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EU's external relations/ trade policy

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1. Some basic statistics

- The EU has

a) 454 billion consumers

b) 28 per cent of global GDP

c) 35 per cent of imports

d) 34 per cent of exports

One-third of the world's largest corporations are European

2. EU's trade policy and internal policy integration

The EU has two types of external relations:

1) Economic policy relations, through trade agreements and development and humanitarian aid – our main focus

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2) Foreign and security policy relations, through the Common Foreign and Security Policy (CFSP) and European Security and Defense Policy (ESDP)

The choice of EU's external economic policies will always depend on the advance of internal policy integration

Steps in the European integration policy and external economic relations

1) the EU is a **customs union**

– this lays the basis for a common external policy by setting up a common commercial policy = a) common external tariff + b) rules on the common use of non-tariff barriers

2) the EU is also a **common market** =

a) common policies in the field of labour and capital + b) common policy of immigration + c) harmonization of other policies (crime prevention, social security)

3) the EU has also become **an economic and monetary union**

= common rules of competition, financial support

4) the EU is **not a full union**

= common security and defense policies, only cooperation in some aspects of these policies + unanimity

3. International organizations and the EU's trade policy

The **international institutional setting** as far as the EU's external economic relations are concerned

In 1995 WTO took over responsibilities from GATT

The essential functions of the WTO:

- 1) administration and implementation of multilateral trade agreements: the key concept in this respect is the "most-favored-nation" clause = trade liberalizations granted to one of the members must immediately be granted to all other members as well (exception: creation of a free trade area)
- 2) providing a forum for multilateral trade negotiations

Other international trade relevant organizations:

- OECD (consultation on capital transactions, economic policy coordination)
- ILO (international labour standards)
- IMF (monetary coordination)

4. Political Theories of international relations

1) **Realism** – core assumptions:

- a) States are unitary actors
- b) States' interests are primarily defined in geopolitical/ security terms
- c) States maximize their security in a rational manner

From these assumptions follow that:

- i) Interstate politics tends to be a zero-sum game
- ii) The EU is an instrument of states' preferences
- iii) States' interests are stable
- iv) Free trade agreements only when one dominant actor has the power and the interests to promote them

2) **Liberalism** – core assumptions:

- a) States are not unitary actors – competition between domestic interests and ideologies
- b) Economic interests are more important than geopolitical concerns
- c) State officials act rationally on behalf of states' economics interests

From these assumptions follow that:

- i) Interstate politics can be a positive sum-game, e.g. through trade
- ii) States have an incentive to create international institutions to help solve collective action problems
- iii) Free trade agreements are promoted by most governments because it is in the interest of the general public

3) **Constructivism** – core assumptions:

- a) States acts on the basis of ideological and/or cultural norms
- b) States are not strictly “rational”
- c) States’ behavior evolve as a result of socialization

From these assumptions follow that:

- i) States are forced to adapt their behavior to norms of international organizations like the EU
- ii) States are not the only important actors in international politics
- iii) Free trade agreements are often a result of a specific ideological conviction

5. EU's external economic policy

Three instruments:

- 1) The common commercial policy
- 2) Bilateral and multilateral trade agreements
- 3) Cooperation with developing countries

6. The common commercial policy (CCP)

A single set of rules on the importation of goods = **the common commercial policy (CCP)**

Objective:

In the Treaty of Rome from 1957:

to promote “the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers”

Main policy instruments of the CCP:

a) The common external tariff

- Originally an arithmetic average of the tariffs applied by the member states
- In 2007: an average of 18 percent on agricultural goods and zero percent on many manufactured goods

b) Import quotas

- Apply to a wide variety of products, including agricultural products, iron and steel

c) anti-dumping measures

- if exporters are selling at a loss in foreign markets
- if exporters to the EU sell at discriminatory prices that are likely to harm domestic producers
- 150 measures per year
- WTO rules permit anti-dumping measures to be taken only if it can be shown that i) imports have increased substantially and ii) there is a substantial price difference between home and export prices and iii) the imports cause substantial injury to the home producers.

d) Voluntary export restraints (VER's)

- VER's usually result from political pressure but they are acceptable to exporters

Policy instruments of **minor importance**:

- export promotion measures
- political trade sanctions (UN Security Council)
- countervailing duties (in case of export subsidies in third countries)
- safeguard clauses (in case of a dramatic rise in imports in certain products)
- rules of origin (= a proportion of a product must be added locally to qualify as originating from the EU)

7. EU institutions and EU's CCP

The role of the Commission:

- 1) The Commission has the monopoly of legislative initiative concerning the CCP

- 2) The Commission negotiates all external trade agreements where the EU has the competence on behalf of the Council (= the US presidents "fast track mandate from the US Congress)

- 3) The Commission has the executive power to adopt anti-dumping measures, countervailing duties and other import restrictions = the Commission is responsible for investigating and taking action against unfair trading practices

The Council of Ministers:

The Council of ministers issue negotiating mandates to the Commission by a qualified-majority

The European Parliament:

The European Parliament has no formal role under the CCP.

8. The EU's trade hierarchy

Bilateral and multilateral trade agreements between the EU and other states or blocks

GATT (from 1948)/ WTO (from 1995):
Rounds of trade negotiations, latest the
Doha Round

The EU is the largest trade bloc. The WTO needs the support of the EU. Still, there are trade conflicts between the EU and the USA which are each others largest trading partners.

The **EU's trade hierarchy**

EU external relations are governed by WTO rules.

However, the EU also uses the loopholes in the WTO system in order to discriminate between groups of countries.

(Is it effective? Low level of tariffs and uncertainty as to prices and exchange rates).

This has resulted in a hierarchy of EU trade relations (2004)

Table. The EU trade hierarchy

Countries concerned	Form of relationship	Share in EU external trade	Population (millions)
EFTA	Free trade area, incomplete common market	12	10
Central and Eastern Europe outside the EU	Association	3	60
Mediterranean	Partnership	8	240
ACP	Special one-way preference	4	600
Other third world	Generalised preference	32	4500
USA, Japan etc.	Most-favoured nation	41	900

9. The EU's trade policy and other economic blocs

EFTA

Most EFTA members have left EFTA and joined the EU.

EFTA is now very small (Norway, Iceland, Switzerland, and Liechtenstein)

EFTA is associated to the EU internal market regulations, but there is no free trade in agricultural goods.

Central and Eastern Europe

This group has moved from the bottom to the top in the EU trade hierarchy after 1989.

First Europe agreements, then membership.

Mediterranean countries

Since 1995: Euro-Med-Partnership = a vast free trade area for most manufactured goods and a zone of preferential access for agricultural goods

Lomé Convention (Cotonou) = Africa, Caribbean, Pacific

- 76 countries

- tariff preferences = almost the entire ACP exports have access to the EU market free of any tariff or quota

- EU tariff preferences are non-reciprocal

The effects of these agreements have been disappointing for ACP countries.

GSP – Generalized System of Preferences

- Latin America and Asia – 178 countries
- Granted by the EU to a number of countries
- Confined to semi-manufactured and manufactured goods like textiles and clothing and excludes food products
 - China has benefitted from the GSP

Most-favoured nation (MFN) – USA, Japan, Australia etc.

US administrations saw EU as a way to helping Europe to recover from WW II

* USA and the EU are the two most important trading partners in the world.

* Their trade has benefitted from trade liberalisation in GATT and WTO.

* Transatlantic disputes over issues such as:

- Agricultural exports

- Steel tariffs

- Dealing with Cuba.

10. Trade, aid and cooperation policies with developing countries

a) Aid

- The member states provide over 50 per cent of all global development aid (member states + EU) + approx. 20 per cent from the USA and nearly 20 per cent from Japan
- The EU's main development activity – the ACP countries; former Lomé Convention, now Cotonou Convention
- 78 member countries in Africa, the Caribbean, and the Pacific; 41 of the 49 least developed countries in the world

b) Humanitarian aid policy

- coordinated by the European Community Humanitarian Aid Office (ECHO)
- ECHO: 1) emergency aid, 2) food aid, 3) refugee aid

c) Trade policies to promote economic development

- example: “Everything but arms” (EBA) initiative = tariff-free access to the EU for imports of all products from the 49 least developed countries (apart from arms)
- Interpretation of EBA = to stop criticism from the poorest states of the CAP export subsidies

In sum,

the EU's external economic relations are inconsistent, but the EU is not "Fortress Europe"

11. Business strategy and EU's trade policy

European companies importing goods must constantly analyze changes in the EU's trade policy

a) **“Bad” example:** When China joined the WTO in 2005 its trade relations with the EU changed significantly resulting in huge increases in European imports of Chinese textiles and clothing. – It came as a surprise for many European textile producers.

b) **“Good” example:** The trade agreement between the EU and the Eastern and Central European countries in the 1990's meant a huge increase in the mutual trade. – Some companies were much better than others to exploit the new possibilities. They analyzed the upcoming liberalizations and had a strategy ready from the beginning.