

Public consultation future EU trade policy

The European Commission has launched a public consultation on its future trade policy. The Commission's intention is to set out its policy during autumn 2010, explaining how trade policy can help achieve the objectives of the 'Europe 2020' strategy. The purpose of the present consultation is to gather views from relevant stakeholders regarding the rationale, scope and strategic objectives for a future EU trade policy. http://trade.ec.europa.eu/consultations/?consul_id=144

Introduction: Competitiveness of the European steel industry

The European steel industry is a dynamic, innovative and customer-oriented industry - an indispensable link in the European manufacturing value and supply chain. Through restructuring, privatization and consolidation, the European steel industry has turned around a situation of unviable capacities into the creation of innovative, highly competitive producers capable of satisfying the highest quality and logistic customer requirements. It is the only major regional industry **operating in its sector under unique, legally enforceable state aid disciplines as main competitors in third countries are not subject to similar rules.** As long as the EU retains a solid manufacturing base, the European steel industry will develop a healthy business serving that base, creating value to the European Union in terms of production activity, employment and social welfare, technological innovation and material solutions (steel as an indispensable contributor to the EU2020 objective of 'smart, sustainable and inclusive growth').

There is no inevitability whatsoever about delocalization of EU production and employment – provided costs are not distorted by government policies or by elimination of competition caused notably by excessive raw materials and energy market concentration and pricing power. (Locally-based producers can provide far higher levels of service than distant suppliers.) However, the steel sector in Europe is facing growing challenges from increasing, often unfair, international competition at home and abroad as well as from unilateral European constraints (environment, social and regulatory) often penalizing the performance of European steel mills:

- **China's excess capacities fuelled by massive subsidization and supported by a protectionist industrial policy** has become the decisive factor in the global steel sector **distorting steel and raw materials pricing, capacities and trade flows.**
- Europe's steel industry's future depends also on the **European internal regulatory framework**, notably **environmental and climate change policy** (sector under significant risk of carbon leakage; absent binding international rules, likelihood of seeing delocalization resulting from unilateral emission constraints)

1. Introduction

1: Now that the new Lisbon Treaty has entered into force, how can we best ensure that our future trade policy is coherent with the EU's external action as a whole and notably in relation to the EU's neighboring countries?

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EU trade policy's contribution to the projection of European shared values and principles pursued in the EU's external action can work in multiple ways, notably through:

- Promoting the **rule of law** (enforcement of WTO rules through consultation, dispute settlement and retaliation, inclusion of enforcement mechanism in free trade agreements - FTA)
- Incentivizing **implementation of international core labour standards** by EU's trading partners and pursuing their commitments and cooperation in the field of **trade-related aspects of environment policies**,

Such contribution can improve global conditions for fair trade and undistorted competition in particular when focusing on those EU partners practicing export-oriented industrial policies (sustainable development chapter in EU FTA's, WTO trade policy reviews)

2: Given the importance of boosting growth, creating more jobs and ensuring a more resource efficient and greener economy, how can EU trade policy help? What should the new trade priorities be in the light of the Europe 2020 Strategy?

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EU trade policy must resolutely work to support the global competitiveness of Europe's manufacturing value and supply chain by:

- Reinforcing existing strategies and instruments (notably combating proliferating third market and raw materials protectionism in leading emerging markets, bringing state aid discipline at the forefront, enforcing international trade and domestic trade defence rules)
- EU trade policy should be further integrated into the EU's domestic policies, notably environmental and climate change policies, developing tools and actions addressing the risk of international competitiveness erosion caused by Union policies unilaterally burdening EU industry's costs. (A trade policy sensitive to the 'green' function of Europe's steel industry in the European manufacturing value chain supplying material solutions serving environmental and climate mitigation purposes.)

2. Multilateral trade negotiations

3: *In addition to continuing to push for a successful conclusion to the Doha Round, how can the EU best pursue overall EU trade policy objectives in the WTO?*

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The **Doha Round** presents for the European steel industry an opportunity to make significant progress towards **tariff-free access to all other WTO members' markets**: Following the zero-for-zero agreement on steel (Uruguay Round), tariff rates for EU imports of basic steel products have already been eliminated (2004). The European steel industry wants to see the same openness in the markets around the world.

Doha also permits **improvements of the rules. EU trade defence instruments are best practice worldwide, but not all our major trade partners are following**. Differences in national TDI regimes cause major trade flow deviations, a root cause of unfair trade competition on the open EU market. **A conclusion of the Doha Round should include clarification and improvement of the trade defence rules effectively aligning the national TDI regimes.**

In parallel to the Doha negotiations, EU monitoring and WTO enforcement of EU trade partners' respect of WTO rules and their respective WTO commitments are ways to help safeguarding European industry from distorted and unfair international competition (monitoring and tackling abusive third country trade defence practices, WTO dispute settlement related to access to raw material). But as WTO dispute settlement procedures are taking up their time in

clarifying and enforcing the rules, EU trading partners do not always feel deterred from taking or continuing protectionist measures speculating on the instant and persisting sectoral 'benefits' of such measures. There is a need for additional mechanism and leverage advising against such speculation ideally developed within the framework of the multilateral trade rules.

Also, **bilateral WTO accession negotiations** should be used to their full potential to ensure that trade distortive practices are abolished upon WTO accession (elimination of Russian export restrictions on scrap)

Chances of negotiations delivering an international climate agreement ensuring a global level playing field for internationally traded, energy-intensive goods being remote after Copenhagen, EU trade policy should explore without pre-judgment the **WTO scope and flexibility for national trade policy to support achievement of autonomous environmental policies** effectively addressing the intimately connected concerns about carbon leakage and eroding competitiveness at sectoral level. The revised EU ETS Directive refers explicitly to a carbon equalization system as an appropriate option for putting EU installation held under risk of carbon leakage and those from third countries on a comparable footing. EUROFER recognizes the potential of a border measure regime as an auxiliary tool for addressing leakage risk in a situation of temporary global imbalances in carbon costs; however, border measures cannot substitute measures for free allowances or a comprehensive international agreement.

3. Bilateral trade negotiations

Question 4: Do our current FTA negotiations provide the right geographic and substantive focus for our bilateral trade relationships in the context of the Europe 2020 strategy?

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Looking back to the negotiated market access conditions under the EU – South Korea Free Trade Agreement (FTA) related to the European automotive market – a major steel using sector, EUROFER sees the need for **restoring priority in safeguarding the integrity of the whole manufacturing value chain when pursuing WTO-plus FTA's, whatever the industrial sensitivities of the negotiating FTA partners.**

Significant support to safeguarding the global competitiveness of basic industry in Europe would come from **enforceable WTO-plus FTA commitments ensuring undistorted market access to raw materials** (such as Ukraine and Brazil under the current EU FTA action coverage) and **healthy competition through competition and state aid rules** following the “acquis communautaire”.

Question 5: Should the EU now try for closer economic integration and cooperation with such partners (US, Japan, China and Russia)? What is the best way to further facilitate trade and investment, overcoming regulatory differences that may have the effect of barriers to trade and deepening our trade relationships with these important economies?

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Eurofer supports the principle of closer economic integration and cooperation with key trading partners, but stresses that any agreements reached must be on a fair and equitable basis and must not damage the interests of EU manufacturers. Many of our **key trading partners have different political systems, economic structures and legal standards of public and private governance**. It is therefore essential that agreements must have embedded within them **robust monitoring and dispute procedures that could ensure full compliance with their commitments by those trading partners**.

For closer economic cooperation and integration, it is important for the EU steel industry to have an **open and fair FDI environment in these important economies** (“China first” industrial policy applied in sectors such as steel: Chinese government is following a two-pronged strategy trying to strike a balance between, on the one hand, the need to attract investors to get access to superior technology, management skills and know-how and, on the other hand, the fear of a sell-out of national production assets and foreign domination of the domestic industry by imposing the principle that foreign investment cannot be allowed to obtain a controlling share in a Chinese steel entity.)

Question 6: How can the EU improve the effectiveness of regulatory dialogues? How can the EU promote the establishment of and greater recourse to international standards without compromising legitimate public policy choices?

Question 7: How can the EU, and in particular trade policy, help to secure a reliable and sustainable supply of raw materials by third countries?

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Explosion of steel production in the emerging economies, driven by China, causing a global rush for metallurgic raw materials and inputs (iron ore, coal, coke, alloys,...) has triggered a **worsening trend of protectionist measures, notably export restrictions by several emerging economies** (coke, scrap in China, iron ore in India, scrap in Russia,...). As raw materials constitute the major cost element in steel making, such protectionism providing an **artificial cost advantage for domestic producers** causes **critical damage to European steel industry's capacity to compete at home and abroad.**

Tackling raw materials protectionism by resource-rich third countries must continue to be a key priority in EU trade policy and EU's external actions should fully support this priority. FTA and WTO accession negotiations must be fully and consistently deployed to obtain enforceable commitments by the FTA and acceding WTO partners to ensure undistorted trade and access to raw materials and inputs; consideration of WTO dispute settlement should be continued. In this context, **iron ore** and **scrap** are the key raw materials for European steel making which are most sensitive to cost and availability distortions caused by foreign export restrictions (risk of additional Indian iron ore export restrictions inflating the Indian spot prices CIF China – the spot iron ore market having become the basis for setting (quarterly) contract pricing imposed by the oligopolistic combination of the big three iron ore producers BHPB, Rio Tinto and Vale on European steel producers; risk of additional export restrictions on Russian scrap aiming at supporting additional significant Russian EAF capacities coming on stream in the following years)

(4. Services)

5. Investment

Question 9: Given that the Lisbon Treaty gives the EU greater competences in international investment policy, how should we contribute to facilitating cross- border direct investment (both outward and inward)? What are the key issues to be addressed in agreements governing investment?

6. Sustainable trade

Question 10: How can trade policy best support green and inclusive growth around the globe including through Sustainability Impact Assessments?

7. Inclusive trade

Question 12: How can EU trade policy ensure that the benefits of global value chains are shared by European producers, consumers and jobholders?

Question 13: Are existing 'flanking' policies sufficient to ensure that the benefits of trade are shared among different people and across different regions and markets in the EU? And how can the EU best ensure, where necessary, that trade and other policies play their part in helping people, sectors and communities adjust?

8. Trade and development

Question 14: How can the EU best strengthen the issue of trade and development in its trade policy? Should the EU pursue a more differentiated approach in its trade relations to reflect the level of development of particular partners? How should the EU approach the issue of trade preferences in relation to the generally low level of EU Most Favoured Nation (MFN) tariffs, which will further be eroded following the possible conclusion of the Doha Round?

9. 'Smart trade'

Question 15: What initiatives could the EU take and which EU trade policy instruments could we mobilise to complement and reinforce the 'smart' dimension of the Europe 2020 strategy and facilitate trade in high-tech goods and services?

10. Enforcement and dealing with unfair practices

Question 16: How can the EU best safeguard its firms or interests against trading partners who do not play by the rules? Are the existing tools and priorities sufficient to address unfair competition from third countries?

Question 17: How can the EU best safeguard its firms or interests against major trading partners who maintain an asymmetric level of openness and resort to protectionist measures? Are the existing tools and priorities sufficient to address practices such as keeping EU suppliers out of government procurement markets, market access restrictions, restricted and insecure access to energy and raw materials?

EUROFER (Q.16 and Q.17 combined)

We have seen **widespread and intense protectionism in the major steel markets outside the EU** as the economic crisis deepened. Both developed (USA) and developing (Russia, India, China,...) economies have put in place one or another type of measure creating a barrier to imports or an input cost advantage for the domestic steel industry (import tariff increase, restrictive import licensing, standard certification requirements, raw material export restrictions, Buy National policies, ...). The impact of each of these measures is difficult to assess, but taken as a whole covering at least 60% of global steel production,

they have deepened **segregation of national steel markets worldwide increasing the risk of dumping on the open EU market.** And where protectionist measures have been enacted, exiting these measures in the aftermath of the economic crisis does not appear to be a priority. In view of this proliferation, on balance, the EU has gone too far towards open markets. Experience in our sector illustrates the **difficulty in preventing and effectively countering third country protectionist measures, often falling out of the scope of existing enforceable trade rules and commitments** (such as Buy National policy and increase in applied import tariffs within the bound tariff range). Available tools and actions appear to be limited and time-consuming. However, where rules are present, Union's actions can be effective as illustrated by the EU's tackling of abusive third country steel safeguard procedures initiated in the wake of the economic crisis and of Indian standard and certification requirements on some steel products acting as non-tariff barriers.

The EU should vigorously pursue undistorted third country market access for steel and metallurgic raw materials through diplomatic (alliance building with equal-minded trade partners in the frame of the steel contact group meetings) and legal actions, FTA's and vigorous enforcement of multilateral and bilateral rules.

The EU must use the full weight of its world economic power to enforce but also strengthen and geographically broaden rules ensuring fair trade and undistorted market access (multilaterally and bilaterally).

The explosion of China's steel industry has been fuelled by massive subsidization and domestic industry protection. Deliberate government policies have been supporting unsustainable growth in the Chinese steel industry suffering from massive excess capacities increasing steel trade tensions worldwide (government stimulus and massive fixed asset investment, household income savings serving expansion of export-oriented heavy industry, export support through currency misalignment). This template of government directing strategic industries is increasingly inspiring other emerging regions (Russia, India, MENA)

The EU must ensure timely and effective EU trade defence action against market disrupting and unfair trade surges – critical at a time the European steel industry is still in the process of recovering in the aftermath of the economic crisis (2008).

EUROFER welcomes Trade Commissioner – designate Karel De Gucht's clear and supportive view expressed at the International Trade Committee hearing on the need for a non-biased, rule-based application of EU TDI deterring trade partners from practicing unfair trade competition. **Access to the European TDI should remain effective, its use rule-based, politically unbiased and without inhibition to protect European industry from unfair trade practices. Moreover, the EU should fully exploit the potential of its TDI (non market economy status China, strengthening of countervailing action complementary to anti-dumping action).** Political weakening of EU TDI through the backdoor must be avoided; the Commission should strongly resist political influence in its technical market economy status assessment for China, notably from individual member states' tendency to enter into deal-making buying off China MES support in exchange of improved conditions of bilateral trade and investment.

11. An open approach to shaping trade policy

Question 19: What more should the Commission do to ensure that trade policy becomes more transparent and to ensure that a wide variety of views and opinions is heard in the policy-making process?

Question 20: Are there additional priorities in relation to trade policy that the Commission should pursue?

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Complementary to its direct external actions, EU trade policy should be further integrated into the EU's domestic policies, notably environmental and climate change policies, developing tools and actions addressing the risk of international competitiveness erosion caused by Union policies unilaterally burdening EU industry's costs (see Q.2)

A conclusion of the Doha Round should include clarification and improvement of the trade defence rules effectively aligning the national TDI regimes (see Q. 3). In the meantime and in parallel, EU TDI should actively explore the options for improving such alignment by further strengthening its effectiveness and capacity to deter trading partners from practicing unfair trade competition (see Q.16 and Q.17)