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INTERVIEW WITH KAREL DE GUCHT

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"The fact that EU exports continue to grow at the same pace underlines that European companies remain very competitive in world markets".

Interview with Karel De Gucht, European Commissioner for Trade.

1) According to the latest estimates from EUROSTAT, the EU's trade balance improved significantly compared to last year. How do you interpret it? Is this a sign of a slowdown in economic activity and European imports or an improvement of competitiveness in Europe?

In 2011 the EU trade balance for goods and services with the rest of the world was negative, but it had improved by 20% with respect to 2010. However, since the last quarter of 2011 the balance has turned positive. The latest figures available (2nd quarter of 2012) showed that the European Union has exported 20 billion more goods and services than it has imported. This is a significant improvement from the 12 billion deficit of the 2nd quarter of 2011 and from the 28 billion deficit of the year 2011 as a whole. The recent dynamics of the trade balance can be clearly explained by the fact that in the last three quarters (1st and 2nd quarter of 2012, and 4th one of 2011) exports have been growing at the same pace as in 2011 (about 11%), while imports have constantly only grown at half of the rate of exports (about 5%). Previously exports and imports have always had very similar growth rates. This is not yet a slowdown in EU activity but rather in EU demand for intermediate and final consumption goods. The fact that EU exports continue to grow at the same pace underlines that European companies remain very competitive in world markets.

2) What are the main effects of the crisis on EU's external trade?

The most direct effect of the European crisis on EU trade is the sharp slowdown in EU imports of goods and services over the past months given the contraction of domestic demand, notably in the Member States undergoing programmes of fiscal adjustment. The uncertainty about the future evolution of the macroeconomic situation is also contributing to dampen consumption and investment elsewhere across the European Union. The sharp slowdown of demand is clearly reflected in EU imports: while they were up by 11% (in value) in 2011, their growth rate was only 5% in the 1st and 2nd quarter of 2012 (from the same quarters in 2011). On the export side there is also slowdown, albeit less pronounced. EU sales to the rest of the world increased by 12% in 2011, while in the first semester of 2012 EU exports were up by only 10% (compared to the first six months of 2011). Exporters' performance has been helped by a downward correction of the value of the euro as a result of the sovereign debt crisis. However, foreign demand is increasingly held back by the general slowdown of the global economy.

3) Why does the European Union not do more to help European companies to export?

The European Union is committed to help European companies to export worldwide. Trade is a major source of growth and jobs in Europe and therefore the European Union promotes business internationalisation and wants to ensure that access to markets is facilitated for all. Actually, beyond traditional import tariffs, European exporters often face difficulties regarding discriminatory or disproportionate regulations or standards. Removing these barriers and ensuring that trade opportunities created through negotiations are translated into real market

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access for European exporters are part of the EU's Market Access Strategy.
To make this happen, two instruments have been created:

- the Market Access Partnership, a strong partnership and efficient coordination between the European Commission, Member States and businesses both in Europe and in third countries to discuss and tackle barriers;
- the Market Access Database, a free online service where EU companies can find information on import conditions for more than 100 countries.

EU trade policy is also considering the needs of the SMEs, as they are the backbone of the EU economy. The SME angle of trade policy has therefore been reinforced recently with the Market Access Strategy playing an important role in this respect. The SME angle of trade policy includes e.g. the establishment of specific SME helpdesks on Intellectual Property problems in China or on Trade Defence instruments. The creation of EU Business Centres (set up in India and China and planned for a number of ASEAN countries) will help SMEs to get better information on specific conditions and requirements on third country markets.

4) The European Union has signed a free trade agreement with South Korea. Could you please explain what is the assessment/record of the EU-Korea FTA?

The partial assessment that we have conducted in June 2012 showed that in the first 9 months of implementation - from the entry into force in July 2011 until March of this year -EU exports to South Korea increased by €6.7 billion or 35% compared to the average of the same four preceding nine-month periods, whereas the Korean exports to the EU decreased by 5%. As a result, we recorded in 2011 the smallest trade deficit with Korea in the last 15 years. It went down from €11.3 billion in 2010 to €3.6 billion in 2011.

The exports of products that enjoyed duty free access from the entry into force of the agreement have increased more than other products. Exports of products where the tariff was eliminated on 1st July 2011 (representing 34% of EU exports to South Korea) increased by 46% (€2.7 billion) between July 2011 and March 2012, relative to the same period since 2007. By comparison, exports of the same fully liberalised products to the world at large have increased by 27%.

For products that were only partially liberalised on 1st July 2011 (representing 44% of EU's exports to Korea), the increase is 36% or €3 billion. This contrasts with products not subject to any bilateral preference, accounting for 18% of EU's exports, which increased by 23% over the same period.

Comparing the growth rate of fully liberalized products to Korea with the «normal» growth rate of the same products to the rest of the world, the growth differential translates into around €1 billion extra exports. When adding products partially liberalised, this corresponds to more than €2 billion extra exports for the European Union compared to the status quo. We are currently in the process of updating this assessment with figures for the full year following the entry into force of the agreement.

5) A French Minister has recently estimated that the Korean competition on some models of cars was unfair? Is it true?

We have no information at our disposal pointing to any unfair trade practices by the Korean car producers. Should we receive such allegations, these would of course be carefully examined. On 3rd August 2012 the Commission received a request by France for prior surveillance for South Korean car imports which is now being carefully reviewed. Following the implementation of the EU-Korea FTA, the Commission has been already monitoring the imports from Korea in the sensitive sectors (including cars) and providing the reports to the Member States and the European Parliament every two months.

6) From the perspective of many manufacturers, European companies face more and more barriers in foreign markets, particularly in terms of access to public procurement, while the European market is considered to be very

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open. How would you encourage the principle of reciprocal access to public procurement?

The draft Regulation on access of goods and companies of third countries to European public procurement or IPI (International Procurement Initiative) proposed by Commissioner Barnier and myself, is a key project in a global strategy to reinforce the negotiating position of the European Union in the area of public procurement. We see here a way to significantly increase the access of European companies to the markets of developed countries and emerging markets. The project has a decentralized pillar (possibility of rejection by individual buyers under the control of the Commission) and a Community pillar.
In the decentralized pillar the public procurers who so wish may indicate their intention to reject tenders comprising predominantly of goods and services from third countries that do not guarantee an effective access to goods and services from the European Union to public procurement («lack of substantial reciprocity»). The Commission will ensure that offers by individual buyers meet these criteria of reciprocity harmonized throughout the European Union and authorizes the rejection as appropriate.

The Community pillar gives the Commission the means to conduct extensive investigations on the barriers faced by EU companies and goods to access public procurement of our trading partners. On the basis of these investigations, the European Union can offer its partners the prospect of consultations and negotiations for the mutual opening of public procurement. In cases where third countries refuse to enter into the consultation phase, the EU could decide to impose temporary restrictive measures to create more incentives for negotiation.

Both of these provisions will increase the leverage of the European Union in the negotiations, either through specific incentives (rejection by individual buyers) or by more global incentives at EU level targeting the important sectors of our trading partners.

7) Is it not time to strengthen the conditionality of trade agreements in order to limit the effects of dumping (social, environmental, health, political) that affect both the economy of the European Union and its trading partners?

The new generation of bilateral trade agreements negotiated by the European Union already has provisions to prohibit dumping as well as very ambitious provisions concerning social and environmental issues.

It is the duty of the Commission to fight against anti-competitive practices, which are mainly addressed by the anti-dumping and anti-subsidy instruments, allowed under the trade agreements signed by the European Union. The European Industry can resort to the use of these instruments when faced with unfair competition by our partners which results in an alert use of these tools. As regards compliance with environmental and health rules, the agreements negotiated by the European Union are extremely strict: imported products must simply comply with the same rules as European products. Since Europe is often far ahead in the development of these rules, this results in some cases in difficulties by our partners to comply. We are ready to assist our partners, especially the poorest ones, to adapt their systems to meet these requirements, but we are not willing to reduce our level of consumer protection to meet the requirements of our partners.

Finally, in social as well as environmental terms, our trade agreements are based on the respect of the main international conventions - that is to say all the fundamental conventions of the ILO and the multilateral environmental agreements that the parties of the agreement undertake to ratify and implement. This commitment is complemented by practical provisions in terms of cooperation, transparency and dialogue, which, in fact, are more effective in operational terms than the mere threat of sanctions.

8) In times of crisis, citizens do not understand that the European and national public funds are not reserved predominantly for European companies, as would be the case in all major world powers (USA, China). Is not it time

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to establish a genuine rule of «European preference»?

It is in the European interest to direct public funds to where these are beneficial to production and employment in Europe. Consequently, a foreign company that develops production and employment in Europe should be treated equally to EU companies doing the same.

All EU Member States, like most countries in the world, have established agencies to attract foreign investment. Today, Europe is the area that attracts most foreign investment in the world, with 33% of global investments, compared with 27% in the United States and 25% in Asia (source French Agency for International Investment). In 2010, foreign investments in Europe resulted in the creation of over 137,000 jobs. Moreover, 9% of jobs in the European industry are created by subsidiaries of foreign companies located in Europe.

verification conditions. The «growth pact» is, in reality, a pact of joint responsibility.

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