

Extract from:

Iana Dreyer, "Trade Policy in the EU's Neighbourhood. Ways forward for the Deep and Comprehensive Free Trade Agreements", Study No. 90, Notre Europe, May 2012.

Executive Summary

This study assesses the trade policy of the European Union (EU) in its neighbourhood¹. It formulates **proposals for the negotiation of “Deep and Comprehensive Free Trade Agreements” (DCFTAs)** that the EU is currently engaged in, or offering to, Ukraine, Moldova, Georgia, Armenia, Jordan, Egypt, Tunisia and Morocco, as part of the European Neighbourhood Policy (ENP). DCFTAs belong to a wider package of EU policies towards its neighbours brought forward as a response to the democratisation processes witnessed in Eastern Europe and the Caucasus in 2003-2005, and in the Middle East in 2011.

The study **draws lessons from past EU policies aiming at economic integration in its vicinity. It takes stock of the trade policy arrangements currently in place** with all its neighbours, from the wealthiest to the poorest. It also **sets the proposed DCFTAs against broader recent trade policy trends in the EU. In particular it uses as a benchmark the bilateral free trade agreements (FTAs)** the EU has signed in recent years with emerging markets outside its neighbourhood.

1. The views expressed in this study are not necessarily those of *Notre Europe*.

The fundamental issue at stake in the current DCFTA negotiations is **how far the EU should push the EU *acquis communautaire*** in particular in the field of technical and sanitary standards. The countries under discussion are not expected to join the EU or the Single Market with its four freedoms – free movement of goods, services, capital and people – anytime soon. This is a very different setting from the trade arrangements that have been developed in the EU's neighbourhood in the past, for which EU enlargement played a significant role. Despite this reality, the EU continues to push for regulatory alignment. Yet this is problematic. The EU is dealing with **economies that are much poorer than the EU's poorest member states**. For them, integrating EU standards into their legislation, and in particular putting them into practice, will be costly and will probably fail.

Another important issue is the **need to foster investment in the economies targeted by the DCFTAs**. Both for the purposes of these economies, and for the sake of its own growth, the EU will need to focus on convincing these countries to open up their economies to EU investments in manufacturing and services, not least in infrastructure-related and business services. This is not an easy task. In order to achieve this, the EU needs to design DCFTAs that are ambitious, while offering trade concessions in return that respond sufficiently to the expectations of EU neighbours for access to the EU's market. These expectations revolve around agriculture, and activities in manufacturing and services that require low-to-medium-skilled labour.

The **DCFTAs should also be considered a means to foster industrial renewal in the EU and in the partner economies**. However, in a world of global industrial supply chains, the **EU's rules of origin (ROOs)** in its current FTAs in the neighbourhood (PanEuro) are inadequate to foster the kind of regional trade in parts and components that would be required to build sophisticated cross-border production chains that are part of today's competitive industries.

Three proposals are formulated:

- The first is to **design an ambitious FTA** building on the most advanced FTAs the EU has recently signed outside the region. This means a bolder DCFTA that offers swift 100% duty free trade, with longer phase-in periods for agriculture. It focuses on liberalising and protecting investments in manufac-

turing and services, and limits the EU's regulatory agenda to essential areas such as public procurement.

- The second is a formula to **help directly exporting firms based in DCFTA economies to comply with EU standards** by giving them direct access to EU based standardisation bodies.
- The third proposal is to **shift from an FTA model to a customs union**. In the EU's neighbourhood, it is a better formula to both achieve the goals of regional economic integration and reduce the distortions coming from rules of origin in FTAs.