



**European Committee  
of the Regions**

**ECON-VII/001**

**139th plenary session, 30 June – 1-2 July 2020**

## **OPINION**

### **Implementation of Free Trade Agreements (FTAs): the regional and local perspective**

#### THE EUROPEAN COMMITTEE OF THE REGIONS

- welcomes the Commission's annual report on the implementation of FTAs; considers it not only as a crucial step towards increased transparency but also as an effective instrument for providing the public with objective background information about trade agreements negotiated by the EU;
- is of the opinion that more needs to be done to disseminate information about the functioning of international trade, particularly at the level of Member States and their local and regional authorities, which have a key role to play due to their knowledge of and proximity to SMEs on the ground;
- notes with concern that the complexity of rules of origin and of administrative forms required by EU trade partners for granting preferences to EU companies, as well as the effort involved in proving preferential origin, seems to be disproportionate for EU SMEs as they do not have the same resources as big companies;
- holds the view that despite the overall economic growth triggered by FTAs, there are some economic sectors, along with the regions hosting them, which are likely to be negatively affected;
- strongly believes that territorial impact assessments can be powerful tools to identify and quantify the possible asymmetric impacts of trade deals on European regions early on;
- understands that the COVID-19 crisis is a major shock for European and global economies and will distort opportunities from global trade for European SMEs.
- welcomes additional funds assigned for Cohesion Policy, which can be used to fight the economic impact of the crisis, including by provision of investment and liquidity into affected SMEs on ground, particularly those in the hardest hit sectors. This will ensure that as many businesses and employment places are rescued

Rapporteur

Michael Murphy (IE/EPP), Councillor, Tipperary County Council

Reference document

Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on Implementation of Free Trade Agreements:  
1 January 2018 – 31 December 2018  
COM(2019) 455 final

## **Opinion of the European Committee of the Regions – Implementation of Free Trade Agreements (FTAs): the regional and local perspective**

### **I. POLICY RECOMMENDATIONS**

#### THE EUROPEAN COMMITTEE OF THE REGIONS

##### *General remarks:*

1. welcomes the Commission's annual report on the implementation of FTAs; considers it not only as a crucial step towards increased transparency but also as an effective instrument for providing the public with objective background information about trade agreements negotiated by the EU;
2. stresses the important potential that EU trade policy offers for the implementation of EU objectives, particularly in terms of sustainable growth, implementation of the sustainable development goals, employment, job creation and investment in the EU. However, at the same time, understands that the COVID-19 crisis is a major shock for European and global economies and will distort opportunities from global trade for European SMEs. According to a recent survey from DG TRADE, a decrease in global trade between 10%-16% is expected in 2020; for the EU27, the predicted reduction is expected to be between 9%-15% for extra-EU27 exports, amounting to a reduction in extra-EU27 exports between EUR 282-470 billion<sup>1</sup>;
3. recalls that 36 million jobs in the EU depend on exports outside the EU, out of which 13.7 million are occupied by women; that between 2000 and 2017, EU jobs supported by exports to the rest of the world increased by 66%, which represents 14.3 million additional jobs; and that the share of EU employment supported by sales of goods and services to the rest of the world over total employment increased from 10.1% in 2000 to 15.3% in 2017<sup>2</sup>. Notes with concern that due to the COVID-19 pandemic, in 2020 the ILO estimates the loss of 12 million jobs in Europe alone;
4. underlines the importance of free rule-based international trade which benefits all trade partners. Calls on the Commission to keep defending the EU's trade interests and fight the rising trend of protectionism;
5. notes that the impact of FTAs in the EU is felt at regional level. The CoR therefore calls on the Commission to keep it systematically informed and to take account of the possible local and regional repercussions of trade at an early stage in the negotiations;
6. believes that FTAs should be made fit for SMEs as much as SMEs should be made fit for FTAs; highlights in this regard the vital role of LRAs in translating FTAs to SMEs on the ground;
7. stresses the joint responsibility of all levels of governance to ensure that the benefits of globalisation are fairly distributed, and the negative impacts are mitigated;

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<sup>1</sup> [https://trade.ec.europa.eu/doclib/docs/2020/may/tradoc\\_158764.pdf](https://trade.ec.europa.eu/doclib/docs/2020/may/tradoc_158764.pdf)

<sup>2</sup> [http://trade.ec.europa.eu/doclib/docs/2018/november/tradoc\\_157516.pdf](http://trade.ec.europa.eu/doclib/docs/2018/november/tradoc_157516.pdf)

8. is concerned that the escalation of WTO non-compliant measures and new discriminatory non-tariff arrangements present the risk of reciprocal excessive regulatory burdens, such that they are becoming the new normal in global trade; believes that existing EU support programmes and monitoring thereof should be re-evaluated, in line with EU competition rules, to support regions adversely affected by trade wars by reducing the burden on them;
9. welcomes the fact that, on 22 December 2017, the Commission set up an Expert Group on Trade Agreements with the aim of improving transparency and inclusiveness in EU trade policy; notes that none of the 28 experts in the group<sup>3</sup> represent a local or regional authority or one of their associations; calls on the Commission to maintain the Expert Group in its current form and to preserve the CoR's position as an observer. In case where the general structure of the Expert Group is to change, the CoR asks to be invited as a member;
10. welcomes the fact that 29%-31% of EU trade is covered by preferential trade agreements;

*COVID-19 related recommendations*

11. welcomes the Commission's announcement to launch trade policy review proceedings, leading to a new strategy by the end of the year. However, the CoR calls on the Commission to ensure that this review gives due diligence and attention to the issue of implementation of Free Trade Agreements in regions and cities of the Member States;
12. the COVID-19 pandemic highlighted that global economies are strongly interlinked and in time of crisis, no one country can manufacture its needs individually. Therefore, to ensure a fair, open and rules-based global trade system, the CoR urges the European Commission to continue its work on WTO reform. Notes, in the same vein, that in cases where global competition is distorted, the EU needs to make full use of its trade defence instruments and develop new tools to address market distorting practices of third countries;
13. urges the European Commission to continue its work on addressing distorted competition within the single market caused by foreign subsidies. In this regard, the CoR awaits the publication of the Commission White Paper on an instrument on foreign subsidies. Progress in this area of work is particularly important to ensure a level playing field for EU companies in areas such as public procurement;
14. notes that ultimately the regions and their governments are at the forefront of the crisis, dealing with its health and economic impacts. Believes, therefore, that the EU needs to work on building strategic stockpiles of vital equipment to prepare regions for future pandemics. Welcomes in this regard the Commission's concept of "open strategic autonomy" to diversify global supply chains as well as repatriate some production of critical materials;
15. welcomes the new MFF proposal from 27 May, including the new REACT-EU and the Next Generation EU temporary reinforcement. In this context, the CoR welcomes additional funds

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<sup>3</sup> [http://trade.ec.europa.eu/doclib/docs/2017/december/tradoc\\_156487.pdf](http://trade.ec.europa.eu/doclib/docs/2017/december/tradoc_156487.pdf)

assigned for Cohesion Policy, which can be used to fight the economic impact of the crisis, including by provision of investment and liquidity into affected SMEs on ground, particularly those in the hardest hit sectors. This will ensure that as many businesses and employment places are rescued;

16. welcomes the simplification of application of a number of EU funding programmes, including InvestEU, in light of the COVID-19 crisis. However, urges the European Commission to continue the system of improved access to finance across a range of programmes beyond the pandemic, to enable European SMEs to turn digitalisation and decarbonisation techniques into profitable opportunities to create sustainable economic growth and jobs;

*Realising the full potential of trade agreements – regional and business perspectives*

17. strongly agrees with the Commission's view that EU companies can only benefit from EU trade agreements if they have pertinent information on the contents of these agreements and understand how they function in practice; stresses the need to involve regional representatives in the effort to improve implementation of FTAs; to that end, underlines the importance of developing FTA implementation action plans that are tailored to each Member State, their respective regions, and regional business interests;
18. notes with concern that the complexity of rules of origin and of administrative forms required by EU trade partners for granting preferences to EU companies, as well as the effort involved in proving preferential origin, seems to be disproportionate for EU SMEs as they do not have the same resources as big companies;
19. repeats its longstanding position that future EU trade agreements must not prevent government at all levels from providing, supporting or regulating public services, or prevent them from expanding the range of services they offer to the public;
20. recalls that the bulk of SMEs' exporting activity takes place primarily within the single market<sup>4</sup>, with only about half of SMEs selling their goods outside the EU-28<sup>5</sup>; furthermore, notes that SMEs' exporting activity is also highly concentrated, with six Member States<sup>6</sup> accounting for more than two thirds of total EU SME exports;
21. stresses that according to a recent survey conducted by CoR and Eurochambres, effective trade implementation requires the following<sup>7</sup>:
  - a) addressing the knowledge gap surrounding EU FTAs by providing practical information on how SMEs can make use of a given FTA in practice and through more informative activities

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<sup>4</sup> EPRS, *CETA implementation: SMEs and regions in focus*, study conducted at the request of the CoR, 18 November 2019, available at [http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS\\_IDA\(2019\)644179](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_IDA(2019)644179)

<sup>5</sup> Flash Eurobarometer 421, [Internationalisation of Small and Medium-sized Enterprises](#), October 2015.

<sup>6</sup> Belgium, Germany, Spain, Italy, the Netherlands and the UK.

<sup>7</sup> Eurochambres and CoR Survey on "Implementation of Free Trade Agreements – challenges and opportunities for businesses and regions", [https://cor.europa.eu/en/events/Documents/ECON/Survey\\_Note\\_CoR-Eurochambres\\_Survey\\_15\\_November\\_2019.pdf](https://cor.europa.eu/en/events/Documents/ECON/Survey_Note_CoR-Eurochambres_Survey_15_November_2019.pdf)

- with the business community at regional and local level (training, seminars, workshops, roadshows, etc.);
- b) improving the user-friendliness of available free tools aimed at supporting businesses and SMEs as well as public awareness of their existence;
  - c) addressing the complexity and lack of coherence of the rules of origin and customs procedures;
  - d) swiftly implementing a free of charge online rules of origin calculator as an additional first line of support for EU SMEs in navigating the complexities of these rules in EU trade agreements;
22. is of the opinion that more needs to be done to disseminate information about the functioning of international trade, particularly at the level of Member States and their local and regional authorities, which have a key role to play due to their knowledge of and proximity to SMEs on the ground; therefore recognises an opportunity for the CoR and the European Commission to systematically work together to disseminate relevant information and develop relevant interactive tools, such as for example a Rules of Origin Calculator for SMEs;
23. welcomes the Commission's advanced work on the online portal that will integrate two databases, the Market Access Database and the Trade Helpdesk;
24. furthermore, welcomes the existing tools used by the European Commission to promote and support EU SMEs in their internationalisation efforts so that they are more competitive globally, and highlights the need to ensure that these tools take a bottom-up approach in their application;
25. regards with concern the outstanding issues with trading partners as presented in the Commission's report, notably the fact that EU products continue to face barriers to accessing a number of markets in partner countries. Non-bureaucratic mutual recognition of technical standards should be given high priority;

*Ensuring that global economic engagement does not lead to inequality among EU regions*

26. holds the view that despite the overall economic growth triggered by FTAs, there are some economic sectors, along with the regions hosting them, which are likely to be negatively affected;
27. supports the Commission's view that EU trade agreements offer great potential for EU exports in agricultural products but is concerned that the draft interim report on the sustainability impact assessment for the trade agreement with Mercosur suggests that agriculture and rural areas in the EU are expected to experience negative effects, which is why some Member States have rejected the agreement in its current form; Also insists that the Mercosur agreement is to be assessed against the objective of reducing greenhouse gas emissions. In this regard, the ratification of the EU-Mercosur should be conditional upon measures reversing the current record level deforestation in Brazil's Amazon;

28. underscores that from the survey undertaken by the CoR in cooperation with Eurochambres on implementation of FTAs, increased competitive pressure from foreign companies has also been identified as a notable concern for regions when EU trade agreements come into force<sup>8</sup>;
29. emphasises that, as underscored by an EPRS study<sup>9</sup> based on an analysis of trade flows in some Member States, the export performance of regions is positively and strongly correlated with GDP and that trade is highly concentrated in a few regions in each Member State analysed;
30. recalls that the territorially-uneven impact of globalisation was recognised by the Commission with the Reflection Paper on *Harnessing Globalisation* and the Reflection Paper on the *Future of EU Finances*, underlining that while the benefits of globalisation are widely spread, the costs are often localised;
31. stresses that solving the inequalities presented above calls for an EU-wide response to ensure that no person or region is left behind;
32. strongly believes that territorial impact assessments can be powerful tools to identify and quantify the possible asymmetric impacts of trade deals on European regions early on, thus allowing the concerned territories to put the right public policies into place to deal with the impact; regards this as a crucial element in the formulation of sound, transparent and evidence-based trade policies;
33. places particular emphasis on the role of cohesion policy in improving the competitiveness of EU territories through targeted investments adapted to the needs of any specific territory in key sectors such as network infrastructures, research and innovation, SMEs, IT services, environmental and climate action, quality employment and social inclusion;
34. recalls, in light of the strong evidence on regional patterns in international trade, that if the EU is to introduce further liberalisation of trade, it is imperative that every significant initiative in the field is preceded by impact assessments focusing on the possible effects on the national and particularly sub-national levels;
35. welcomes that in its Recovery plan for Europe of May 2020, the Commission has proposed to strengthen its emergency tools, including the European Globalisation Adjustment Fund (EGF), and make them more flexible so that resources can be deployed quickly and at scale when needed. Expects the Commission to outline rapidly its proposal and reiterates<sup>10</sup> against this background that the previous EGF proposal for the funding period 2021-2027 foresaw relatively

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<sup>8</sup> European Committee of the Regions-EUROCHAMBRES survey on the implementation of FTAs, August-October 2019.

<sup>9</sup> EPRS, *Interactions between trade, investment and trends in EU industry: EU regions and international trade*, study conducted at the request of the CoR, 27 October 2017, available at [http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS\\_STU\(2017\)608695](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_STU(2017)608695)

<sup>10</sup> CoR opinion on the reflection paper on harnessing globalisation, rapporteur: Micaela Fanelli, adopted on 10 October 2017.

high eligibility thresholds (at least 250 redundancies)<sup>11</sup> and a low budget envelope of EUR 225 million per year;

*Trade policy as a key instrument for enhancing sustainability*

36. strongly believes that trade policy has an important role to play in ensuring that globalisation has positive economic, social, territorial and environmental effects for people and businesses in Europe and beyond;
37. recalls that according to a special Eurobarometer survey from 2019<sup>12</sup>, there has been an increase in the proportion of respondents mentioning concerns regarding negative environmental impacts of international trade, with the same survey finding that there has been an increase in respondents who believe they do not benefit from international trade because of its environmental impacts;
38. recalls that the Green Deal should integrate trade policy together with economic, regulatory, and competition policy in a comprehensive effort to help the environment and set high environmental ambitions for industry as a whole;
39. believes that a mechanism tackling "carbon leakage" could be used to level the competitive playing field; notes, however, that the measure must balance environmental, trade and fairness concerns to avoid triggering retaliation against exports from EU countries, in this way damaging EU industry;
40. strongly supports the Commission's 15-point action plan as a key instrument to make Trade and Sustainable Development (TSD) chapters, which are part of all modern EU trade agreements, more effective. However, this can only be implemented by means of appropriate clauses making sustainability requirements enforceable, verifiable and sanctionable;
41. in relation to the question of whether non-compliance with a provision of the TSD Chapter should lead to certain trade (trade-related) consequences, the CoR supports the view that in the event of countries engaging in unfair competition, for example by circumventing the ILO core standards or sustainability standards, provisions should also be made for sanction mechanisms;
42. highlights the need for better implementation of TSD chapters in EU trade agreements through soft measures and by better utilization of the EU's and Member States' own diplomatic resources;
43. also calls for EU FTAs to include strict rules on transfer mispricing, fraudulent transfer pricing and tax evasion by listed companies;

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<sup>11</sup> Particularly given that the equivalent US programme (Trade Adjustment Assistance (TAA)) does not set a minimum threshold of redundancies that must be reached.

<sup>12</sup> <https://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/survey/getsurveydetail/instruments/special/surveyky/2246>  
[https://ec.europa.eu/commission/presscorner/detail/en/ip\\_19\\_6294](https://ec.europa.eu/commission/presscorner/detail/en/ip_19_6294)



44. shares the view that TSDs can, through trade, improve conditions such as decent work, environmental protection and the fight against climate change in order to achieve effective and sustainable policy change<sup>13</sup> in third countries; notes however at the same time that those issues are by definition the result of democratic processes within the constitutional order of any given country;
45. welcomes, in that regard, the Commission's decision to appoint a Chief Trade Enforcement Officer to closely monitor the implementation of climate, environmental and labour protections enshrined in EU trade agreements, and is confident that the Chief Trade Enforcement Officer will establish solid channels of communication with civil society and local and regional authorities; calls on the European Commission to ensure that sufficient resources are assigned to the Office to ensure that it achieves its objectives;
46. in this context, however, refers to the CoR's study on "the democratic dimension of EU negotiations on trade agreements: the role and responsibilities of citizens and local and regional authorities", which emphasises that availability of information is not on its own enough to ensure a transparent and participatory process and that particular attention should be paid to mechanisms at the national and local levels aimed at ensuring access to this information. In particular, local and regional authorities often point to the lack of a formal mechanism for dialogue with the relevant national level when it comes to trade policy, and this absence is even more keenly felt at EU level;
47. at the same time believes that EU trade policy should not undermine the EU development assistance efforts in third countries and calls for a balanced approach to free trade when it comes to more fragile economies; recalls the importance of both free and fair trade, emphasising the potential of reduced poverty through inter and intra-regional economic integration. Calls for greater policy coherence in the international trade and development sectors, takes note of the EU's move from international development assistance to a more equal-partnership approach;

*Mitigating the negative impact of unique developments on particular sectors and regions*

48. calls on all key institutional players to pay particular attention to the existing trade linkages between EU-27 regions and the UK, which will largely define the impact of the UK's withdrawal on their respective economies; appropriate measures must be devised for sectors and territories that would suffer a particularly adverse impact;
49. welcomes the European Commission recommendations to Council of 3 February 2020 to open negotiations on a new partnership with the UK; believes that the EC needs to ensure that the negotiated agreement defends the EU's interests;

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<sup>13</sup> EP, "Free trade or geo-economics? Trends in world trade", Policy Department for External Relations, Directorate-General for External Policies of the Union, September 2019.

50. refers to the Position Paper of the Delegation of Spain to the Committee of the Regions<sup>14</sup> and expresses its regret about the fact that the decision taken by the United States to introduce additional tariffs on European products, amounting to USD 7.496 billion, as a countermeasure to the aid to the manufacturer of Airbus aircraft granted by the EU and certain governments of the Member States, will mainly impact agricultural and agri-food products produced in EU Member States;
51. stresses that US steel tariffs have led to significant trade diversion of steel products from third countries, which are entering the European market in increasing quantities. The effectiveness of the EU's safeguard measures for steel should be reassessed in light of the troubled economic environment for the steel industry, in order to avoid further damage to domestic steel companies. This review should specifically look at reversing previous increases in tariff quotas;

*Ensuring a level playing field for EU companies in a rules-based trading system*

52. recalls that EU sanctions imposed on third countries for various geopolitical reasons unrelated to trade are met with counter-sanctions which disproportionately hit some regions with established trade links in said third countries; holds the view that a right balance has to be ensured between taking compensatory measures and preserving competition and that existing EU support programmes should be re-evaluated to support regions adversely affected by trade wars;
53. draws attention to the recent calls for a more assertive EU trade policy defending technologies, companies and markets against unfair trade practices from the outside and holds the view that the EU needs a more proactive trade policy ready to protect its companies through appropriate countervailing measures that would keep pace with recent value chain developments and through a binding legal framework for trade conflicts; applauds the EU's support for multilateralism and the several ideas for WTO reform put forward, as well as the Commission's proactive stance on the deadlock regarding the WTO appellate body, i.e. the interim appeal arrangements with Canada and Norway;
54. notes, however, that although it can be reasonably expected that no country can isolate itself from globalisation without incurring enormous costs, the risk of a collapse of the multilateral trading system is real and thus the EU has to reflect on a Plan B;
55. strongly supports the Commission's proposal to amend the Enforcement Regulation in order to allow the Commission to trigger countermeasures in situations where a partner prevents the dispute from reaching the point where such authorisation could be granted;
56. shares the view that the EU needs to shift into offensive gear to ensure reciprocity and tackle protectionism in access to procurement markets in third countries;

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<sup>14</sup> Position of the Delegation of Spain to the Committee of the Regions on the impact of trade disputes and the establishment of new tariffs on agricultural and agri-food products on regional and local economies in the EU – <https://cor.europa.eu/en/news/Pages/US-tariffs-on-EU-agri-food-products.aspx>

57. regrets, therefore, the lack of progress in the inter-institutional negotiations on the revised proposal for an International Procurement Instrument<sup>15</sup> presented by the Commission in 2016.

Brussels, 1 July 2020

The President  
of the European Committee of the Regions

Apostolos Tzitzikostas

The Secretary-General of the European  
Committee of the Regions

Petr Blizkovsky

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<sup>15</sup> [https://trade.ec.europa.eu/doclib/docs/2019/march/tradoc\\_157728.pdf](https://trade.ec.europa.eu/doclib/docs/2019/march/tradoc_157728.pdf)

## II. PROCEDURE

<b>Title</b>	Implementation of Free Trade Agreement (FTAs): the regional and local perspective
<b>Reference</b>	COM(2019) 455 final
<b>Legal basis</b>	Article 307(4) TFEU
<b>Procedural basis</b>	Rule 41(b)(i) of the Rules of Procedure
<b>Date of Council/EP referral/Date of Commission letter</b>	
<b>Date of Bureau/President's decision</b>	
<b>Commission responsible</b>	Commission for Economic Policy
<b>Rapporteur</b>	Michael Murphy (IE/EPP), Councillor, Tipperary County Council
<b>Analysis</b>	6 December 2019
<b>Discussed in commission</b>	13 December 2019
<b>Date adopted by commission</b>	2 March 2020
<b>Result of the vote in commission (majority, unanimity)</b>	Unanimous
<b>Date adopted in plenary</b>	Approved on 1 July 2020 by majority
<b>Previous Committee opinions</b>	
<b>Date of subsidiarity monitoring consultation</b>	Not applicable