

**House of Lords European Union Committee
Sub-Committee A (Economic and Financial Affairs and International Trade)
Inquiry into European Trade Policy**

Submission by EEF and UK Steel

1. EEF is the representative voice of manufacturing, engineering and technology-based businesses with a membership of 6,000 companies employing around 800,000 people (see www.eef.org.uk for further information). Comprising 11 regional EEF Associations, the Engineering Construction Industries Association (ECIA) and UK Steel, EEF is one of the leading providers of business services in employment relations and employment law, health, safety and environment, manufacturing performance, education, training and skills.
2. UK Steel, a division of EEF, is the trade association for the UK steel industry. All companies who melt steel, and most downstream processors are members.
3. This submission focuses on European trade policy from a UK manufacturing perspective, but with specific reference where relevant to the steel industry.

Question 1

What are the future prospects for multilateral trade negotiations? What effect will the rising number of bilateral agreements have on the existence and further development of multilateral agreements?

4. It is very difficult to forecast whether the current round of multilateral trade negotiations (the DDA) will produce an acceptable outcome for UK manufacturing. While WTO Director General Pascal Lamy earlier this month welcomed the issuing of revised negotiating texts on agriculture and non-agricultural market access (NAMA) as paving the way for future progress in the Round, we note that there remain wide differences between the views of the different groupings.
5. The key areas of negotiation for UK manufacturing that still form part of the DDA are NAMA and rules. The negotiating text for NAMA still contains wide ranges for the two coefficients to be used, and leaves the flexibilities to be enjoyed by developing countries completely open. With EU tariffs on manufactured goods already low (and in the case of some sectors, including steel, already set at zero), it is imperative that the NAMA negotiations produce real market opening for UK exporters. It is particularly important that substantial tariff reductions be secured from emerging countries, many of whom have rapidly developing industries in competition with UK manufacturing.

6. We are concerned that the draft negotiating text on rules appears to favour the USA. The text would for example undo the rulings by the WTO Appellate Body that the US practice of “zeroing”¹ is not WTO compliant. In general, we fear the opportunity could be missed to narrow the wide margins of discretion that currently exist in the application of trade defence instruments, which leads for example to the EU applying a noticeably more liberal regime than the USA.
7. As for future rounds of multilateral negotiations beyond the DDA, we note that if the DDA is concluded, it is likely to be on a basis that is far less ambitious than the goals that the UK and EU originally set. While there is likely to be very little appetite to embark on a fresh round of negotiations in the immediate aftermath of the DDA, the EU must continue to pursue its trade liberalising agenda.
8. The protracted lack of progress in the DDA has resulted in a wave of new bilateral trade negotiations. Although little has come of the USA’s original bilateral ambitions, at least partly due to Congressional antipathy, the EU’s own plans are developing more successfully. While we support in principle any initiatives that lead to improved market access for UK manufacturers, we do tend to prefer the multilateral approach, for two reasons:
 - 8.1 Having a plethora of bilateral agreements risks administrative complexity and therefore uncertainty for businesses.
 - 8.2 One of the great successes of the Uruguay Round was the agreement on a dispute resolution system (the DSU) with real teeth. It is therefore essential that the authority of the WTO should not be undermined.

Question 2

What role can European trade policy play to stimulate growth and create jobs in Europe?

9. It is EEF’s belief that trade, provided it is conducted according to common rules adopted by all trading partners, is always beneficial to economic growth, and thus to job creation. European policy can and does facilitate trade in a number of ways:
 - 9.1 The pursuit of a liberalising agenda in the DDA and through the negotiation of bilateral trade agreements.
 - 9.2 The use of the Trade Barriers Regulation, bilateral trade negotiations and WTO dispute settlement proceedings to break down trade barriers in foreign countries.
 - 9.3 The Commission’s market access database is developing into a valuable tool for exporters.
 - 9.4 The use of its trade defence instruments offsets the unfair advantages enjoyed by dumped and subsidised imports which might otherwise lead to job losses in European industries.

¹ Zeroing is the practice whereby sales at non-dumped prices are excluded from the calculation of dumping margins. This artificially inflates the level of anti-dumping duties levied on imports into the USA.

Questions 3 & 4

What should be the relationship between European trade policy and policies on development, climate change and depletion of natural resources?

Have developing countries benefited from multilateral trade agreements? What steps should European trade policy take to help less developed countries reap the benefits of global trade?

10. **Development:** The European market for manufactured goods is already extremely accessible to developing countries, with very low tariffs and non-tariff barriers generally, and additional specific market-opening regimes available to developing countries (e.g. the Generalised System of Preferences).
11. Of course, where a developing country has little manufacturing capacity, open access to European markets for manufactured goods will confer little economic advantage. In these circumstances improved market access for agricultural products would appear to be the best way of encouraging development.
12. EEF does not subscribe to the view that hiding behind high trade barriers of their own is a viable policy for aiding economic progress in developing countries. Artificially increasing the price to their consumers of manufactured goods (assuming those goods are fairly traded) will put a brake on economic growth. Nevertheless, EEF recognises that market failures (such as slow or corrupt administrations, poor infrastructure) place additional burdens on enterprises in developing countries. Thus:
 - 12.1 High import tariffs are frequently one of the few secure ways of raising government finance.
 - 12.2 High tariffs might also be thought necessary to support the emergence of infant industries.

Such measures can only be short term palliatives, as they will ultimately slow down economic growth. EU governments and the Commission must devote increased resource to trying to help developing country governments eliminate such market failures.
13. Several newly-industrialising countries, such as Brazil, India and China, however have very advanced manufacturing facilities in a range of sectors. It is economically inefficient for those industries to remain shielded from international competition while enjoying tariff-free access to the developed world's markets.
14. **Climate change:** As a general statement of principle, EEF's view is that environment-related trade measures should be limited to ensuring that the performance of imported goods comply with national standards. They should not relate to the environmental performance of the processes used to manufacture the goods, unless such trade measures are an integral part of a widely-supported multilateral environmental agreement (MEA). Process-related trade measures, particularly for "heavy" industries such as steel, can quickly lead to back-door protectionism.
15. Therefore, EEF's strong preference is for EU environmental measures to be designed so as to avoid imposing uncompetitive cost burdens onto

industry. In the specific instance of the EU Emissions Trading Scheme (ETS), EEF's view is that energy intensive industries should continue to receive free allocations of permits, but based on EU-wide performance benchmarks, and related to those industries' technological capability to reduce their emissions. Internalising the cost of carbon for industries such as steel, cement and aluminium would raise their costs to uncompetitive levels and result in the progressive flight of production, and the associated emissions, to countries where the cost of carbon was not internalised. The net environmental benefit would be zero.

16. However, if additional cost burdens are placed on EU manufacturing, then these will need to be offset by some form of border adjustment measure, imposing internalisation of carbon costs on imported goods while exempting exports from those internalised costs. The immense complexity of constructing such a system to make it WTO-compliant is one reason why EEF prefers a zero-cost ETS. A system that was not WTO-compliant would risk plunging the EU into a major trade war.
17. Nevertheless, there is one proposal that would fit neatly with a benchmark-based allocation system and provide national treatment to imported goods, thus making it WTO-compliant. Once performance benchmarks had been established for EU-manufactured goods, those same benchmarks could be applied to imported goods. Imports from plants whose emissions were higher than the EU benchmark would be obliged to purchase ETS allowances before the goods could be placed on the market – in exactly the same way as would happen for EU companies. Conversely, imports with associated emission levels better than the EU standard would receive allowances for sale. EEF believes this idea merits further development.
18. At some stage, it is hoped that a global climate change agreement will be signed that commits all parties to similar levels of effort and similar means of compliance. At that stage it could be necessary for the signatories of that MEA to agree to a common border mechanism to prevent non-signatories from gaining unfair market advantage at the expense of the global environment.
19. **Depletion of natural resources:** EEF is concerned that a number mineral resources are beginning to become scarce. This scarcity lies behind the surging market prices of a number of non-ferrous metals for example. The only sensible policy response is an increasing drive for resource efficiency throughout the world.
20. These scarce minerals are however frequently located in just a few countries, and there is a growing tendency for these countries to give unfair advantages to their own consuming industries by placing export restrictions, both tariff and quantitative, on those raw materials. This could threaten the long term survival of EU manufacturing if it is denied equal access to raw materials, or is forced to pay higher prices than overseas competitors.
21. The Commission is attempting to oppose export restrictions through the provisions of the EU's bilateral agreements and the WTO as appropriate. Export tariffs however are not banned by the WTO.

Question 5

Is there still a need for Trade Defence Instruments, and if so, how can these be designed to ensure that their effects are targeted and proportionate?

22. Trade defence instruments remain an essential means of helping to ensure that our trading partners observe WTO rules and trade fairly, and of providing a safety valve for disruptive trade flows.
23. Firstly, the Agreement on Subsidies and Countervailing Measures and the EU regulation that gives effect to this agreement provide an important means of ensuring that foreign governments do not unfairly subsidise domestic producers at the expense of EU manufacturers. It helps apply at an international level the same type of market discipline that the EU's state aid rules achieve within Europe.
24. Safeguards protection is used to provide a temporary safe haven for an industry suffering from sudden and damaging surges in imports. The requirement to compensate trading partners for their loss of concessions tends to mean that safeguard measures are normally of short duration. Measures can only last longer than four years if there is evidence that the domestic industry is restructuring. Thus the instrument can ensure that an EU industry is not destroyed by foreign competition while at the same time encouraging it to adapt to the new market circumstances. For these reasons, EEF believes that safeguard measures are a proportionate response. However, the compensation requirements, and the fact that measures must be applied against all trading partners, also mean that safeguards are rarely used.
25. Anti-dumping measures have become more contentious. They essentially discipline import surges resulting from discriminatory pricing practices. When the exporting country is employing predatory pricing there is a clear analogy to the EU's internal rules on abuse of a dominant position. Given the virtual impossibility of using safeguards measures, EEF supports anti-dumping as a means of providing temporary safe havens for EU manufacturing sectors from the worst effects of surges in discriminatorily priced imports.
26. The anti-dumping Regulation, and the working practices of the Commission, already provide significant scope for ensuring that duties are only applied to the specific types of products being dumped and causing injury, and that duties are only maintained for as long as they are necessary. The steel industry for example has experience of duties on imports of its raw materials being suspended, or the product scope of the measures being modified. In any case, EU measures are generally terminated after five years under the "sunset" clause. For these reasons, EEF maintains that anti-dumping measures are already targeted and proportionate.
27. EEF does not believe that anti-dumping measures should be used to protect EU industries from competition based on genuine competitive advantage – that would in the long term be economically inefficient. Equally however, overseas producers enjoying genuine competitive advantage should have no reason to dump in European markets. It is thus unlikely that companies found during to be dumping do in fact have a genuine competitive advantage.

28. The WTO anti-dumping agreement was designed specifically to address unfairly priced and injurious imports of manufactured and agricultural goods. EEF suggests that it is not normally in the long term interests of consumers for local producers of such goods to be eliminated by unfairly priced imports. Despite this, the EU is unique in considering the interests of direct consumers of dumped goods in proposing whether to impose measures. We welcome the use of the Community interest clause for these purposes. However, EEF rejects the notion that macro-economic effects, such as the possible impact of measures on inflation, should be a relevant consideration.
29. Finally, EEF notes that the EU's anti-dumping practices are among the most liberal in the world, and are more liberal than the WTO agreement itself. EEF is not in principle opposed to further reform of the EU's practices, but any such reforms should be part of a negotiated agreement mandating revised norms on all WTO signatories.

Question 6

What is the best approach for ensuring that Intellectual Property Rights are protected? Do these rights hinder development goals – and if so, how can an appropriate balance be struck?

30. The Uruguay Round TRIPS agreement already in theory contains reasonable protection for IPR associated with manufactured goods. Nevertheless, we are increasingly hearing stories of imported products bearing UK companies' branding, but of inferior quality. UK manufacturers are not just losing market share to such imports, but the value of their brands can also suffer. The issue would appear to be that stricter policing of the existing rules is required.

Question 7

Services represent 77% of European GDP and employment. What are the best mechanisms to remove barriers to trade in services? Is the GATS still fit for purpose?

31. EEF has no views on this matter.

Question 8

Is there still a role for the WTO in the 21st Century?

32. The WTO remains critical as the means for solving trade disputes and for ensuring that trading partners keep their borders open in compliance with WTO rules.

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