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Fair Trade and Sustainable Growth 2.0



The EU trade policy has to reflect our social-democratic values of justice and solidarity.

The Lisbon Treaty gave the European Parliament new powers in the area of trade policy. We have to use these instruments to promote and implement our common principles and values.

Our Group needs to have a coherent and progressive approach in this important area. For this reason, we have to make our work in the INTA Committee more visible while ensuring better cooperation with other committees.

When discussed and accepted in our INTA working group, this document will be submitted for consideration and approval of the Bureau and the Group as a whole.

Drafted by Bernd Lange, S&D coordinator for trade, 21.05.2012

I	Our 3 targets	3
II	Our principles	3
III	Our policy	4
	a) International trade agreements	4
	b) Protectionism	6
	c) Economic perspective	6
	<i>Industrial policy</i>	6
	<i>Intellectual Property Rights</i>	7
	<i>Public procurement</i>	8
	<i>Services</i>	8
	<i>Investment</i>	8
	d) Human rights and labour standards	9
	e) Development	10
	f) Partnership	10
	g) Sustainability	11
IV	Our possibilities: New balance of power in Trade policy with Lisbon Treaty	11
V	Our area: INTA Committee in the European Parliament	12
VI	Our achievements	12

Our mission: Fair trade and sustainable growth

Our Trade policy is based on a comprehensive and coherent progressive approach that aims at growing prosperity and social welfare EU wide and that addresses the challenges of globalisation, development, social justice, sustainable growth and human rights protection globally.

I - Our 3 targets

International trade is the key to the prosperity of the EU and to its capacity of sustainable economic growth, job creation and better living standards. Being now an exclusive competence of the EU and being defined and conducted under the communitarian method, Socialists and Democrats in the European Parliament have a decisive role in the shaping and definition of the trade policy of the Union.

Our S&D trade policy is driven by three key targets aimed at the creation of a model of fair trade:

- 1) To secure and create sustainable economic growth and jobs in Europe.
- 2) To improve the living and working conditions of people in Europe and in our trading partner countries.
- 3) To strengthen sustainable development, promoting social standards and the environmental sustainability worldwide.

II - Our principles

The prevailing understanding of trade policy today seems to be trade liberalisation as an end in itself and without any conditions. For the S&D Group it is however clear: Trade is not an end in itself but rather a means to an end. The following principles should apply:

- 1) Trade has to add value within the EU, in line with the EU industrial policy and the internal economic policies in general by fostering economic growth and creating jobs. To this end, trade policy must be based on an integrated and coherent long-term strategy in the framework of the EU's 2020 strategy. We must ensure coherence of policies internally and externally. Besides, trade policies should be accompanied by appropriate internal EU policies in order to allow consumers in the EU to fully benefit from trade and workers to be equipped with adequate social safety net.
- 2) Trade should promote the implementation of common political principles. Therefore, trade policy has to reflect our social-democratic values of freedom, fairness, social justice, solidarity and respect for the environment.
- 3) Trade should contribute to reinforce the rule of law, labour standards, human rights and fundamental freedoms.
- 4) Trade must create economic growth and prosperity to promote wealth distribution, help fighting against poverty and enhance development abroad.

- 5) The involvement of civil society and trade unions in trade policy is crucial in order to strengthen the legitimacy of trade policy and to improve the content.
- 6) Trade must help to boost regional integration.
- 7) Trade policy must ensure a transparent production process along the whole value chain as well as the compliance of production and products with fundamental environment, social and safety standards.

Trade should be fair, in the sense that no trading nation should be allowed to engage into unfair trading practices, namely export dumping or export subsidies. The same applies to other mechanisms whereby countries try to create unfair advantages, namely social and environmental dumping, let alone through the deliberate manipulation of currency exchange rates. Social dumping has to do with unacceptable labour standards, regarding for example the extension of working hours, poor health and safety labour conditions, the denial of the core labour rights, including the right to create unions and to engage into collective negotiations.

III - Our policy

a) International trade agreements

WTO

The S&D Group has always strongly supported multilateralism and the positive contribution fair trade can make to poverty reduction and to the promotion of economic development and social well-being. A global free and fair trade system needs effective, fair, transparent and strong global rules. The multilateral rule-based system under the *World Trade Organisation* (WTO) with its dispute settlement mechanism and large membership (157 members) is the most effective and legitimate means of managing and expanding trade relations in a more transparent and democratic way. Multilateralism therefore is still our first option. However, the economic and political situation has dramatically changed since the WTO was created in 1995.

Emerging countries such as *Brazil, Russia, India, China, South Africa* (BRICS), Mexico and Indonesia as well as the new group *Colombia, Indonesia, Vietnam, Egypt, Turkey* (CIVET) have become major players in the global arena. They have claimed their place in the new world order and bring their own trade offensive and defensive interests. The different and often diverging interests make negotiations complex and difficult. The cessation of the former bipolar world of "rich and poor" countries has complicated the game. This situation is exacerbated by the current financial and economic crisis.

The EU must do everything to support and improve the role of WTO as the most sophisticated body of global economic governance, through its three major dimensions, namely rule making, rule supervision and rule enforcement. The stalemate of the Doha Round threatens the first mentioned role, but the EU should not allow that this situation could contaminate the capacity of the WTO to deliver on the other two missions.

The EU is not to blame for the impasse of the Doha Round, which is mainly due to divergences between the US and China and due to disagreements between emerging and poor countries,

but it should not accept the definitive abandonment of the Doha Development Agenda, nor giving up the efforts to reach sectoral agreements on topics which could be selected from the Doha Agenda, because they are mature enough to be concluded, namely trade facilitation. Immediately after the US election we should start a new dialogue on this with our partner on the other side of the Atlantic.

Nonetheless, the EU should engage itself in the proposals to reform the WTO system, in order to bring to it more effectiveness, more transparency and more accountability. We urge the EU-Commission and the Council to develop more political energy in favour of an improved multinational trading system and Europe should be more flexible. We have to use our economic power and political mind to influence our partners, especially the United States and China, in order to overcome the blockade.

In the longer term we want a regulation on labour standards under the framework of the WTO. Whether or not a country complies with core labour standards can of course affect trade. We therefore need an enforcement mechanism to stop violations of these standards, perhaps in form of a trade related labour standard agreement like the TRIPs on Intellectual Property Rights.

The EU should continue to support the joint initiative of the European Parliament and of the *Inter-Parliamentary Union (IPU)* to develop a parliamentary dimension to the WTO, in order to strengthen the democratic legitimacy of the global trade policy.

Regional/ bilateral trade agreements

Due to these circumstances, the EU in the last decade has engaged in regional/ bilateral trade negotiations (e.g. MERCOSUR, Canada, India, Colombia/Peru, South-Korea, Singapore, Japan, and Central America).

It should be noted that, although, bilateral/regional trade agreements can be beneficial to carry forward a WTO plus agenda when consensus in the WTO is too difficult, such as for instance on pushing forward social/labour standards, they risk nonetheless undermining the multilateral system and harming business by creating different set of rules for different groups of countries. Besides providing for the elimination or reduction of trade barriers, bilateral Trade agreements are dealing more and more with national regulations and with international or bilateral rules, and could be a danger to the multinational system, because of the fragmentation of the global trade system. This we want to avoid. Rules and regulatory standards should be multilateral, in line with the frame of WTO.

It is clear that we need a similar set of standards for all bilateral/regional agreements as well as definite criteria on which regions or countries to lie focused on. Otherwise single bilateral *Free Trade Agreements (FTAs)* would discriminate a lot of countries and would narrow trade and put it on a wilfully despotic path.

Under condition we support bilateralism/regionalism remain a second best option. Each FTA should be made conditional on the following principles:

- previous and thorough impact assessment;
- WTO compatibility;
- reciprocity without prejudice to the necessary asymmetries on the trade relations with developed countries;
- zero for zero tariff dismantling with appropriate phasing-in provisions;
- implementation of common standards or reciprocally acknowledged standards;

- uniform application of a high rules-of-origin threshold;
- safeguards for EU industries, key sectors or activities that might be significantly affected by FTAs;
- respect of environmental standards;
- guarantees for core labour standards, including decent working conditions and health at work;
- fight against child exploitation and promotion of gender equality;
- anchoring of Trade Union's rights and respect of *International Labour Organisation* (ILO) norms;
- human rights conditionality;

FTAs should adapt to the situation of the different groups of countries, whether they are developed economies, emerging economies, developing economies or *Least-developed Countries* (LDCs).

b) Protectionism

In the context of the crisis and the rise of protectionism, multilateral governance is essential. Protectionism is not a solution for our economies. We need strong international rules to ban protectionist measures. Because of the global production chain protectionism will harm our industries. In order to export we need to import (components, energy, raw materials, services, etc.). The best way to ensure the EU's competitiveness, and in turn to protect our industries and our society, is by investing in domestic policies aimed at strengthening of innovation, resource efficiency, access to qualification, social security, decent work, equal pay for work of equal value and 100 % agreed wages.

On the other hand in our trade relations with developing countries we should allow them enough flexibility to protect temporarily their sensitive sectors from predatory competition from the much more competitive trade powers, including the EU. The flexibilities we are providing in *Economic Partnership Agreements* (EPA) with the ACP countries are a good approach for reciprocal trade opening in an asymmetric trade relationship.

Finally, in what regards the internal impact of trade liberalisation vis-à-vis other economies or the concession of trade preferences (namely *Generalized System of Preferences* GSP), the EU should ensure that the advantages given to third parties are not provided mainly or exclusively at the cost of the most vulnerable economies of the Union, which should not be required to bear the unbalanced burden of the generosity or of the gains of the Union as a whole, without appropriate compensation measures.

c) Economic perspective

Industrial policy

It has become evident that not enough has been done to comprehensively address European industries' needs in the current challenging global climate. EU industry was too often relegated to second place behind the services and financial sectors. EU industrial policy at the same time remained too often focused on the misguided idea that markets should regulate themselves. Since the beginning of this legislature our Group has stressed the importance of

the consistency of the different EU policies, in particular with industrial policy (see the S&D Group position paper on industrial policy). Industrial policy was the forgotten child. This led to the decrease of our industrial value and even the disappearance of qualified industrial jobs.

Now, after the financial crisis it is the common understanding that our economic strength, EU jobs and our well being are still strongly based on industrial production. And it has become increasingly clear that international trade regulations and agreements affect our industry. Though international trade policy is central to the development of EU industry, namely by providing access to existing or emerging markets, trade is not a goal in itself but must be part of a successful industrial strategy. Trade policy should provide access to key and growing markets on a fair basis. Therefore trade policy has to ensure a level playing field for our industry and the jobs in the industry. Investment and Innovation in Europe have to be made as attractive as in our trading partner countries. Future trade agreements have to be drawn up in such a way that they form part of an industrial strategy based on fair competition and reciprocity between the developed countries and aiming at reciprocity in the future with developing countries. Sustainable production requires decent work conditions. Clear steps must be taken to ensure that European industries are not endangered and disadvantaged by unfair practices.

Intellectual Property Rights

European competitiveness builds on innovation and the value added to products by high levels of creativity. The protection and enforcement of intellectual property presents the core of the EU's ability to compete in the global economy. EU growth and jobs are hampered when our ideas, brands and patents are illegally sold, copied or distributed and counterfeited. The EU economy is the main target of counterfeiting, in China and elsewhere. Moreover, counterfeit products often put our citizens' safety or health at risk. IPR policy can also be a tool to promote development, in particular when it concerns technology transfer or access to medicines. Access to generic medicines in particular in developing countries is a crucial issue to our Group. The best way forward would be an Agreement at WTO level on *Trade-Related Aspects of Intellectual Property Rights*, a TRIPs 2.0. But we are now confronted with IPR requirements in EU bilateral trade agreements and with a plurilateral agreement: The *Anti-Counterfeiting Trade Agreement* (ACTA). Such an agreement that does not include countries which are major sources of counterfeiting would have a rather limited impact. ACTA could divide the international community by pitting developed against developing countries. Furthermore, we are convinced that it was a mistake from the beginning to put counterfeited goods and internet content in the same agreement.

However, while we oppose ACTA, we are clearly in favour of IPR enforcement in trade relations both at the domestic and international level. To that extent, innovative solutions should be the basis to generate a comprehensive approach to achieve a balanced and overarching model to deal with internet infringements, respecting both the creators and right-holders and user-friendly access of users and citizens to cultural content and goods.

Needless to underline that the enforcement of IPR in trade relations could not jeopardize in any way the WTO arrangement on the access of poor countries to cheap medicines, namely generic medicines.

Public procurement

After the signature of the *Government Procurement Agreement* (GPA) and related requirements in trade agreements we need a clear set of rules. Public procurement is highly important for our economy. About 19% of the EU's GDP is based on public procurement and the opening of public procurement markets in other countries, which still apply very restrictive procurement rules, offers a huge potential for European companies. Important for us is the creation of a fairer global level playing field, based on reciprocity under the international framework of the WTO. Transparent rules bring clarity and stop corruption. We cannot accept any kind of social or environmental dumping. Procurement should also tackle the issue of subcontracting. We therefore want to include sustainability criteria in procurement rules.

The Commission has to examine bigger deals on whether all criteria are respected by the authorities and by the contractors. Public authorities must have the right to make their own decisions on services of general interest and we want a special support of small and medium enterprises. Finally, we support the initiative of the Commission to establish a rule of reciprocity in the opening of government procurement markets to foreign competition, both in *Bilateral Trade Agreements* (BTAs) and in our internal legislation. Our companies should enjoy in third countries the same advantages we provide to the companies in our market. This should not exclude the possibility to exclude sensitive markets (local public services for example), on a reciprocal basis.

Services

To include services in trade agreements gives opportunities to European service companies and domestic employees. In negotiations with our industrialized trading partners, the liberalization of services is one of the only areas where gains in terms of trade can be achieved, given the highly liberalized trade in good flows. But of course we need fair and balanced rules to allow development potential for both partners to allow for a careful selection of the services to liberalize.

If we include Mode 4-provisions (temporary movement of people) in our trade commitments we agree that opening up of services under Mode 4 must not hamper the fundamental principle of equal treatment of workers within the EU borders and that it should guarantee the full implementation of the principle of equal pay for work of equal value. We also want to give trading partners the possibility to exclude public services, such as education, health and water from opening requirements in trade agreements as we know that the development of strong public services can be a key element of a country's development strategy. By the same token, the adoption of a "negative list" approach to services liberalization in FTAs should be carefully designed in order to prevent unexpected developments in the future.

Investment

Now after the Lisbon treaty is in force, foreign investment policy has become a full part of the EU's trade policy and its exclusive competence. Therefore all investment agreements have to fulfil European standards, based on our common values. Under fair conditions and based on legal certainty foreign direct investments are beneficial for both partners. We need a good balance between investment protection and a government's capacity to regulate foreign

investment. And we need to promote responsible investor behaviour while guaranteeing that the signatory parties of investment agreements fulfil their legal commitments.

The EP has adopted several reports on human rights, social and environmental standards in trade agreements. We believe these standards should also be included in investment agreements.

Just like in the trade regime we should promote multilateral rules for the investment regime rather than bilateral and plurilateral rules.

d) Human rights and labour standards

Human rights must be at the heart of European policies, whether external or internal. Trade can and should be one instrument to improve Human Rights and labour standards globally. First of all, the Union cannot engage in preferential bilateral trade agreements with countries characterised by systematic breaches of human rights. Second, trade agreements should include binding human rights clauses allowing the termination of the agreement in case of systematic breach of human rights. Once an agreement has been signed, we have to ensure that promises will be kept. A sufficient involvement of civil society also in the monitoring of agreements is needed, as well as a dispute settlement which is practicable and enforceable. Third, all the trade agreements should be subject to a human rights assessment in order to ensure that they will have a positive human rights balance. Fourth, the GSP+ scheme should be reinforced as a mechanism to guarantee the respect of core human rights and good governance standards in exchange for enhanced trade preferences.

Equitable trade relations should cater for the respect and enforcement of core labour standards and labour rights, according to the definitions and requirements of ILO. This is particularly relevant in BTAs, where the Union gives preferential treatment to the trading partners. The same applies to the unilateral trade preferences given under the GSP schemes, namely the case of GSP+, where the Union provides enhanced trade advantages in exchange for the ratification and enforcement of a number of international conventions on human rights, labour standards and good governance.

The respect and enforcement of labour standards is particularly important for a level playing field in international trade, since they contribute to fight the unfair competitive advantage provided for by poor labour standards. To this end, Corporate Social and Environmental responsibility should be promoted by the EU both at the regional/bilateral and multilateral levels: we propose that future trade agreements negotiated by the Union incorporate a *Corporate Social Responsibility (CSR)* clause, which would be included in the chapter on sustainable development, and based, in part, on the 2011 update of the OECD Guidelines for Multinational Enterprises. We also call on the Commission to advocate the incorporation of a CSR dimension into multilateral trade policies, both in the international forums which have supported the concept of CSR, in particular the OECD and the ILO, and in the WTO. Besides, we want a legally binding annual CSR reporting system for all big companies. ISO 26000, Global compact or OECD guidelines could be a starting point. This standard should be just as binding as the annual financial reports from limited liability companies and businesses listed on the stock market. This standard must also encompass business activities in third countries. Due to the fact that production is often global we need a human rights proof for the whole chain of production, e.g. from the first step of production of a smart phone up to the end of its life.

With our trade policy we want to support the Fair Trade movement and promote improvement in all areas of labour, social and human rights. This includes the implementation of reliable mechanisms for the traceability of products. In the field of human rights we cannot accept any double standards. If we decide not to have trade relations with countries that do not fulfil fundamental conditions we are ready to pay the political price.

e) Development

It is essential to reconcile trade policy and development cooperation with a view to achieve greater policy coherence for development. Trade is obviously an important instrument for economic recovery, growth and development. We want our policy to be coherent with the Millennium Development Goals. We therefore need to use the existing instruments (namely GSP, including Everything but Arms) to focus on the poorest countries and to bring a benefit to the people.

In the case of ACP countries, who have been enjoying from specific trade preferences which are any longer compatible with WTO rules, these should be replaced as soon as possible by bilateral region-to-region trade agreements, that can keep the same access to the EU market, in exchange of an asymmetrical liberalization of the ACP economies. Most of all we have to ensure that EPAs deliver their development promise and are not misused by strong partners as an instrument of to exert pressure on a weak partner.

We have to open our markets to developing countries in order to improve economic growth in these countries. Our Group must honour the Policy Coherence for Development commitments. This includes a significant reform and downscaling of agricultural subsidies. This comprises in particular putting an end to exports of surpluses taken off the European market as a result of the impact of price innovation mechanisms and export refunds, as they have a harmful effect on farmers in the developing world.

With instruments like Aid for trade we want to help developing countries to negotiate, implement and benefit from trade agreements, to expand their trade capacity and to accelerate poverty eradication. We want to assist developing countries in building capacities in order to reach sustainable growth and to diversify their economies. We have to reflect the failings of aid policy in the past. Finally, the S&D Group will avoid misusing trade advantages as an emergency humanitarian aid measure. The EU has more appropriate instruments which should be used to this end.

f) Partnership

Due to the fact that agreements on *Deep and Comprehensive Free Trade* areas go beyond normal free trade agreements and include a lot of our acquis and democratic principles, DCFTAs are countable instruments to improve the economic relations with our eastern partner countries as well as vehicles for their development and improvement of their political situation. We will therefore back the negotiations, but maintain a clear commitment to our principles on human rights and a definite position on the rejection of giving political discount and lowering standards. These DCFTAs are an instrument for a close partnership but not automatically a accession perspective.

The southern partnerships have strong political dimensions and we want to strengthen these neighbourhood relations.

g) Sustainability

Sustainable growth is one of our leading principles. We want to change and modernise our economic way of production and consumption. The sustainable and efficient use of resources is a key element also of the European Union's external relations. Technologies and procedures to increase resource efficiency are important factors to improve development opportunities in many third countries. We want to see these mechanisms to receive special attention in international trade and cooperation. In order to maintain its international credibility in the fight for a sustainable path of growth we want the EU to adjust its trade policy according to the three pillar concept - CO2-reduction, the use of renewable energies and energy efficiency. Products have to have their "ecological rucksack" on board. Consequences for sustainability, like transport impacts, have to be reflected in the price of goods. Nevertheless, it is important to have a good calculation of the so-called "food miles". Anti-dumping rules should be reformed in order to include the issue of a fair environmental price.

The fight against climate change is a typical global challenge since it can only be successful on a global basis. Again this is an issue very important for trade relations, because while some economies internalize the costs of CO2 emissions, others don't, thus creating an unfair advantage in the terms of trade. Therefore, trade policy should design ways on bringing climate change in the trade equation as well as trade rules in the climate equation. And if broader measures may raise problems of compatibility with the WTO rules, new imaginative measures should be invented in order to address the situation.

IV - Our possibilities: New balance of power in Trade policy with Lisbon Treaty

With the Lisbon Treaty trade has become an exclusive competence of the Union, including all aspects of trade, foreign direct investment and intellectual property rights. The Lisbon Treaty has also transformed the European Parliament into a co-legislator in the field of trade policy and has granted the European Parliament important new powers with regard to international trade. Trade legislation is now being adopted through the ordinary legislative procedure and the Parliament's consent is required for all trade agreements. The European Parliament has acquired an effective role in the definition and control of the Union's trade policy and therefore the EP is entitled to closely follow and to be fully informed about all negotiations of trade agreements even before a negotiating mandate is given to the European Commission by the Council. EP and Council now have the same responsibilities. After the Lisbon Treaty, trade policy shares the principles and objectives of all the external action policies of the Union and therefore must contribute, inter alia, to the sustainable development, the eradication of poverty and the protection of human rights.

Considering the fact that with the Lisbon Treaty trade policy is the only external action area under exclusive competence of the Union with full application of the community method and with full inclusion of the EP, and in view of the importance of trade for our European economy and for international relations and development, trade policy is a key policy area for the S&D Group. Trade policy can and should therefore be an important lever to promote our own social-democratic values in the area of international relations of the Union. Trade has more than once been used as a powerful foreign policy tool, sometimes as the only tool at the disposal of the European Union.

V - Our area: INTA Committee in the European Parliament

With 31 Members (11 EPP, 8 S&D, 3 ALDE, 2 ECR, 2 Greens, 2 GUE/NGL, 2 EFD and 1 other), INTA is a comparatively small Parliamentary Committee. But the increased powers have been reflected in an impressive amount of legislative procedures that INTA has dealt with since the beginning of this legislature. In terms of workload, INTA seems to be only behind JURI. INTA has dealt with more than double as many files as other important committees, such as ENVI, IMCO or ITRE. This gives a clear indication of the growing importance of INTA. Moreover the dossiers covered by INTA are of high political relevance. Firstly, external trade can be a powerful leverage for growth and jobs in the EU and secondly, given the increasingly wider scope of trade policy itself, decisions with regard to international trade have an impact on industry, internal market, agriculture, environment, employment, intellectual property rights, and migration and so on.

Therefore, our work and commitment in INTA can be of utmost importance to defend and promote our own values and objectives in this key area of the external policies of the Union.

VI - Our achievements

- We worked actively to design modern safeguard regulations to accompany every FTA signed by the EU (more influence of EP, more efficiency of safeguards, more involvement of civil society and trade unions, inclusion of labour and social provisions).
- We have been at the forefront of defending EU innovators and intellectual property rights holders against counterfeits and pirated goods. However, we have fought to ensure that defending intellectual property and innovation does not come at the expense of encroaching on civil liberties.
- We have fought to ensure that the EU maintains its very generous system of trading preferences with developing countries in the new *Generalized System of Preferences* (GSP) in order to help them escape poverty and diversify their economies.
- We have been at the forefront of establishing renewed partnerships with North African Countries who have committed to reform following the so called "Arab Spring ". The S&D recognises the calls from young people, business and civil society who see a new trading partnership with the EU as a way to improve their livelihoods.
- We constantly pushed to include binding social/labour/environmental rules and standards in all FTAs (China, Central America, India). In the case of the EU FTA with Colombia and Peru our Group has pushed to accompany the FTA itself with a Memorandum of Understanding clearly indicating a road map to achieve high human rights and labour standards.
- We worked to ensure EU coherence of policies not only within the EU's external action but, very importantly, we have been the guardians of internal and external policies aimed at promoting economic growth, jobs and solidarity.
- We have anchored our fundamental positions in various reports, such as those on trade and CSR and on human rights.
- We have taken action against child labour (Uzbekistan, coco agreement).