European Economic and Social Committee

Employers' Group

Newsletter May 2016

Trade and investment: Towards a better future for the EU

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Dear readers,

This month we develop the theme of the importance of trade and investment for the future of the EU, for growth and jobs, so important for EU business and industry. As previously mentioned, over 30m jobs in the EU (1 in 7) depend on exports, whilst trade is one of the few instruments available for governments to boost the economy without burdening state budgets.

90% of global growth too over the next 15 years is expected to come outside Europe, when globally middle classes are expected to increase by 2 billion people, each looking for a choice and diversity in the things they eat, wear and use never known before. What an opportunity this presents EU business, provided it can remain competitive.

The key arrows in the EU's quiver include the TTIP negotiations with the US, and the EU-Japan FTA negotiations. The latter, as shown in Ms Päärendson's article, offers huge untapped potential for markets previously difficult to access. TTIP on the other hands looks to increased EU - US regulatory co-operation, especially where our Health Safety and Environmental mechanisms have previously followed very different paths. Key here however will be maintaining, if not increasing, the fundamental EU standards for consumers, the environment, food safety and social and labour protection, as well as in other areas.

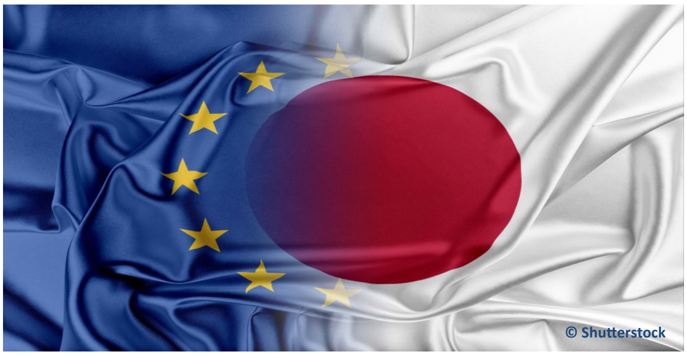
Trade and investment is also very important, not least by this measure for strengthening the EU's relationships with its neighbours, both to the south and, as shown by Mr Morkis's article, with our key Eastern neighbours. Here building a stable, modernised and fair society is increasingly important. The alternatives are terrible to contemplate, as Syria has shown and as threatened in the eastern Ukraine.

Jonathan Peel
Member of the Employers' Group
EESC rapporteur for REX/499 "Trade for all - Towards a more responsible trade and investment policy"

EU-Japan FTA: state of play

EU-Japan trade relations have vast untapped potential. Despite the fact that this agreement is expected to deliver economic benefits on a par with those of the TTIP (Transatlantic Trade and Investment Partnership) and could lead to a major hike in exports, we in Europe often underestimate the importance of the EU-Japan FTA. The EU-Japan FTA negotiations have always been overshadowed by negotiations on the TTIP and TPP (Trans-Pacific Partnership). In Europe, there is much more information available about the negotiations on the TTIP than about those on the EU-Japan FTA, and in Japan people know considerably more about the TPP negotiations than about the EU-Japan FTA.

According to the EU-Japan Trade Sustainability Impact Assessment Report, "Assuming full tariff liberalisation and symmetrical reduction of non-tariff measures, the long-term GDP increase for the EU from the EU-Japan FTA is estimated to be +0.76%. Bilateral exports will increase by 34%, while the overall increase in global exports will be +4% for the EU. Export-driven growth is particularly important in the food and processed food sector, which could be receiving half of the export gains". Investment is as important for Japan as exports, as Japan is investing heavily overseas. Japan is a major investor and employer in the EU: 2800 Japanese companies or affiliates in the EU employ around 460 000 employees in the EU. There are also potential positive spillover effects in R&D and innovation, as Japanese carmakers have already established 17 R&D centres in five EU countries. Japan spends 4% of its GDP on innovation.



The EU and Japan have been negotiating on an FTA for over three years. There have been 16 negotiation rounds, during which considerable progress has been achieved on regulation and non-trade measures. The next round of negotiations is set for September 2016 in Brussels. The negotiations have now reached the final stage where only the most sensitive issues remain on the table (agricultural products, processed food, public procurement, non-tariff measures and geographical indications). Key sectors in these trade negotiations include the agriculture and automobile sectors, as the EU is interested in selling its dairy products, processed food, pork and wine in Japan, while Japan wants better access to the EU's single market for its automobile industry - and compromises are not easy to reach.

Real progress regarding the EU-Japan FTA is expected once the Japanese Diet has ratified the TPP agreement, although that might not happen before the elections to the Upper House of Parliament in July 2016. On top of that, there is some uncertainty as to whether the US will ratify the TPP.

However, the TPP cannot be seen as a template for the EU-Japan trade deal, as the TPP does not meet the levels requested by the EU. Nevertheless, the ratification of the TPP will have a tangible effect on progress in the EU-Japan FTA negotiations (on highly sensitive areas such as food and processed food). It goes without saying that the TPP sets an important precedent for Japan as regards opening its market and being involved in regulatory cooperation.

As the TPP (which was concluded on 5 October 2015) involves Japan, the US and 10 other important countries, completing the EU-Japan FTA is now even more important, particularly if the EU wants to maintain current export levels and market share in Japan. In order to remain globally competitive, it is equally important for the EU to press ahead with the TTIP negotiations.

The business community on both sides is urging the EU authorities and the Japanese government to continue to work hard to conclude an ambitious trade and investment agreement as soon as possible, certainly by the end of 2016. Otherwise, it will be another lost opportunity to boost our economic growth, mutual trade and investment, improve the global competitiveness of our businesses and create many additional jobs.

All round the world, major economies are becoming increasingly integrated. All major economic powers are interested in better trade

EU trade with Japan (2015)

Imports: 59,768 Mio euros

Exports: 56,550 Mio euros

Total Trade: 116,318 Mio euros

Rank as EU partner total trade: 7

Share in EU trade total trade: 3.3 %

(**source:** the EC)

conditions in order to create growth and jobs. This helps explain why there is a global race for FTAs. The EU has issued its "Trade for All" strategy and is still making serious efforts to conclude both the TTIP and the EU-Japan FTA despite the rise of anti-free trade movements in the EU.

The US is doing the same thing: the TPP awaits ratification, with the TTIP on the table. The EU cannot afford to miss this opportunity!

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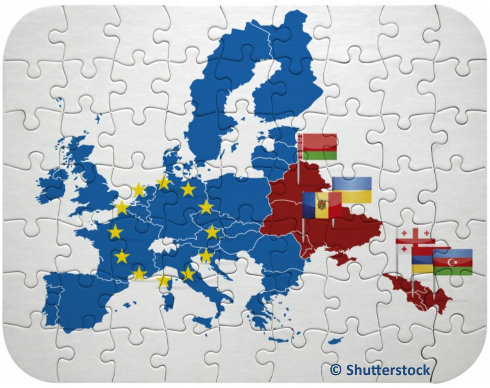
Better access to the EU market motivates economic reforms in Eastern Partnership countries

Trade and investment undoubtedly play a key role in strengthening relations between the EU and the Eastern Partnership countries. Free trade in particular can promote economic growth in these countries and so help to tackle social problems.

In actual fact, the possibility of exporting goods without tariff and non-tariff barriers to trade is of particular concern to both sides. It is for this reason that, within the broad framework of the Eastern Partnership, such great emphasis is placed on the deep and comprehensive free trade agreements, which aim to progressively integrate the markets of the EU and the Eastern Partnership countries.

While only Georgia, the Republic of Moldova and Ukraine have signed deep and comprehensive free trade agreements, the other three Eastern Partnership countries are beneficiaries of the Generalised Scheme of Preferences, which is supposed to facilitate their access to the EU market by granting preferential tariffs (the Generalised Scheme of Preferences was suspended for Belarus on account of its human rights violations). On the whole, the EU market is the most open in the world. However, the deep and comprehensive free trade agreements were not limited, for example, to cutting tariffs. By signing this agreement countries also have the opportunity to limit or abolish quotas, overcome further barriers to trade and harmonise norms and standards and so on.



The Commission communication "Trade for all – Towards a more responsible trade and investment policy" states that the Commission will work closely with these three countries so as to maximise the tangible economic results of these ambitious agreements.

And it is precisely these economic results that the Eastern Partnership countries are currently hoping for. This is true for both businesses and the general public. Unfortunately, these results have yet to materialise. Each of these countries is affected by numerous domestic and external problems: corruption, the growing power of oligarchs, theft of state property, social conflicts and a tendency towards radicalisation among the population, transnational military conflicts, active Russian interference in all of these countries' affairs and the invasion of Ukraine. Of all the countries in the Eastern Partnership, Ukraine has the largest economy, accounting for 43% of all Eastern Partnership country exports. Armenia has the smallest share at 1%.

In 2015, exports from all Eastern Partnership countries to the EU totalled EUR 29 513 billion. In 2013, the figure was as high as EUR 33 562 billion. The volume of exports has therefore fallen by just over EUR 4 billion, or 12%. The greatest percentage of the fall in exports from the Eastern Partnership countries to the EU was experienced by Azerbaijan (-25%) and Ukraine (-7%). In the case of Azerbaijan, the drop in export volumes is fundamentally due to the fall in the price of oil and gas.

On the other hand, the main reason for the falling Ukrainian exports is the Russian annexation of Crimea and the decline of the economy in Donetsk and Luhansk following the regional separatist movement and the Russian intervention.

By contrast, compared to 2013, 2015 saw exports up 27% for the Republic of Moldova, 18% for Armenia, 12% for Georgia and 9% for Belarus.

In its opinion on the "Review of the European Neighbourhood Policy" (REX/458), the European Economic and Social Committee welcomes the fact that the Joint Communication by the EEAS and the European Commission includes "the need to fully and effectively implement AA / DCFTA agreements which have already been signed, along with reforms in the ENP countries. However, in order to benefit from the DCFTA, partner countries have to undergo a difficult process of essential modernisation of production and services."

The opinion goes on to say: "The possibility of access to the EU market motivates neighbouring countries to pursue economic reforms and modernise production and businesses. However, even the DCFTA signatory countries have difficulties in modernising their economies due to the unstable political and economic situation, which does not encourage investment."

In 2015, Ukraine had the worst contraction of GDP at 9.87%, with Belarus recording 3.89% and the Republic of Moldova 1.10%. The other three countries experienced very slight economic growth.

Access to the EU market and opportunities for trade and investment continue to be an incentive for these countries to undertake more economic reforms and to further modernise production and businesses. In reality, however, the economy is in deep recession, the modernisation of businesses is sluggish, productivity is low, access to funding is extremely limited and businesses lack administrative capacity. As a result, trade with the EU is also not increasing. The EU institutions should adopt coordinated measures to support the development of businesses that form the basis of the economy as part of efforts to strengthen the economies of these countries, particularly those that have clearly demonstrated that they are willing to adapt to the EU, promote trade and implement deep and comprehensive free trade agreements. In doing so, private initiatives in the EU Member States should also be taken into account and promoted.

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Trade between the EU and Eastern Partnership countries in 2015

	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine
Total Trade (Mio euros)	940	14,170	9,447	2,585	3,309	26,694
Rank as EU partner	112	39	46	77	68	29

(source: the EC)

What Future for the EU's relations with African, Caribbean and Pacific Group of countries post-2020?

By Brenda King MBE, Rapporteur of the EESC Opinion on the "Future of EU's relations with ACP Group of countries" and Yentyl Williams, Expert to the Rapporteur

The current legally binding agreement between the EU and the 79 African, Caribbean and Pacific (ACP) group of states, the Cotonou Partnership Agreement (CPA), is due to expire in 2020. Signed in Benin in 2000, the agreement aimed to strengthen cooperation on three pillars – (i) political dialogue, (ii) trade and economic cooperation, (iii) development cooperation – including the creation of a number of unique joint institutions and instruments.

The looming expiry of the CPA in 2020, offers an opportunity to review the partnership, to analyse what has and has not worked, and to aim for a modern, equal and effective partnership fit for the post-2020 context. The forthcoming EESC Opinion on the 'Future of EU's relations with ACP Group of countries' underscores that:

Partnership must be modern through fostering and prioritising inclusiveness. Although the CPA has novel provisions on Non-State Actors (NSAs) engagement, this has not been effectively mobilised, especially with regards to the lack of aggregated data on what has worked and what has not. The new framework should guarantee the involvement of Civil Society Organisations (CSOs), including the private sector, which should have specific and non-negligible task of monitoring and assessing the impact of the implementation of the Agreement on the sustainable development of both the EU and ACP countries. One of the central issues in this regard, is the engagement of all actors in the partnership to be actively involved in tackling Illicit Financial Flows (IFFs), which accounts to more in losses than the gains from Overseas Development Assistance (ODA) and Foreign Direct Investment (FDI) combined.

Partnership must be equal and transcend the out-dated donor-recipient model. At the EU-level, this means that all forms of development support that the EU gives to third countries should fall under the same legal framework, including the same democratic scrutiny by the European Parliament, contrary to the unique exemption that EU-ACP relations have today. At the international level, the Sustainable Development Goals (SDG) of the Agenda 2030 offers a complimentary framework, which underscores the universality of challenges across EU and ACP countries: income inequality, youth unemployment, climate change and more. In this optic, the new partnership should recognise the value of circular migration to address the skills shortage by reframing the debate to focus more on mobility, especially amongst youth for education and training, internships and exchanges, similarly to Erasmus+.

Partnership must be effective to embrace the new South -South and triangular frameworks for international cooperation. The EU-ACP partnership already offers a blueprint to develop joint strategies and mutual exchange to address development challenges. In order to be effective, this must adapt to new challenges and embody the EU principle of Policy Coherence for Development (PCD). In particular, the new partnership must overcome criticism that the future of EU ACP trade, the Economic Partnership Agreements (EPAs) do not provide for the necessary structural transformation of ACP economies, which would allow these countries to move up the global value chain (GVC), rather than remaining raw material exporters to the detriment of their own industrial and skills development.

In sum, the process of review offers a decisive moment to recall the objectives of the CPA: “reducing and eventually eradicating poverty, consistent with the objectives of sustainable development, and the gradual integration of the ACP Group into the world economy”. Going forward, this should not be forgotten but reinforced in whatever form the future partnership takes. The veritable inclusion of CSOs, including private sector, can be the distinguishing factor in the new framework to assure a modern, equal and effective partnership between the EU and ACP in the post-2020 context.

EU trade with ACP (2015)

Imports: 79,916 Mio euros

Exports: 86,816 Mio euros

Total Trade: 166,732 Mio euros

Share in EU trade total trade: 4.7 %

(**source:** the European Commission)

Public hearing “Future of EU's relations with ACP Group of countries” organised in the EESC in February 2016

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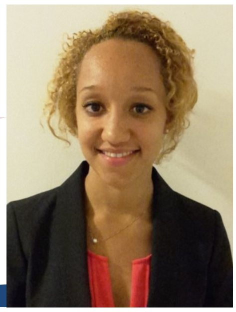


Factors for Growth in the EU

Priorities for Competitiveness, Convergence and Cohesion

In January 2014, the EU seemed to have survived the worst of the global financial and economic crises; oil had settled at just over $100 per barrel, the Greek economy was recovering slowly, and the euro appeared to be out of danger. Instability in North Africa was driving migrants across the sea to Malta and on into the EU, but the numbers seemed containable. Brexit was not even under discussion. It seemed a good time to take stock of where we were – and where we needed to go next. After all, what could possibly go wrong?

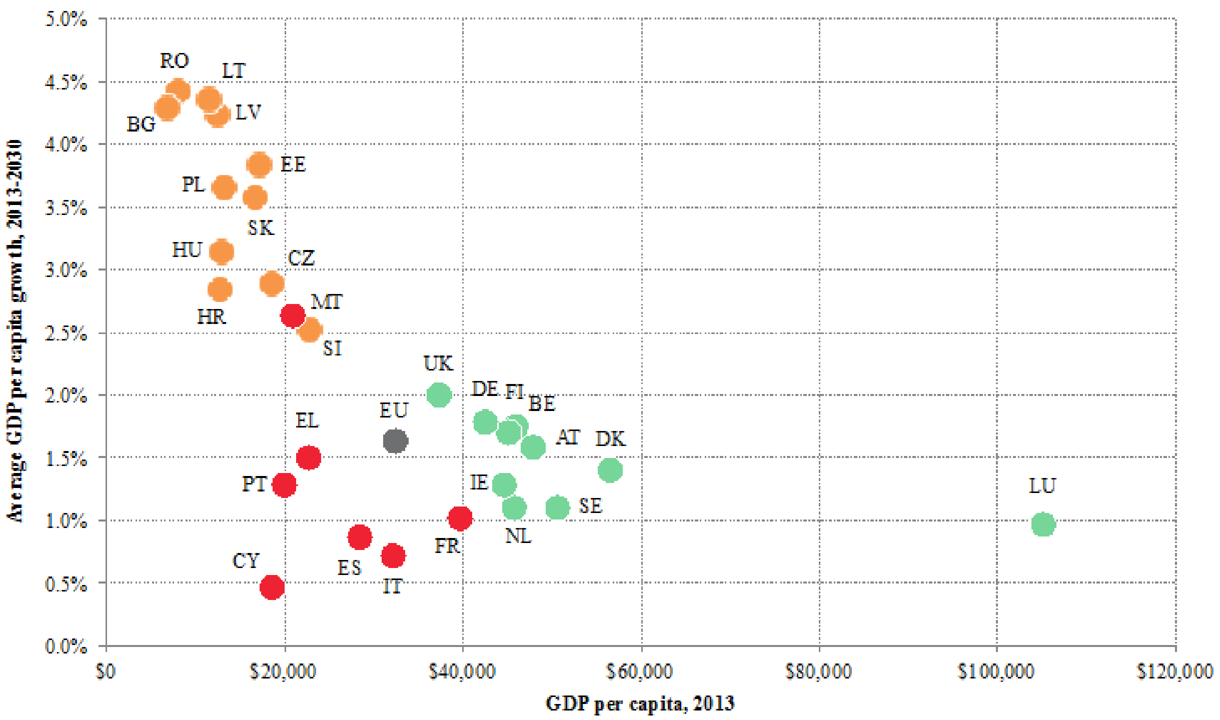
A preliminary study undertaken by Lighthouse Europe (a Brussels-based consultancy) in 3Q 2014 highlighted an increasing *competiveness deficit* versus our major trading partners, in particular the US. Energy and labour costs, and public and private debt, were all too high. Innovation and inward investment remained stubbornly low. Education systems were failing to meet new needs. Governments were finding it difficult to make the necessary structural reforms. External trade was suffering and unemployment and other social imbalances were rising. An urgent, well focused, response at EU level was now essential to sustain the drive towards pan-European economic convergence and overall social cohesion.

Worryingly, the opposite seemed to be happening. An analysis published by the Centre for European Policy Studies (CEPS) towards the end of 2014, based on data from 2013, of anticipated growth rates against GDP per capita, showed not only the diversity of Europe in terms of wealth but also the differences in ability of Member States to react to change. It was no longer meaningful to consider the EU as a single economic entity; based on both their economic and political behaviour, 3 groups of countries could be compared and contrasted.

In the months following, other models were proposed by analysts at other leading consultancies, with up to six subdivisions of the 28 Member States. The implications for the governance of the EU – and of the feasibility of possible reforms – were not fully explored.

A second study, proposed by the Employers' Group in January 2015, sought to remedy these defects. The 3-group model proposed by CEPS of countries *leading*, *following* or *catching-up* in competitiveness was tested and modified. Economic behaviour before and after the crash validated the groupings used. Three Member States from each of the three

Divergence within the EU (source: CEPS)



Member States Leading in Competitiveness

- **Germany** (4)
- Netherlands (5)
- Finland (8)
- Sweden (9)
- **United Kingdom** (10)
- Denmark (12)
- Belgium (19)
- Luxembourg (20)
- Austria (23)
- **Ireland** (24)

Member States Following in Competitiveness

- **France** (22)
- **Spain** (33)
- Portugal (38)
- Italy (43)
- Malta (48)
- Cyprus (65)
- **Greece** (81)

Member States Catching up in Competitiveness

- Estonia (30)
- Czech Republic (31)
- Lithuania (36)
- Slovenia (39)
- **Poland** (41)
- **Latvia** (45)
- Romania (53)
- **Bulgaria** (54)
- Hungary (63)
- Slovakia (67)
- Croatia (77)

groups were examined in greater detail through face to face interviews with Commission desk officers, local representatives and other interested parties. Good (and less good) practices were identified with respect to 10 standard indicators of competitiveness.

Supporting data and summaries were presented graphically as well as in text form. Every effort was made to ensure that any recommendations on policy or process could be clearly shown to be based on evidence – and not, as sometimes happens, to generate evidence to support pre-determined policies!

A number of points became clear. EU policies aimed at convergence could easily have the opposite effect. One size definitely does not fit all. As the Institut Jacques Delors noted, while the adoption of the euro had brought benefits to many during the early years of growth, it had brought deep misery to some when the markets finally crashed. In the continuing downturn, economies continue to diverge and social cohesion suffers.

This in turn suggests a different role for the Commission and other bodies of the EU. Rather than regulating (to produce a supposedly level playing field) it needs to facilitate, to find local, achievable, solutions to local, and pressing, problems.

This is already occurring to some extent under the European Semester programme with a very great deal of information now being routinely generated, shared, evaluated and hopefully acted on. This may lead in some cases to de-regulation or refitting existing regulations to the needs of today or, even better, tomorrow - although this will not by itself ensure the regeneration of Europe or capture the hearts and minds of its citizens.

It also entails a different degree of involvement of EU officials in the lives of the citizens of Europe – not, as President Juncker said recently, "interfering unnecessarily" but eventually working alongside civil society to solve problems in the general interest. This would require a degree of transparency and trust that is currently in short supply – but which must be regained if Europe is to prosper as intended.

So what started, in these studies, as a desire to assemble data for the use of all became a deeper analysis of the current status and workings of the EU and its Member States. The data supporting the analysis are indeed now available in a 'Toolbox' for all in the Employers' Group – or in the EESC as a whole - to use, 44 economic and political indicators affecting growth, drawn from widely recognised sources for all the Member States and for the Eurozone or the EU as a whole and for selected comparison countries, for the period 2000-2015.

These data sets can now be updated and extended to meet our ongoing needs to represent ever more effectively, in and outside the institutions of the EU, the views of organised civil society – and to stress that unless we achieve both *competitiveness* (to generate the wealth we need to redistribute) and *convergence* (to demonstrate that we have distributed it usefully and equitably) then we will not achieve the social *cohesion* and sense of well-being which must be the ultimate aim of any democratically elected government in or outside the EU.

The study will be soon available on the EESC website

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Best practices for Member States Leading in competitiveness

Country	Labour Market	Productivity	Product Markets	Investment	Education	R&D	Public Deficit	Pensions	Trade	Reform Implement.
Germany	Average performance	Average performance	Average performance	Low performance	Average performance	Good performance	Good performance	Average performance	Average performance	Good performance subject to additional effort
United Kingdom	Good performance	Average performance	Good performance	Low performance	Average performance	Low performance	Average performance	Average performance	Average performance	Good performance
Ireland	Average performance	Average performance	Low performance	Average performance	Average performance	Average performance	Good performance	Average performance	Good performance	Good performance subject to additional effort

Legend

Good performance

Good performance subject to additional effort

Average performance

Low performance

Upcoming extraordinary meeting of the Employers' Group bureau in the Netherlands

The Employers' Group bureau will be holding an extraordinary meeting entitled Imminent Global Challenges – Dutch and EU Solutions on 6 and 7 June in The Hague and Delft.

The bureau members will meet the heads and representatives of the Social and Economic Council of the Netherlands (SER) and the Confederation of Netherlands Industry and Employers (VNO-NCW). The role and position in the Netherlands of both organisations and their influence in the decision-making process will be discussed.

The meeting will be followed by three study visits. The first one will be to The Hague Security Delta, which is the largest security cluster in Europe, focusing on business (SMEs) and innovation. The main topics will be the general outline of the significance of the security cluster in The Hague, and, more specifically, cyber security in business and states in the world today.

On the second day, the members will visit Deltares, an independent institute for applied research in the field of water and subsurface with five areas of expertise: flood risk, adaptive delta planning, infrastructure, water and subsoil resources, and the environment.

The mission will end with a study visit to the Airborne Siemens Digital Factory Fieldlab, the first digital factory for composites in the Netherlands. The FieldLab has three components: a business case for composite manufacturing, a knowledge hub, and an experience centre, where training sessions, workshops, plenary meetings and demonstrations are held.

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