

**Malaysia Europe Forum Spring Dialogue
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**'The EU's Role in Promoting Balanced Economic & Social
Development'**

Good morning,

First of all, allow me to thank the EU-MALAYSIA FORUM for its kind invitation to come and speak to you today.

The timing for this Forum seems ideal: the world economy seems to be getting back on its feet and news from a recovery in Asia, including Malaysia, is encouraging. It seems like a good moment to reflect on the importance of keeping markets open to boost further growth and on the need to work together on promoting sustainable growth.

Ladies and gentlemen, let me begin by saying a few words on some recent EU developments.

The Lisbon treaty brings important changes; amongst others it makes the EU more democratic. The number of areas where the European Parliament shares decision making with the Council have increased and for the first time the European Parliament has a real say in trade policy. On substantive trade policy areas, investment becomes an exclusive EU competence. Also of specific interest in the context of sustainability is that Lisbon makes combating climate change a specific objective of EU environmental policy.

At the same time, we are working on a strategy for the next ten years. Tomorrow, the so-called Europe 2020 strategy will be unveiled. This strategy will explain how the EU tries to achieve a more sustainable,

smarter, greener and more open economy by 2020. This strategy goes well beyond trade.

Trade and investment opportunities are prerequisites for stimulating recovery. Protectionist spiral risks seem to have been avoided, both in EU and in Malaysia. However, we are not there yet. We have to remain committed to free trade in a multilateral context. Completing the DDA round remains our first priority. In addition, we need to work on bilateral trade relations by concluding trade agreements that go beyond the reach of the WTO.

We should aim at intensifying the EU –ASEAN trade relations. ASEAN is our third largest trading partner in the world with its markets holding great potential. The EU is also ASEAN's 3rd biggest trading partner, behind China and Japan. The EU is also the largest investor in the region, accounting for 24.5% of total investment.

On many issues Asia and Europe have a common interest: tackling environmental challenges, deepening regional integration and strengthening trade relations.

A year ago ASEAN and the EU concluded that the conditions for a region-to-region FTA did not yet exist, at least not at the level of ambition the EU aims for. In the present economic circumstances we cannot afford to sit still and wait for better times. Therefore, EU is seeking alternative ways forward mainly through negotiating bilateral FTA's with individual ASEAN countries. Tomorrow Commissioner for Trade Karel de Gucht will be in Singapore to launch negotiations for an FTA. This represents a first step, since we hope that eventually the EU would develop a network of free trade agreements with ASEAN countries.. We remain interested to work towards concluding more comprehensive and ambitious FTA's with ASEAN countries, including of course with Malaysia.

Furthermore, we support ASEAN to reach its itself ambitious goals that is has set with the ASEAN Charter and the ASEAN Economic Community blueprint

Malaysia is a very important partner within ASEAN and we look forward to strengthening our bilateral trade relations. There is much to win. Malaysia is EU's second largest trading partner in ASEAN, behind Singapore. EU - Malaysia bilateral trade amounted in 2008 to around 30 billion EURO.

Despite the economic crisis, there are encouraging and commendable signals from the Malaysian Government. Liberalisation and dismantling of several trade barriers and restrictions on investment are good news. Keeping markets open and restructuring sectors have helped Malaysia to smoothly withstand the crisis. We are interested in what the forthcoming new economic model will bring.

Although recent steps go in the right direction, there is more to be done. For example, there are still significant constraints on foreign operators and transparency of the regulatory regime could be improved. Also equity caps and requirements on foreign ownership across many sectors are remaining and more predictability and transparency is needed in government procurement policy.

Ladies and gentlemen, let me now turn to sustainability issues. Harnessing the economic benefits arising from trade liberalisation and encouraging sustainable development are complementary objectives. Promoting sustainable development is an integral part of the EU's trade policy.

Our starting point is that trade opening can generate economic growth to foster sustainable development. The impact of increased international trade flows on overall economic development and on jobs, labour protection, environment and climate depends to a large extent on policies outside trade policy. However, those policies and other factors must and need to be taken into account as an integral part of the trade policy-making process, if trade is to deliver the expected benefits.

A key objective is thus to ensure consistency and mutual supportiveness between various policy instruments, for example between climate change mitigating measures and trade policy, or

between industrial reconversion, labour retraining policies and sectoral market opening.

A key element in current EU policy is the negotiation and incorporation of sustainable development elements into our bilateral agreements, be they Partnership and Cooperation Agreements, Free Trade Agreements, or Economic Partnership Agreements, as a basic part of the foundations of our trade relations with the partner countries. Whether the partners are developed countries or not, we see a role for including commitments on implementing social and environmental standards, and creating mechanisms which allow wider stakeholder involvement in that process.

The EU FTA approach relies on cooperation, transparency and dialogue. We believe this is a better way forward than a sanctions-based approach: we can deliver better results, do not risk alienating our partners and can hope for real compliance.

A particularly important global sustainability challenge that we need to address is climate change. We need to create mutually supportive trade and climate policies and to develop coherence between the two policy areas.

Within the EU, we have set ourselves ambitious commitments and targets for lowering green house gas emissions and for increasing the share of renewable energy in our energy consumption. A key element in our efforts towards climate change is the absolute reduction of emissions, the move to more low-emission technology – to more efficient forms of energy, and eventually to energy sources that delink energy use from emissions.

The EU continues to believe that an international climate change agreement is the only viable instrument to tackle climate change from an environmental but also from a trade policy perspective. A strong and comprehensive global agreement would diminish the risk of so-

called carbon leakage, and reduce the calls for trade measures to address these problems.

We should not forget that addressing climate change represents important opportunities for economic and trade growth.

Trade policy through market opening creates economic efficiencies and contributes to strengthening competitiveness. In relation to climate change mitigation, trade policy can help bring cost efficient access to goods, technologies and services that contribute to reducing carbon emissions.

In practical terms, what we need to do now is to strengthen the positive contribution of trade to the fight against climate change. Obviously this means to continue with our efforts on the liberalisation of trade in environmental goods and services that has been ongoing at the DDA. Climate change has given an increased urgency and importance to the project. Freeing up trade in the environmental goods and services sector is the fastest way to diffuse clean technologies, especially in developing countries.

Beyond trade liberalisation, there are several other trade policy tools that can positively contribute to the achievement of climate change objective if properly used. For example climate related voluntary /private labelling, certification of natural resource based products, green public procurement.

I am aware that the case of bio fuels is particularly important for Malaysia in this context. The EU has adopted a harmonised EU sustainability scheme with criteria for bio fuels to make sure we promote them in a sustainable manner. We think these are essential and non-discriminatory, and can be implemented in a non burdensome way. We have been in close contact with the Government of Malaysia and stakeholders in the process of developing the legislation and will continue working together on the issues related to implementation of this scheme.

To conclude, I am very happy to see that Malaysia is also addressing these challenges. This EU – Malaysia Forum should contribute to bringing us closer together. Our shared future prosperity is inextricably linked by the search for more open trade relations.

Thank you for your attention.