I. Introduction

More than ever before, the European economy and, with it, Germany as a large and open economy located at the center of the European Union are subject to global competition. Globalization now influences nearly every aspect of our lives. Developments in health care, the environment, energy, social and internal security, immigration, integration, and many more areas are significantly determined by events outside our continent. The challenges of globalization present risks for Europe, above all in the economic and employment areas. But in even greater measure globalization offers opportunities.

In Germany and in many other Member States of the European Union, however, discussion tends to dwell on the risks of global competition, especially with regard to sustainable growth and jobs. Globalization is ordinarily viewed as an external event. Far too seldom is it understood as a phenomenon that can be politically shaped. And thus attempts in Europe to help form the globalization process by strengthening our external competitiveness have been fragmentary.

What is needed is therefore a common response to the challenges of globalization that affect all Member States. This response must build on existing approaches and take account of principles of sustainability. Such an approach, which directly addresses the concerns of people in all Member States of the European Union, would also serve as a good contribution to combating the present widespread skepticism toward European integration. And it would also help individuals identify with Europe in a positive manner.

Against this background, the German government will be attempting to make increasingly visible the role and impact of globalization in the various policy areas, and to underline the influence of policy at national and, in particular, European level. The people of Europe must be able to recognize the role played by globalization in the individual areas and see how policymakers respond at national and European levels. This will foster the understanding that Europe must
react to ongoing globalization in an active and formative manner. Only against such a back-
ground will Europeans see globalization as an opportunity, not merely as a threat.

With this in mind, the German government welcomes the discussion that the European Commis-
sion launched back in September 2005 with the document on trade and competitiveness, and that it now seeks to continue with a significantly more broadly conceived communication on the external dimension of competitiveness. The German government supports these efforts and is pleased at this early date to present its thoughts on this discussion process.

II. Trade and Competitiveness

Strengthening Competitiveness

Globalization has triggered a worldwide process of structural change. We must shape this global structural change within the EU by seeking to strengthen our companies' competitiveness on a sustained basis. The German government understands "competitiveness" in particular as the ability of companies to react dynamically to competitive impulses from abroad and to respond by means such as innovation. This ultimately helps safeguard and raise the living standard on a sustained basis. A contribution that policymakers can make is to shape the regulatory environment for companies domiciled in the EU. Production sites in Europe must not be burdened down by regulatory measures that are heavier than those governing the operations of competitors from third countries. The European Union and its Member States must ensure that companies producing in Europe can exploit their opportunities on level playing field.

In the case of measures to strengthen the competitiveness of European industry, we should distinguish internal and external factors, i.e. measures that relate to the operations of European firms within the borders of the EU and such as relate to their activities outside the Union. Both are closely connected and must be coherent and mutually complementary.

In terms of the internal factors, the Lisbon Strategy as reformed in spring 2005 points us in the right direction: better education, more intensive research, increased innovation especially with a view to enhancing energy and resource efficiency, and the creation of a regulatory environment that is conducive to growth and employment will contribute at European level to strengthening competitiveness in the EU area and generating positive growth and employment effects in the medium term. At national level conditions must be shaped in the individual Member States to
ensure that they meet the challenges of global competition and create locational incentives for domestic and foreign investments (labor-market reforms, de-bureaucratization, modern tax systems, energy prices, and the availability of efficient and functioning legal systems, functioning competition, etc.).

Suitable external measures must supplement these internal aspects to increase the competitiveness of the European economy and offer European companies the possibility of operating successfully - inside and outside EU borders - and, by doing so, safeguarding growth and jobs in the Union. In applying trade and internal-market policy measures, the European Union and its Member States should always take account of possible interactions and subject the measures to a sober cost-benefit analysis. As part of a comprehensive impact assessment, to which the EU institutions are committed, the central question should be the extent to which an envisaged measure helps ensure competitiveness and employment in Europe. In addition, all policy areas should be looked at from the perspective of their external impacts and considered with an eye to strengthening the coherence, for example, of trade policy, development policy, and agricultural policy.

**Opening of the European Markets to Trade and Investment**

The EU is already one of the world's most open markets for industrial goods and services. Average tariffs imposed by the EU on industrial goods are among the lowest worldwide. In the service area the EU has submitted one of the most far reaching offers as part of the current round of WTO negotiations. A successful conclusion of the Doha Round will bring about additional liberalization. This brings considerable benefits for European consumers. But European industry also benefits from this openness since it permits a worldwide networking of value-added chains and thus makes possible profitable production on the domestic market. The worldwide lowering of trade barriers is a goal to which the German government continues to feel committed.

*The German government therefore expects the European Union to look into all possibilities for imparting new impulses to the process of market liberalization. Trade that is as unimpeded as possible is an important condition for economic growth and higher employment levels throughout the EU but especially for Germany with its export-oriented economy.*

Against this background, those protective measures still existing in the EU should be critically reviewed. The Common Agricultural Policy should be regarded as a special issue in this connec-
tion. Europe's agricultural market is in the midst of a fundamental phase of reform and liberalization. The agricultural reform of 2003 lets the EU play an active and constructive role in the Doha Round. And the reform process is going to continue beyond 2013. But a balance has to be struck between reform and liberalization on the one hand and the continued conduct of a formative agricultural policy that sustains agriculture as a constitutive element of the economy and everyday life in rural areas. In this connection, agricultural policy must ensure that consumer interests are met by ensuring the provision of healthy food produced in a manner that is both environmentally sound and animal-welfare oriented.

The challenge lies in the task of establishing an equilibrium between the reforms that are still necessary, the unique features of the farm sector, the legitimate interests and needs of European agriculture, and the interests of consumers and, in doing so, to take account of the coherence among European trade policy, agricultural policy, and development policy. This is an important concern of the German government.

In the industrial sector as well, the goal must be to arrive at an appropriate balance in the face of the increasingly diverging interests of producers, users, and consumers. A further lowering of external protection can spawn more competition, productivity, and structural change. But the importance of the EU's generally low external tariffs often fades when up against the effects of strategically designed and government managed export offensives - partially supported, as in the case of China - by an undervaluing of the currency.

Another important point that has not been given sufficient mention in the discussion to date is the opening of Europe to foreign investment. Protectionist tendencies applied by individual Member States to fend off such investments have unfortunately been observed of recent. In the view of the German government, Europe must remain attractive for foreign companies and capital investors. This safeguards and creates jobs, contributes to economic growth, and brings additional know-how to Europe, without which we cannot succeed in the long term against international competition. But European investments in third countries can also contribute to market development and thus help foster European companies’ competitiveness.

The German government therefore supports the EU’s efforts to eliminate barriers to market access for investors in third countries. At the same time, however, the EU area's attractiveness for foreign direct investment must be further enhanced through investor-friendly framework conditions.
Better Market Access in Third Countries

The multilateral system of world trade continues to offer the most comprehensive and, in the German view, priority possibility of developing markets in third countries for German industry. This creates the largest possible degree of transparency in world trade and makes it possible for the players to carry out trade worldwide in accordance with uniform WTO rules. This is of great advantage, particularly for smaller economies and developing countries. And it additionally helps limit transaction costs in international trade.

It is therefore the view of the German government that a successful conclusion of the Doha Round continues to be of decisive importance.

At the same time, other countries are increasingly using regional and/or bilateral free trade agreements to secure competitive advantages for their companies. We are concerned about this handicapping of European companies relative to foreign competitors. The European Union is rightly following these developments closely, and it should review its own options for action without a prior anticipation of results.

But in this context the Commission and Member States should base any possible new free trade initiatives on a careful analysis of the content of free trade agreements concluded by third countries, the concrete implications for European industry, and the experience and impact of existing EU agreements. Alternatives (regulatory dialogue; bilateral tariff agreements, etc.) should also be considered.

New agreements should fundamentally far exceed WTO standards and should ensure the equal treatment of the EU vis-à-vis other countries. In this context, the German government also expressly supports the Commission's efforts in the Doha Round's negotiations on setting stricter criteria for free trade agreements.

The growing worldwide trade in services is already making an important contribution to growth and employment. Services already account for a good 20% of overall world trade. When it is remembered that the EU's service sector contributes some 70% to European GDP, it becomes clear what potential remains unused.

In supplement to the recent progress on the so-called Services Directive, the German government therefore expects that one of the main concerns of future EU trade policy must be for
European service providers to improve market access conditions in third countries, above all in the newly emerging economies.

In addition, the German government expects that the focus of attention in negotiations with third countries be directed at the removal of the many non-tariff barriers to trade that often make the involvement of our companies on these markets enormously more difficult. In the dialogue with these countries it is fully appropriate also to examine our own NTBs and, by doing so, to document our serious determination toward cooperation. Technical assistance and measures to develop institutional capacities can possibly serve as helpful instruments in this connection.

Removal of Trade Barriers and Protection from Unfair Competition

The efforts for market liberalization must be supplemented by harder work to prevent conduct that is counter to market principles and competition and is practiced by government agencies and companies from third countries. Topics such as double pricing in the energy sector, export tariffs for raw materials, violation of intellectual property rights, forced technology transfer, currency manipulation, etc. require the same attention as questions of market liberalization since such practices damage European companies and jobs to a high degree - not only in terms of the market opportunities in the involved countries but also in other third countries and on the domestic market. Both the EU Commission and the Member States should expressly point to these aspects in their bilateral talks with the involved countries and call for the elimination of market-distorting practices.

The German government therefore sees an efficient set of trade-policy instruments as necessary to continue to protect European industry from the trade-distorting conduct of third countries. Studies by the Commission in December of 2005 showed that there was presently no need for a fundamental change of anti-dumping statutes and the Commission's practice of applying them. The current thoughts by the EU Commission, which is evidently seeking to give greater weight to Community interests, is cause for concern in Germany. For existing statutes already require a balanced analysis of the interests of producers, importers, and consumers in concrete cases.

And in the interest of the Community, issues concerning the globally competitive structure and competitive conduct must also be reviewed from the perspective of existing rules. But there should be no doubt that effective protective measures in trade policy are still indispensable. Important is also the willingness to apply them forcefully in cases where anti-competitive measures of third countries cannot otherwise be stopped. In this connection, granting third countries
market-economy status must strictly follow the set technical criteria; geopolitical aspects should not be the deciding factor.

Of major importance for this topic is also the enforcement of European and international rules and standards in third countries. Greater harmonization would overcome numerous trade barriers. This particularly applies in the transatlantic relationship, where there should be strong efforts to follow up on the already begun agenda for closer regulatory collaboration in order to achieve progress such as has been scored in the protection of intellectual property. **The German government therefore expects the EU to work toward institutionalizing rules and standards at the international level and, in doing so, to woo support for the adoption of European regulatory concepts (so-called "new approach"). This also applies to the field of social standards.**

**Protect Intellectual Property and Improve Access to Public Procurement Markets**

*In the important area of the protection of intellectual property, the German government fully agrees with the Commission that we have to undertake every effort to better protect our companies and jobs against piracy.* The involved trading partners must be strongly pressed to introduce appropriate laws and, above all, to apply them rigorously.

Worldwide public procurement markets play an important role in the international economic process. The EU's broad market opening in this area brings with it concrete benefits. It ensures a highly competitive intensity on the bidder side; this strengthens the competitiveness of European industry. At the same time, however, we also see that in numerous other countries impediments block European companies from access to their public procurement markets. **Against this background, the German government favors a comprehensive review of the possibilities of introducing a certain degree of reciprocity here. In any case, however, account should be taken of possible negative effects on the user side.**

**Assured Access to International Raw Materials**

Assuring an unimpeded raw material trade and transit, and the improvement of investment conditions in the producer countries must enjoy priority strategic importance for Europe - and especially for Germany as a country poor in raw materials - in connection with the topic of better market access in third countries. Assured access to these source materials is the prerequisite for numerous important industrial branches in Germany and Europe. Trade-distorting measures in
the international raw material sector directly restrict the international competitiveness of European companies and the growth of the world economy.

**The German government expects** this topic to be the object of close attention and emphasis in the EU’s future trading strategy. In this context, thought should also be given to the extent to which account can still be taken, for example, of the raw material topic in ongoing negotiations for economic partnership agreements with the ACP countries. The EU should work to achieve non-discrimination vis-à-vis all WTO Member States in the raw material sector.

### III. European Internal Policies and Their Effects on the Competitiveness of European Companies outside the Union

Alongside the measures to strengthen the competitiveness of European companies in the trading sector, the EU and its Member States must also strive to avoid negative repercussions from classic internal policies on the competitiveness of our companies in the internal market and on third markets.

#### Internal Market

In the formulation of legal statutes for the internal market, it must generally be ensured that no additional burdens are imposed on Europe's companies through excessive requirements that may have a negative impact on the competitiveness of European companies in the international context. Excessive reporting and statistic-collection obligations, as well as substantive requirements, may tie down companies' capacities, which can then no be employed in global competition. **From the perspective of the German government, the removal of bureaucratic burdens and the avoidance of new burdens are an important part of strengthening the competitiveness of European industry in the international context should be the focus of greater attention by the Commission.**

The time needed for enacting statutory provisions must also be shortened. It now takes an average of 25 months for a Directive to pass through the legislative process. Although that is three months less than in 1993, further avenues should be investigated to reduce the lawmaking process while taking account of the required consultation procedure and impact assessment. Greater efforts are also needed in the creation of EU-wide approved standards for implementing the Directives under the New Approach.
In the field of individual sectors, special attention is attached to the initiatives that are oriented to identifying barriers in individual branches and, building on them, to developing tailored proposals for action by policymakers. \textit{In this area the German government will focus its attention not only on the further development of the CARS21 Initiative but also on items such as the strategies for mechanical engineering, the pharmaceutical goods industry, and the information and communication technologies.}

In this context, the thoughts voiced in the high ranking group on "Competitiveness, Energy, Environment" in the interest of improving coherence between industrial, energy, and environmental policy should be further intensified in order not to impair the competitiveness of European companies. Such initiatives can serve as a model for further common activities by the Commission, Member States, the affected companies, and other involved parties.

The goal must generally be to avoid provisions in the EU that disproportionately impose additional burdens on European companies by comparison with important competitors. \textit{The further development of this policy area must therefore ensure the effective involvement of important competing countries. The German government expects that significantly more attention be given to these aspects in the future.}

\textbf{State Aids}

\textit{In the view of the German government more attention should be given to the question of state aids and their effects on external competitiveness.} Presently, for example, we can discern efforts toward diluting the statutes on financial aids in cases where only a single European location competes with other global locations to attract companies to set up operations. The goal of such efforts is to permit the granting of investment aids by way of exception outside of assisted areas when and insofar as this is necessary to attract foreign direct investment to Europe. \textit{The German government believes that the benefits and drawbacks of such efforts must be carefully considered and the WTO rules strengthened in this field to avoid a damaging international competition for investments.}

\textbf{IV. Concluding Remarks}

In view of globalization's enormous challenges for the European economies, the German government sees it as absolutely necessary that suitable measures be taken to strengthen the position
of European companies on the world markets while taking simultaneous account of the idea of sustainability. Internal and external policies must be carefully coordinated, must complement one another, and must reflect the international competitive situation. Only in this manner can they help strengthen the competitiveness of our companies.

The first draft of a Communication on "Global Europe: Competing in the World" as recently presented by the Commission aims in the right direction, in that it makes clear that responses to globalization must extend beyond trading policy and must also consider the external effects of the competition, industrial, and internal market policies. Furthermore, the coherence of trading, agricultural, and developing policies must be strengthened. Germany believes that the core sectors described there must be supported. But just as the earlier phase of the present draft, they must be made significantly more precise and require further development, especially as regards the external effects of our European internal policies. Account should be taken here of Interaction and reciprocal effects with other policy areas such as sectoral policies.

**In the area of trade policy, the German government additionally expects the Commission to devote its attention more intensively to the topic of assured access to international raw materials and to the non-discrimination of WTO members on the raw material markets.** For the European and German economies, which are poor in raw materials, this is a field of strategic importance that requires targeted policy support.

**The German government believes that greater attention should be paid to the topic of increasing efforts to attract foreign investors.** Far reaching efforts should be undertaken to make Europe more attractive for international direct investment. This can also contribute to more growth and employment in Europe.

With this position paper, the German government seeks to make a contribution that will help further advance the discussion process aiming at improving the competitiveness of our companies and will provide impulses that are as specific as possible for the further development of the draft of a Communication as presented by the Commission.

We strongly hope that the discussion process on this point will begin under the Finnish Presidency. As the future German Presidency, we will resolutely continue the work of the Finnish Presidency.