


The future of EU Free Trade Agreements: Priorities for the new College of Commissioners

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Registration number
in the register of representative bodies:
976536291-45

April 2024

Introduction

The mechanical and plant engineering companies in Europe depend on exports, as the average share of exports in this industry is 80 percent. The machinery and plant engineering industry, with its 3 million employees and a turnover of 910 billion euros, is one of the most important industrial sectors in Europe. To ensure that this important sector of the EU economy, which is characterized by SMEs, can continue to operate successfully on a global level and stay ahead of the increasing competition from mechanical and plant engineering from countries such as China, EU Free Trade Agreements (EU FTAs) are of the utmost importance. They make sure that export markets are kept open, ensure stable framework conditions for export business, tackle existing technical barriers to trade, and provide a level playing field in areas such as subsidies and public procurement. Hence, VDMA has always supported the European Commission in its goals to negotiate and conclude EU FTAs with third countries or regions.

The EU has achieved some notable accomplishments over the past few years in this area. The FTA with New Zealand and the Economic Partnership Agreement with Kenya have for example been newly concluded. However, overall progress on achieving FTAs with third countries has been limited over the past five years. For example, negotiations with Australia were halted shortly before its conclusion. In addition, it is very regrettable that the agreement with Mercosur, which was already finalized in 2019, has still not come into force. There has also been little progress in recent years on reaching important FTAs with India and Indonesia. Overall, the EU is at risk of being "dwarfed" as a free trade partner. It is, therefore, time to think about new approaches to EU trade agreements.

VDMA believes that there are three main reasons for this limited progress in recent years. First, EU FTAs are often overloaded with policy objectives that have nothing to do with trade. Second, the shielding of the EU agricultural sector leads to protectionism. Finally, the decision of the European Commission to split EU FTAs from a broader agreement must be taken sooner.

The overloading of EU FTAs

Respecting and protecting human rights along supply chains are a mandate and an obligation for the European mechanical engineering industry. Human rights are non-negotiable and our member companies pay close attention to their supply chains to avoid human rights violations. In addition, our industry is the enabler for the energy transition and climate protection, because it delivers critical clean technologies and systems to clean energy producers. However, FTAs, first and foremost, must focus on Europe's long-term competitiveness, as the main objective of EU trade agreements at the end of the day is to open-up trade opportunities for European businesses.

We therefore believe that the EU should not overburden its bilateral or regional FTAs with political objectives relating to other policy areas and that there should be no legally binding sanctions for violations of the Chapter on Trade and Sustainable Development in EU FTAs. Otherwise, third countries very likely will not conclude such agreements with the EU. Evidence of this can be seen, for example, in statements made by Indonesia and India on the EU's demands to include comprehensive sustainability chapters in the planned FTAs. In addition, other countries like China do not have any strong provisions on Trade and Sustainable Development in their FTAs. At the same time, like-minded countries or regions, such as EFTA, were able to conclude a FTA with India whereas the EU only relaunched its negotiations with India in 2022 after being suspended in 2013 due to differences in ambition.

We also believe that the situation is very different for like-minded countries with a development status comparable to the EU, such as New Zealand. But economic sanctions should be avoided at all costs.

The protection of the EU agricultural sector

The EU and Australia did not conclude the negotiations on an FTA last year, mainly because of disagreements on access to European markets for Australian sheep meat and beef. This hints at a general problem in EU FTAs: the very large influence by agricultural interests. The EU agricultural sector accounts for less than 2 percent of the EU's economic output. But this influence is disproportionate to economic importance. European industry is increasingly becoming a hostage to agriculture. However, it is unrealistic to keep the agricultural sector out of the EU free trade negotiations, because for many partner countries, agricultural market access is a top priority.

The splitting of EU FTAs

Once the European Commission completes the trade negotiations, it publishes the text of the FTA and presents the agreement to the Council of the EU and the European Parliament. These EU institutions examine the deal and decide whether or not to approve it. A difference is made here whether the FTA is an EU-only agreement or part of a mixed agreement.

An EU-only agreement, such as the FTA with New Zealand, only requires the approval of the Council of the EU and the consent of the European Parliament. In addition, EU-only agreements are in principle decided with qualified majority voting in the Council, whereas mixed agreements require in principle unanimity in the Council.

However, mixed agreements (e.g. the Association Agreement with Mercosur of which the FTA is one of its pillars) must also be ratified by EU Member States according to their ratification procedures. These procedures vary from Member State to Member State. In federal Member States, ratification procedures also involve approval by the chamber of the national parliament representing the regions (e.g. in Germany the consent of the Bundestag and Bundesrat is required) or the agreement of the regional parliaments (e.g. Belgium). Almost 40 national and regional parliaments can thus play a role in the ratification process. It is not surprising that the ratification of some agreements can take years or even decades. In addition, mixed agreements can lead to legal and political risks, as national or even regional parliaments can block an agreement, as we have seen with CETA. In 2016, the signature of this trade agreement with Canada nearly failed due to the opposition by the Belgian region of Wallonia, as they demanded more safeguards on labour, environmental, and consumer standards.

VDMA would support the European Commission, who decides on the proposals on the signature and conclusion of FTAs, if it decides to split FTAs. The European Parliament already guarantees in our view sufficient democratic legitimacy and parliamentary oversight. Furthermore, an agreement on the architecture of a FTA must be agreed during the negotiations, such as is the case with the interim FTA with Chile. Otherwise, there is a risk that they do not enter into force.

Conclusion

VDMA believes that EU FTAs should not be overloaded with policy objectives that have nothing to do with trade, that agricultural market access concerns should not lead to protectionism, and that the European Commission must always split EU FTAs.

VDMA is firmly convinced, that ongoing trade negotiations can be accelerated if these policy recommendations are taken into account. Moreover, it is imperative that concluded FTAs must enter into force much faster than the status quo. Taking this guidance into account would secure and expand the competitiveness of European machinery manufacturing. That is exactly what our industry needs in these difficult geopolitical and economic times.

Contacts at VDMA

Ulrich Ackermann

Foreign Trade Department

Phone +49 69 6603 1441

E-Mail ulrich.ackermann@vdma.org

Oliver Wack

Foreign Trade Department

Phone +49 69 6603 1444

E-Mail oliver.wack@vdma.org

Niels Karssen

VDMA-European Office, Brussels

Phone +32 2 7068207

E-Mail niels.karssen@vdma.org