, in October 2014. Moreover, this is the first comprehensive FTA negotiated and finalised by the EU after the Treaty of Lisbon came into effect.

As a 'new generation' trade agreement, the EU-Singapore FTA (EUSFTA) in many aspects goes further than current World Trade Organization (WTO) commitments. Moreover, not only does the agreement provide improved access to the Singaporean market, it is also beneficial for European companies operating from Singapore across the Southeast Asian region.

Following the conclusion of the EUSFTA negotiations, the Commission sought an opinion from the Court of Justice of the EU (CJEU) on the allocation of competences between the EU and the Member States. On 16 May 2017, the CJEU issued its opinion, stating that the EUSFTA also covers shared competences.

As the EUSFTA is considered a model for successive new generation EU FTAs, the CJEU's opinion is extremely relevant for all ongoing FTA negotiations and pending agreements.

For more on the Court's ruling on the EUSFTA, please refer to the EPRS 'at a glance' note, '[CJEU Opinion on the EU-Singapore Agreement](#)'.



Committee responsible: International Trade (INTA)
Standing rapporteur: David Martin (S&D, United Kingdom)

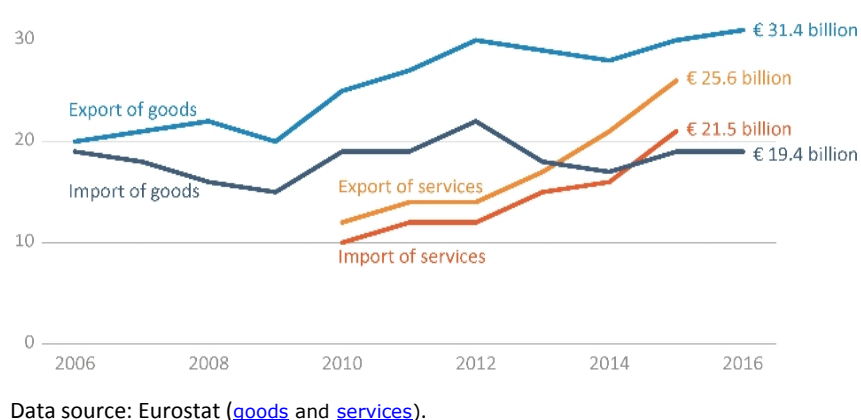
Introduction

EU-Singapore trade relations

In 2016, Singapore was the EU's 16th largest trading partner in goods, with a 1.5 % share in EU trade. The EU ranked as Singapore's second largest trading partner, after China, representing 11.2 % of Singapore's global trade. Total trade in goods between the two countries accounted for €50.8 billion in 2016. In 2015, the EU exported €25.6 billion worth of services to Singapore, while imports of services from Singapore totalled €21.5 billion.

For both trade in goods and trade in services, there has been a surplus on the EU side, which has shown an upward trend. For trade in [goods](#), the surplus for the EU increased significantly from €292 million in 2006 to €11.9 billion in 2016, and for [services](#), from €1.6 billion in 2012 to €4.2 billion in 2015.

Figure 1 – EU-Singapore trade in goods and services, 2006-2016



Singapore is among the [top 10 countries](#) regarding both inward and outward EU FDI stocks. Singapore held €57 billion inward FDI stocks in the EU, for instance in the [financial sector](#), constituting approximately 1 % of total extra-EU inward stocks in 2015. In the same year, it accounted for €153.2 billion outward FDI stocks from the EU, a share worth 2.2 % of total EU FDI stocks held abroad. This made the EU the [leading source](#) of FDI in Singapore. However, as Asian countries increase their investments in Singapore, the EU's share in the total FDI stock tends to decrease.

Singapore is a prime location for trade and finance activities, in Asia and worldwide. Over [11 000](#) European companies are established in the country, the majority of which use it as a regional hub. Singapore also has a key [position](#) in global value chains (GVCs),¹ first entering manufacturing GVCs in the late 1960s, and service-oriented GVCs subsequently from the mid-1980s. These factors were essential for both the EU and Singapore when defining the negotiation objectives.

Context of the negotiations

In 2007, [negotiations](#) were launched between the EU and a group of ASEAN² countries for a region-to-region FTA. Due to various reasons, such as human rights concerns related to Myanmar/Burma and the lack of consensus among ASEAN members in areas other than trade, talks were suspended in 2009. The EU decided to pursue bilateral trade agreements with the individual ASEAN member countries, although it remained committed to the

Table 1 – State of play of ASEAN FTAs

EU-ASEAN	Negotiations suspended (2009)
EU-Singapore	Negotiations concluded (2014)/Not ratified
EU-Vietnam	Negotiations concluded (2015)/Not ratified
EU-Malaysia	Negotiations on hold (started 2010)
EU-Thailand	Negotiations on hold (started 2013)
EU-Philippines	Negotiations ongoing (started 2015)
EU-Indonesia	Negotiations ongoing (started 2016)

strategic objective of concluding a bi-regional EU-ASEAN deal (see Table 1). The reasons for choosing Singapore as the first country with which to start negotiations for a comprehensive FTA were, among other things: it was the most developed country among the ASEAN members; it held significant EU FDI stocks; and it had already concluded an FTA with the USA. Negotiations were launched in 2010 and were concluded in 2014.

Existing situation

The EUSFTA was created as an EU-only agreement, between the EU and Singapore, to be concluded without the participation of the Member States. However, in 2015 the Commission lodged a [request](#) for an opinion from the Court of Justice of the EU (CJEU). The Court was asked which provisions of the EUSFTA fall within the EU's exclusive or shared competences, and which remain within the exclusive competence of the Member States.

In September 2016, the CJEU held a [hearing](#) on the EU's competence regarding the EUSFTA. The CJEU's Advocate General (AG) delivered an [opinion](#) in December 2016, [concluding](#) that the EU has exclusive external competences as regards the parts of the agreement which cover areas such as trade in goods, trade in rail and road transport services, and foreign direct investment. On the other hand, the AG pointed out that the EU's external competence is shared with the Member States in areas such as types of investment other than foreign direct investment, and non-commercial aspects of intellectual property rights. With regard to the Investor State Dispute Settlement (ISDS) mechanism, the AG [stated](#) that the EU has shared competence with Member States in some of the substantive investment provisions, and consequently in the relevant provisions on dispute settlement.

On 16 May 2017, the CJEU issued its [opinion](#). While the CJEU [agreed](#) with the AG that the EUSFTA also covers areas of shared competence, and therefore needs to be concluded as a mixed agreement, there are substantial differences in the way the Court allocated the competences. Both the AG and the Court concluded that non-direct foreign investment and the ISDS must be considered a shared competence. Contrary to the AG, the Court stated that EU competence was exclusive in all transport chapters, as well as in provisions related to intellectual property rights, trade and sustainable development.

Comparative elements

The EU-Singapore FTA was considered a template as regards depth and ambition for negotiations with other ASEAN member states, particularly because it introduced a range of rules in sectors such as public procurement, services and sustainable development. However, Singapore had already been applying zero tariffs on almost all goods and the country's level of trade liberalisation at the time of the negotiations was already high; it might therefore be difficult to achieve the same level of market liberalisation with other ASEAN member states. As a [study](#) prepared for a workshop at the European Parliament pointed out, the EUSFTA could provide a guideline rather than a real model for future trade agreements.

A comparable FTA negotiated earlier by the EU in the region is the EU-South Korea FTA, which entered into force in July 2011. It also includes general positions on issues such as non-tariff barriers, services and sustainable development, with some specificities concerning country-specific markets. As the [Treaty of Lisbon](#) came into force in December 2009, after the Commission's negotiation mandate was approved by the Council, the EU-South Korea FTA does not have an investment protection chapter.

The United States-Singapore FTA, which came into effect in 2004, addressed many issues which were later included in the EUSFTA. As a point of reference, it was therefore particularly relevant for the EU-Singapore negotiations. In areas such as services the US-Singapore FTA seems broadly comparable to the EUSFTA; however, in others, such as public procurement, the EU considers that the level of commitments is higher in the EUSFTA.

EU negotiation objectives

Because of the low or zero tariffs already applied by Singapore in most manufacturing sectors, one of the EU's main areas of interest was obtaining better market access for a range of services sectors, such as financial and banking services, telecommunication, engineering and architectural services, maritime transport and postal services.

Another core issue for the EU was geographical indications (GIs).³ As Singapore applied a US-inspired system of GIs, there was a significant difference between the systems used by the two parties. Regarding copyright, Singapore again applied a US-style regime.

Rules of origin⁴ was also a priority for the EU. Although the EU did not consider exports from Singapore a risk to its sensitive sectors, it was concerned that third countries, such as China, may seek to export their goods to the EU duty free via Singapore.

Counterpart's position

Exports from Singapore contain a very high content of imported components.⁵ Therefore, one of Singapore's key objectives was to reach a favourable agreement on the rules of origin relating to its key exports to the EU, for instance machinery, petrochemicals and electronics. The EU's objectives to push for service liberalisation and an agreement on GIs strengthened Singapore's bargaining position on the rules of origin. A key player in the worldwide service market, Singapore also had a key interest in gaining better access to the EU's services market. Moreover, it was also keen to obtain comparable market access commitments on goods and services to those granted in the EU-South Korea FTA.

Parliament's position

The European Parliament's 2008 [resolution](#) on trade and economic relations with ASEAN states that 'a Partnership and Cooperation Agreement (PCA), containing enforceable human rights clauses, is a prerequisite for the Union to conclude an FTA with any country'. [Negotiations](#) for a PCA⁶ have been concluded with Singapore in 2013.

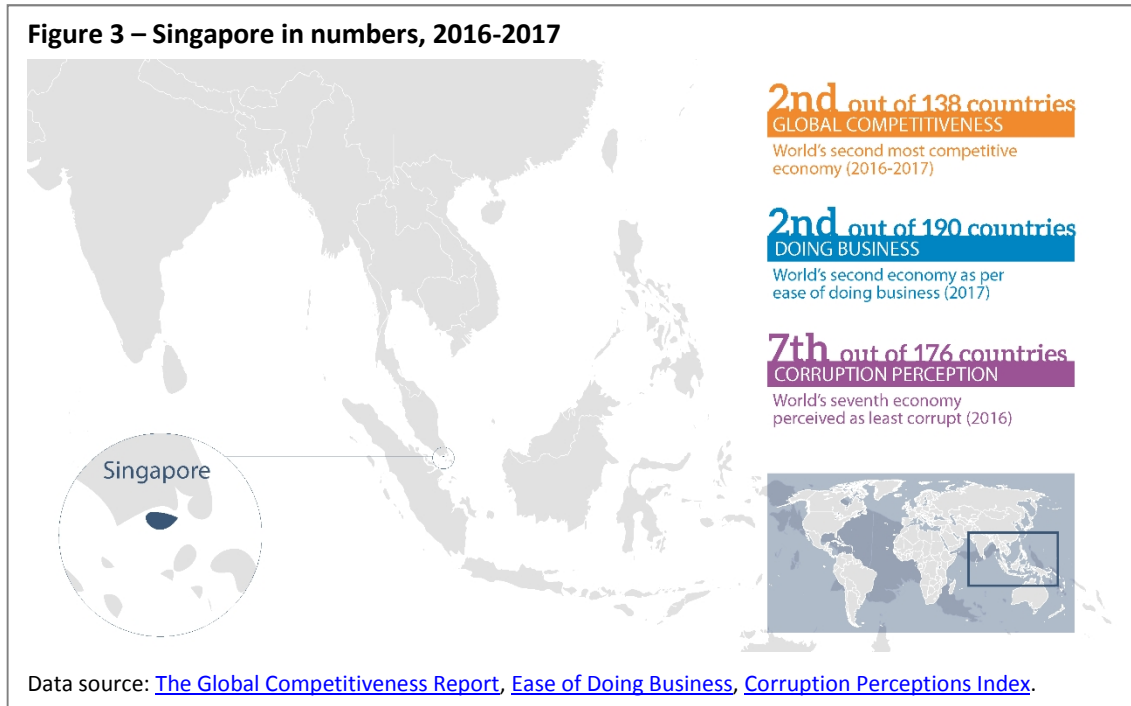
The European Parliament [resolution](#) of 5 July 2016 on a new forward-looking and innovative future strategy for trade and investment stressed the need for successfully concluded trade agreements to be ratified as swiftly as possible; more specifically, it called for the conclusion of the deal with Singapore.

Preparation of the agreement

In 2006, at the Commission's request, a [report](#) focusing on the economic impact of the EU-ASEAN FTA was drawn up as part of the preparation of the negotiating authorisation. The report stated that both the EU and ASEAN member states would gain from the FTA, although benefits would be significantly higher for the latter. In 2009, while negotiations with ASEAN were ongoing, a Trade Sustainability Impact Assessment ([Trade SIA](#)) was published which evaluated the likely economic, social and environmental impacts of the future FTA. It predicted significant gains in terms of GDP, income, trade and employment for all ASEAN members, and small but positive effects for the EU (a 0.2 % GDP gain plus over a percentage point in export value under the most ambitious long-term scenario).

Negotiation process and outcome

The EU-Singapore negotiations were launched in 2010, on the basis of the ASEAN negotiating directives adopted in 2007. In fact, these directives had already envisaged the possibility of negotiating with ASEAN member countries on a bilateral level. As the Treaty of Lisbon came into force after the Commission's negotiation mandate was approved by the Council, the 2007 negotiating directives were [modified](#) in July 2011, to authorise the Commission to open negotiations on investment protection provisions within the FTA with Singapore. After the conclusion of talks on investment protection, negotiations were completed in October 2014, with other parts of the FTA already having been initialled in September 2013.



The negotiations were mainly focused on services and particularly on knowledge-intensive business services. In this context, great emphasis was placed on the issue of non-tariff barriers and technical barriers to trade (TBTs). Other particularly relevant issues included public procurement and investment. Moreover, a marked divergence in the positions of the parties on GIs and rules of origin emerged during the talks.

Some key elements of the concluded agreement:

Trade in goods: The agreement eliminates virtually all tariffs over a five-year transition period from the date of the entry into force of the FTA. As regards the EU, it was allowed an exemption from liberalisation for some fisheries and processed agricultural products; for Singapore, 100 % of the tariffs will be eliminated. The agreement also includes a list of tariff lines for manufactured goods for which some degree of regional ASEAN accumulation will be allowed under certain conditions. This means that inputs sourced from other ASEAN member countries will be considered as domestic content for the determination of the origin of the final product made in Singapore.

The EUSFTA includes commitments on the reduction of TBTs, for instance, removal of double testing requirements for motor vehicles and electronics, in several key EU export sectors, such as automotive manufacturing, electronics and pharmaceuticals. As regards sanitary and phytosanitary (SPS) measures, to facilitate trade in products of animal origin,

Singapore will evaluate the national inspection and certification systems, rather than the individual establishments.

Trade in services: Under the EUSFTA, the EU committed to the liberalisation of a [wide range](#) of services sectors, going beyond WTO commitments in a number of areas. EU commitments have also surpassed the commitments included in the EU-South Korea FTA in certain areas, such as on postal services. As for Singapore, it has entered broad commitments in an unusually large number of services sectors. Moreover, compared to the treatment offered bilaterally to other partners, in many sectors, Singapore provided better [commitments](#) to EU services providers. Although in certain areas of financial services, wholesale and investment banking for instance, the results have not reached the EU's initial ambitions, the outcomes are equal to those obtained by the EU's competitors, such as the USA. The EUSFTA also addresses licensing requirements in a cross-cutting manner, preventing them from hindering market entry. Furthermore, the agreement establishes detailed procedures concerning mutual recognition of professional qualifications.

Intellectual property rights: The agreement provides stronger protection for certain GIs than required in the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), based on a register of GIs. It also includes provisions on performance rights that will enable producers of sound recordings to receive broadcasting and performance royalties in Singapore.

Public procurement: The FTA provides improved access to government procurement opportunities. The EU has, for example, for the first time in an FTA, granted access to tendering opportunities in the railway procurement market; similarly, Singapore has included in the EUSFTA, also for the first time, some of its key procuring entities in certain utilities sectors, such as the Public Utility Board.

General trade rules: The parties agreed to a high level of regulatory transparency. The agreement also includes a set of competition rules, outlining provisions on anti-trust matters and state aid. The provisions particularly target the most distortive types of subsidies on goods and services. A dispute settlement mechanism was agreed upon, to ensure the effective fulfilment of the commitments.

Trade and sustainable development (TSD): The EUSFTA includes a specific chapter on TSD. Among other things, it sets out civil society's involvement in the implementation and monitoring of the chapter, and establishes a mechanism for reconciling differences on the implementation of the provisions included. Moreover, the agreement includes a chapter on renewable energy generation.

Investment protection: While preserving the parties' right to regulate in the interest of the public, the investment protection chapter introduces important [innovations](#) on substantive standards and investment dispute settlement. The agreement also includes provisions for ISDS. However, the FTA does not cover all aspects of the EU's new investment approach, as already reflected in the EU-Vietnam FTA, because negotiations with Singapore had ended prior to the finalisation of the new approach. The Commission is exploring with Singapore how to adapt the investment protection provisions in the draft agreement to the EU's new approach.

The changes the agreement would bring

An [economic impact assessment](#) of the outcome of the EUSFTA was published in 2013. The economic estimates predicted that, among other things, over a ten-year period EU

exports to Singapore would grow by approximately 3.6 %, and that in absolute terms the FTA would boost EU GDP by nearly €550 million. Over the same period, Singapore's exports to the EU would grow by around 10.4 %, and its economy would gain €2.7 billion. The lower benefits for the EU are due to the fact that tariffs are cut asymmetrically because Singapore already applies zero tariffs on almost all goods. An ex-post evaluation would be carried out after the EUSFTA becomes operative.

Stakeholders' views

In 2010, the European Commission conducted a [public consultation](#) on the future agreement. It received [contributions](#) mainly from exports-oriented sectors interested in the ASEAN market. Companies active in the automotive and energy industries called for the most extensive liberalisation of bilateral trade. Negotiations also mobilised European investors, particularly those in the services sectors, which pushed for the liberalisation of the investment sector. As a [study](#) on the EU's preferential trade agreements with Singapore and Vietnam pointed out, the consultation carried out by the Commission revealed that negotiations did not trigger specific protectionist reactions. The same study concluded that because of differences in the interest groups' mobilisation patterns during the two negotiations, increased pressure was put on Vietnam to adjust to EU regulatory standards; Singapore, however, was not subject to the same pressure.

A [study](#) analysing the results of a survey among EU services providers operating in Singapore found that business respondents did not expect the EUSFTA would have a significant direct impact. Certain factors continue to pose significant barriers to trade with neighbouring countries in the region, while Singapore is used as a main location for transfer of knowledge-based services. As a result, although the agreement was favourably received by most of the companies, these companies would nonetheless welcome the re-launch of the EU-ASEAN negotiations.

Signature and ratification process

Although the negotiations were concluded in 2014 and the text of the proposed agreement was initialled, the process leading to the entry into force of the EUSFTA has been delayed by the Commission's request for a Court opinion. Now that the CJEU has issued its opinion, reflection is needed on how to take this opinion into consideration (there has been some [discussion](#) on whether to split the EUSFTA into an EU exclusive agreement covering the non-investment chapters and a mixed agreement covering the investment provisions). On the other hand, as noted above, the Commission has not yet finalised discussions with Singapore on the investment protection provisions. Once negotiations on these two issues are concluded, the draft agreement will be formally approved by the Commission and then presented to the Council for signature and conclusion and to the European Parliament for consent to the latter.

Compared to EU-only agreements, the process of concluding and ratifying the EUSFTA as a mixed agreement will be more complex, not least because this [procedure](#) requires all relevant national and sub-national [parliaments](#) of the Member States to ratify the agreement. At this stage, the Belgian federal government, for instance, was temporarily blocked from signing CETA because of the opposition of [two](#) sub-national parliaments.

The EU can also decide to provisionally apply a mixed agreement, before the completion of ratification procedures at Member State level. However, this can be granted only for provisions under the EU's exclusive competence, unless Member States agree otherwise.

EP supporting analysis

- [Workshop: Trade and economic relations with ASEAN](#), two studies prepared by Pelkmans, J. and Mustilli F.; and Cuyvers, L., Chen, L., Goethals, L. and Ghislain, S., Directorate-General for External Policies, European Parliament, 2013.
- Binder, K., [Driving trade in the ASEAN region – Progress of FTA negotiations](#), EPRS, European Parliament, December 2016.
- Puccio, L., [CJEU Opinion on the EU-Singapore Agreement](#), EPRS, European Parliament, May 2017.

Other sources

- [The economic impact of the EU-Singapore Free Trade Agreement](#), European Commission, Directorate-General for Trade, September 2013.
- Hoang, H. H. and Sicurelli, D., [The EU's preferential trade agreements with Singapore and Vietnam. Market vs. normative imperatives](#), Contemporary Politics, February 2017.
- Alvstam, C. G., Kettunen, E. and Störm, E.: [The service sector in the free-trade agreement between the EU and Singapore: closing the gap between policy and business realities](#), Asia Europe Journal, Volume 15, Issue 1, March 2017.

Endnotes

¹ 'International production, trade and investments are increasingly organised within global value chains (GVCs), where the different stages of the production process are located across different countries. Globalisation motivates companies to restructure their operations internationally through outsourcing and offshoring of activities.' (Source: [Global value chains](#), OECD.)

² The Association of Southeast Asian Nations ([ASEAN](#)) was established in 1967. It is currently made up of ten member countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

³ 'GIs are indications that distinguish goods as originating from a specific *milieu géographique* (that is, a country, region or locality), where a distinctive set of qualities, reputation or other characteristics of the goods are essentially attributable to their geographical origin, because of their intricate link to locally available natural and human resources.' (Source: Puccio, L., Sibona, M., [EU Geographical Indications: Protection for non-agricultural products](#), European Parliament, June 2016.)

⁴ 'In today's global economy, many sectors are characterised by successive steps of production organised in international value chains. As a result, final products are composed of components and inputs coming from various sources. It is important, therefore, to distinguish those goods which qualify for the preferences agreed in an FTA (because they 'originate' in the country in question), from those goods which do not. The rules of origin agreed in an FTA establish the parameters to determine which goods can be considered as "originating".' (Source: [The economic impact of the EU-Singapore Free Trade Agreement](#), European Commission, September 2013.)

⁵ According to 2009 estimates, based on data from the OECD and the WTO TiVA, the imported content of Singaporean exports was approximately [50 %](#).

⁶ The PCAs cover political, economic and trade cooperation with a given country, creating a strengthened overall framework for bilateral relations.

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