

The Economics of European Integration

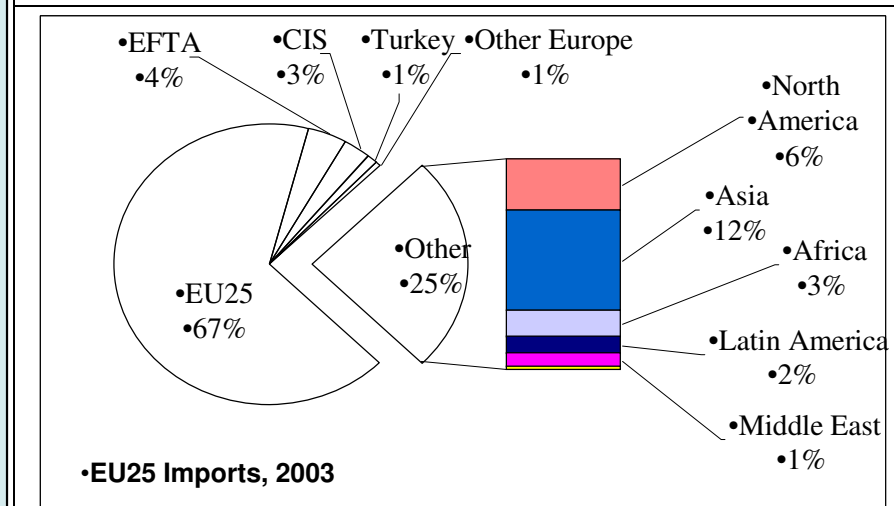
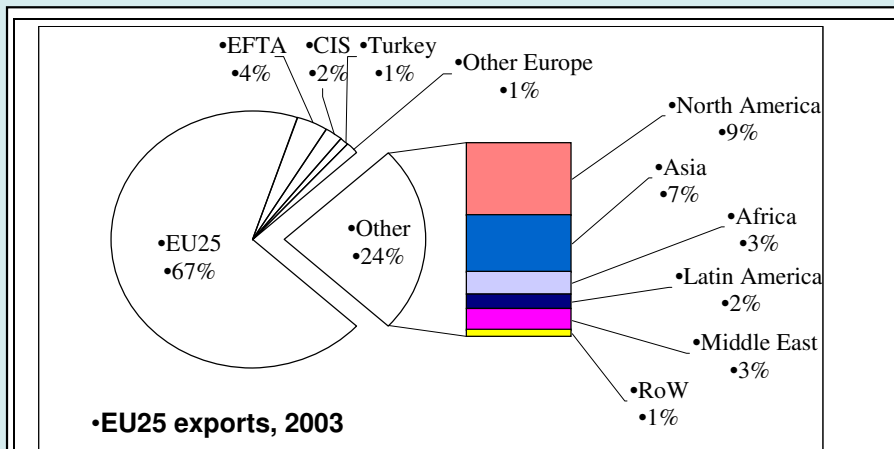


Chapter 12

Trade Policy



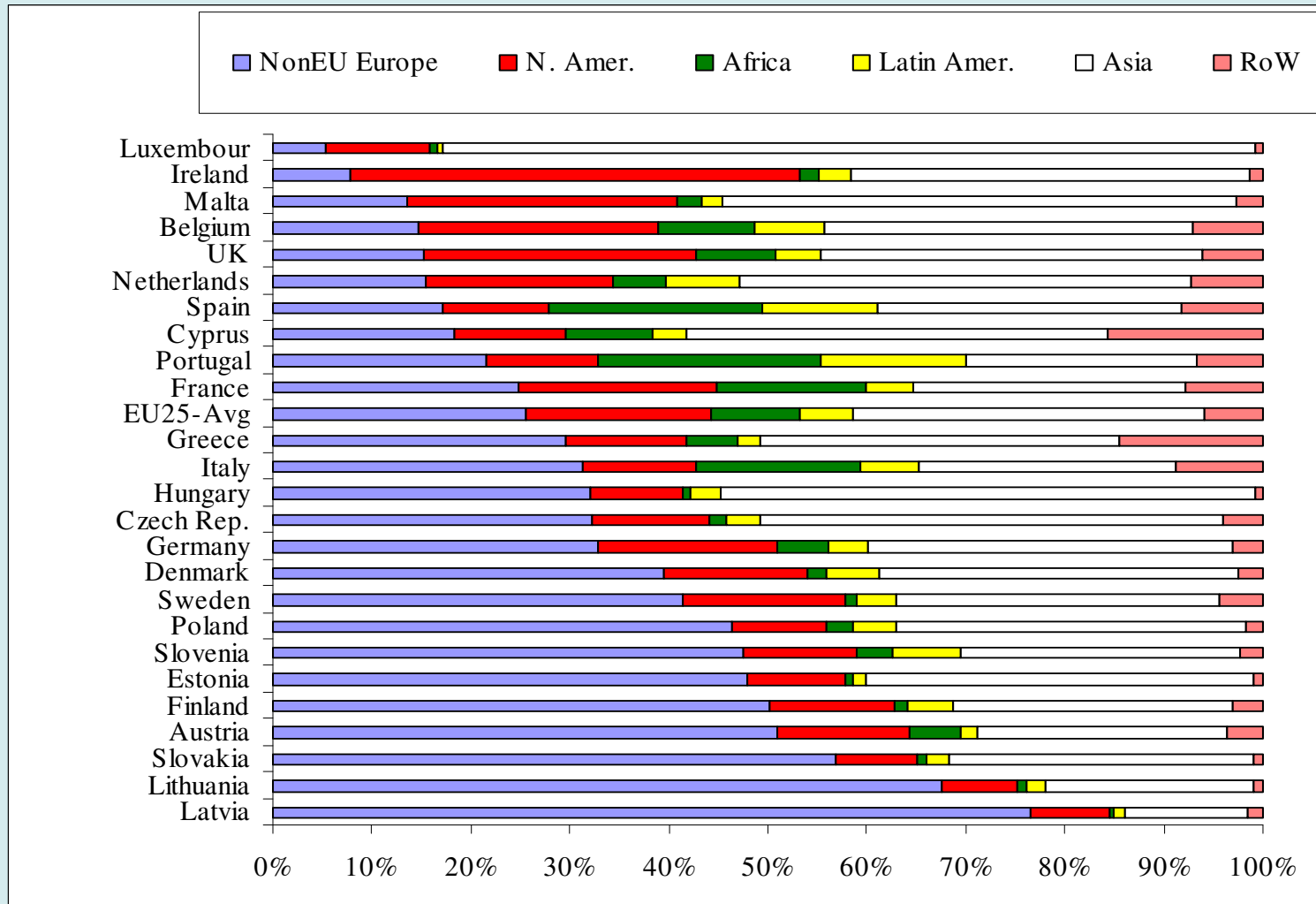
Pattern of Trade: Facts



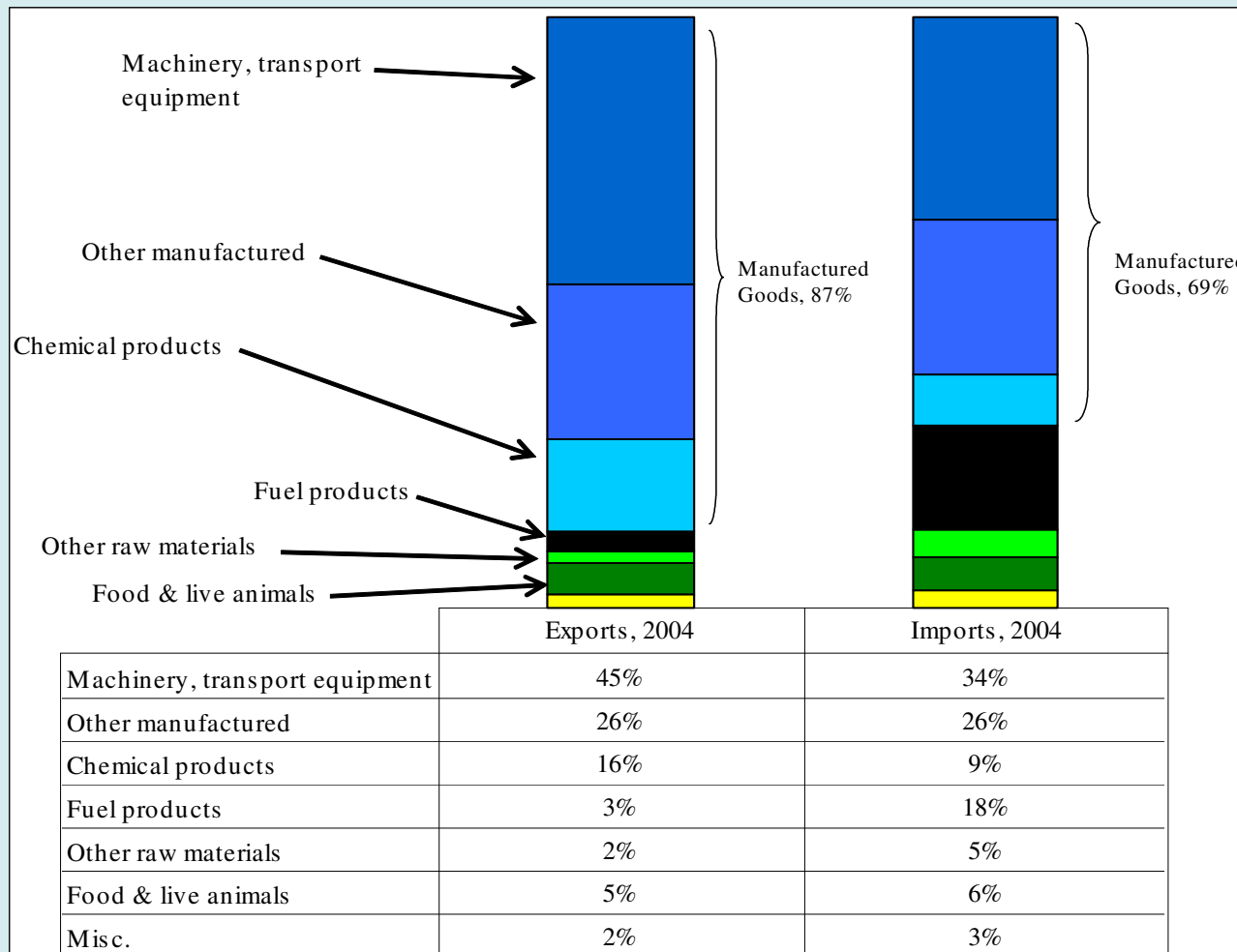
•Source: Eurostat. The latest data can be downloaded from Eurostat's europa.eu.int/comm/eurostat

- 2/3rds EU25 exports are to other EU25 nations.
 - More than 90% of this is actually among the EU15 trade (10 new Member States are fairly small economically).
- Add all other European nations, 3/4th of Europe's trade is within Europe..
- North America and Asia are the EU25's main markets outside Europe, each accounts less than 1/10th EU exports.
- Africa, Latin America and the Middle East are not very important.
- The pattern on the import side is very similar
- Rounding off, 3/4ths of EU imports are from Europe, with the fourth quarter split into two more or less even groups of nations – Asia, and all other nations.

Differences among Member States

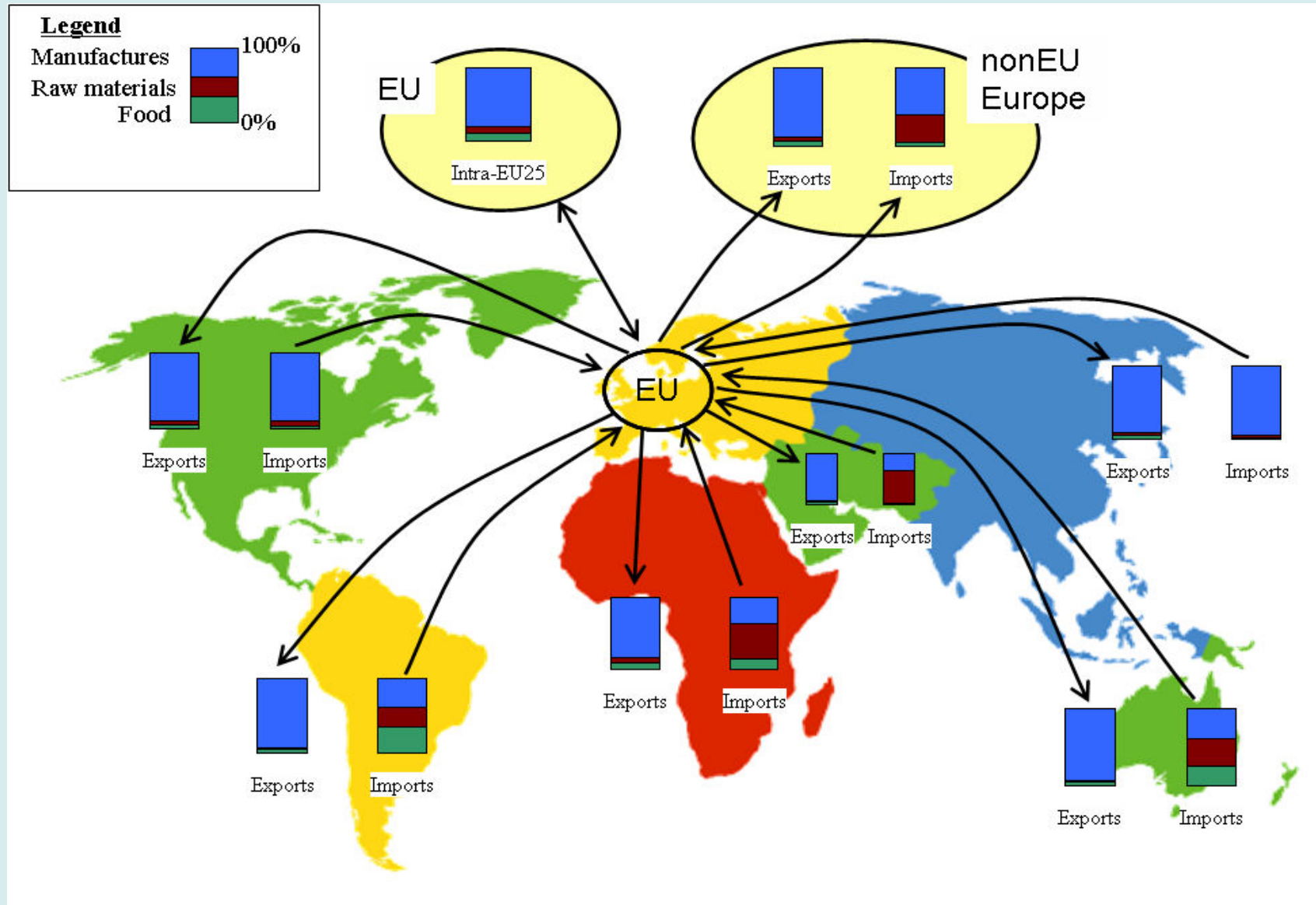


Composition imports & exports, aggregate trade

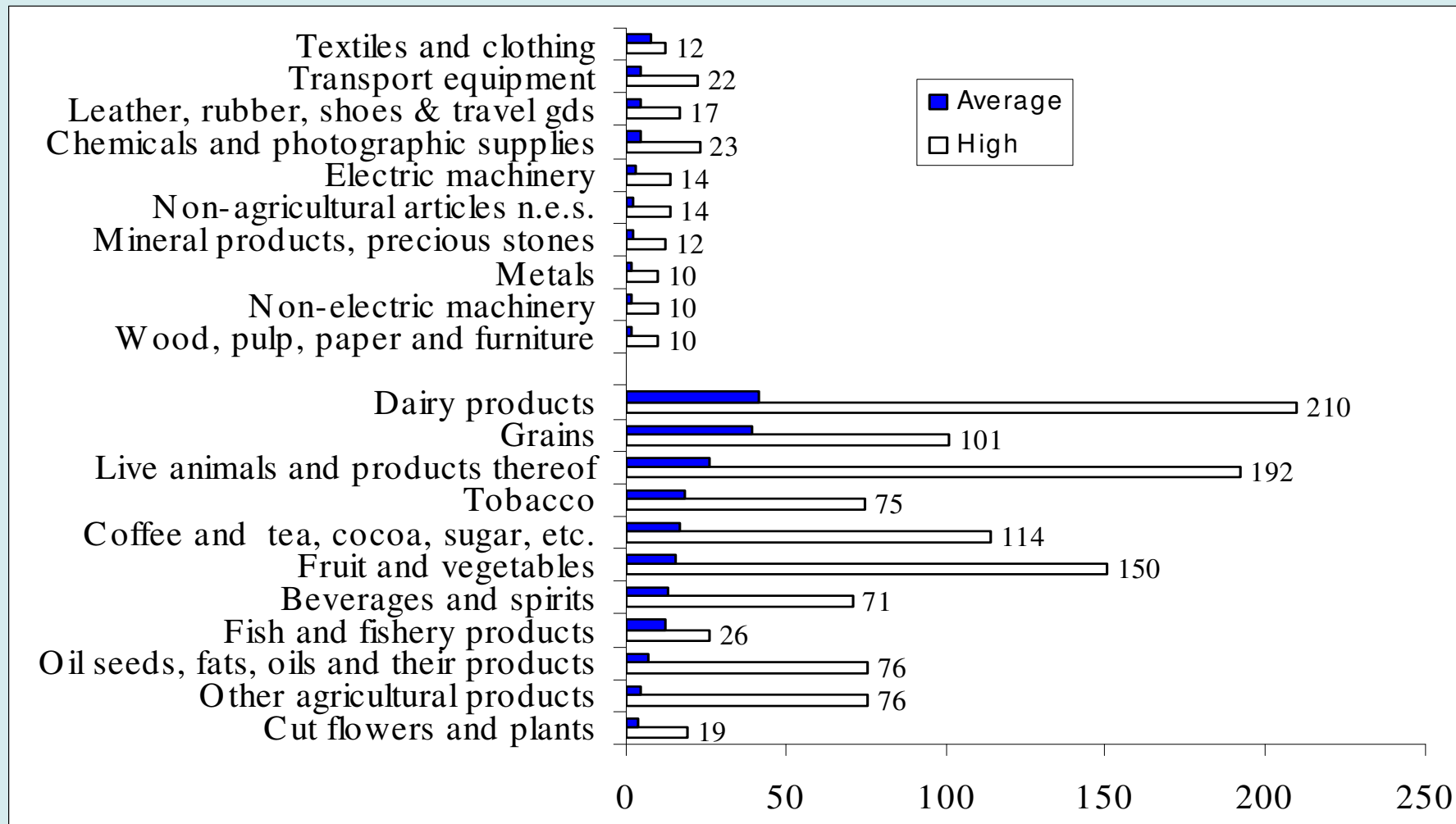


- Manufactured goods 90% (half of all exports being machinery and transport equipment).
- Import side, 2/3rds on manufactured goods.
- EU25 is a big importer of fuel.
- Other types of goods play a relatively minor part in the EU's trade.

What with whom?



EU's MFN tariff structure (the CET)



Source: WTO's Trade Policy Review, EU 2004.

Institutions

- Trade policy is an exclusive competency of EU.
 - Customs Union requires agreement.
- Trade in goods: Commission has responsibility for negotiating, Council of Ministers sets “Directives for Negotiation.”
 - Peter Mandelson (Trade Commissioner).
 - Council accepts/rejects final deal by QMV.
- Commission in charge of surveillance and enforcement of 3rd nation commitments to EU.
 - Trade disputes with US, China, etc.

Services, IPR, etc.

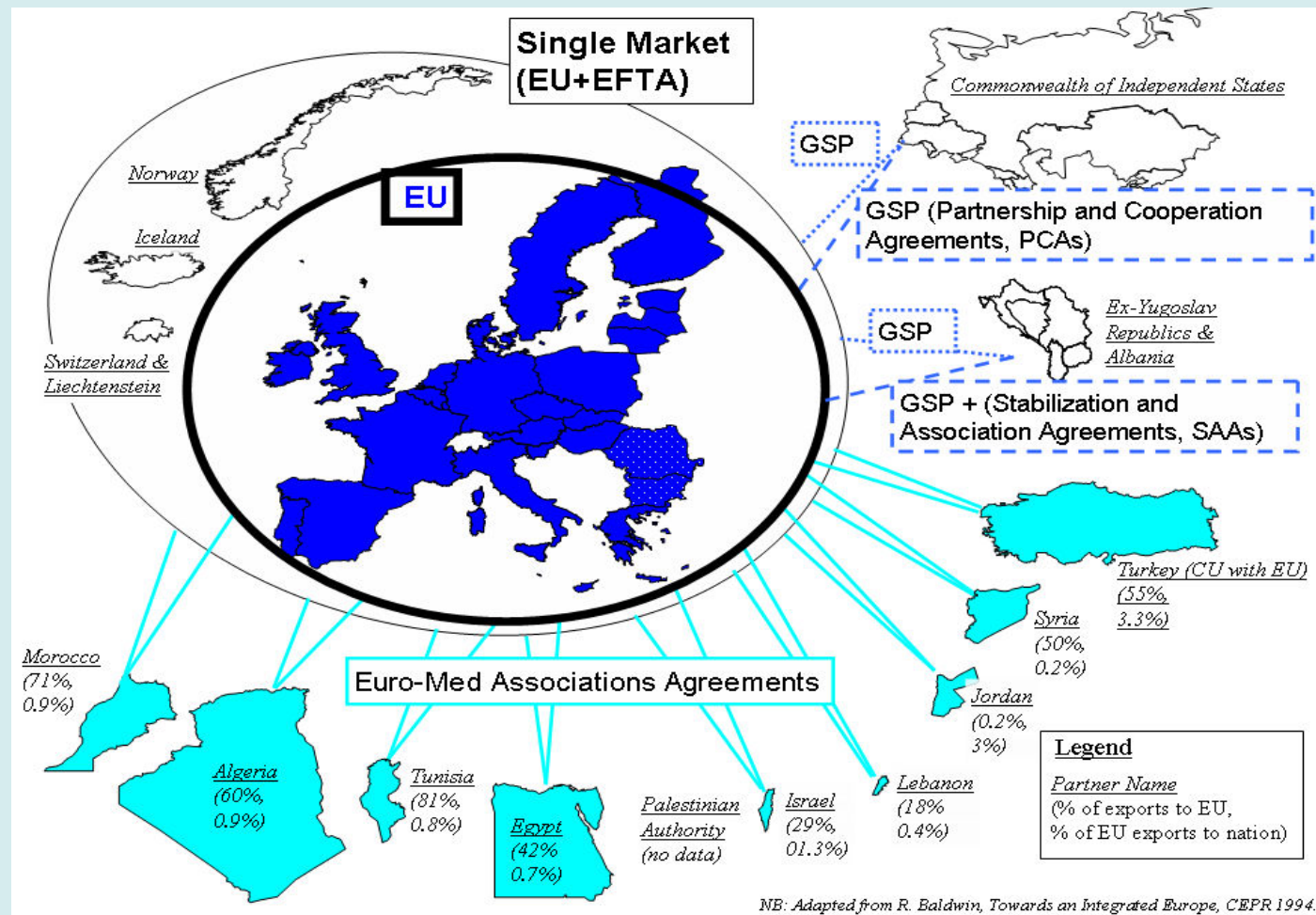
- World trade negotiations involve far more than trade in goods.
 - TRIPs, TRIMs, Services, TBTs, trade facilitation, etc.
- Treaty of Rome only gave Commission power over trade in goods.
- Treaty of Nice (& Amsterdam) extended Commission's authority to some aspects of Services trade and TRIPs, & made QMV the rule in Council on such matters.
- “Parallelism” -> if the issue would be subject to QMV in Single Market considerations, it's subject to QMV on trade matters, and same for unanimity voting.
- Constitutional Treaty expanded Commission authority to include FDI & more role of Parliament.

Contingent Protection

- WTO allows members to raise tariffs to:
- Counter 'unfair' trade practices, e.g.
 - Antidumping
 - Countervailing duties
- Provide temporary protection “safeguards.”
- The various WTO articles on these require a procedure; in EU the Commission is in charge of these procedures, but the final decision is subject to QMV approval of the Council.

EU External Trade Policy

- EU has special deals with 139 nations; often more than one per partner. Each can be very complex.



NE: Adapted from R. Baldwin, *Towards an Integrated Europe*, CEPR 1994.

EU External Trade Policy

- European-Mediterranean area:
 - West, Central and East Europe = Single market in industrial goods;
 - EU + EEA + Swiss bilateral agreements
 - Euro-Med Association Agreements:
 - Morocco, Algeria, Tunisia, Egypt, Israel, the Palestinian Authority, Lebanon, Jordan, Syria and Turkey.
 - Asymmetric (EU cuts its tariffs faster) FTAs in manufactures, by 2010.
 - Turkey unilaterally in Customs Union in manufactures.
 - Asymmetric dependence (e.g. 70% of Morocco's exports to EU, but <1% of EU to Morocco)
 - EFTA's "FTA union" with EU; EFTAs mimic EU to avoid discrimination against EFTA-based exporters.

Former Soviet republics & Western Balkans

- Partnership and Cooperation Agreements (PCAs).
 - These are GSP+ (GSP=Generalised System of Preference).
 - Russia, Ukraine, Georgia, Belarus, Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Moldova and Uzbekistan.
- Stabilisation and Association Agreements (SAAs).
 - Former Yugoslavian states.
 - Croatia has started membership; others likely to follow.

Preferential arrangements with former colonies

- Colonial preferences conflicted with Common External Tariff.
 - EU made exception for these nations to avoid imposing new tariffs; signed “unilateral PTAs”
 - Yaoundé Convention and Arusha Agreement
 - When UK joined 1974 extended to many Commonwealth nations.
 - “ACP nations” (Africa, Caribbean & Pacific); the new agreement = Lomé Convention.
 - Duty-free but subject to quota for sensitive items (sugar, banana, etc.).
- These didn't help the ACP nations (c.f. Asian success w/o preferences).
- When Lomé Convention renewed in 2000, the EU and the ACP nations agreed to modernise the deal.
- Cotonou Agreement; eventually reciprocal free trade.

GSP

- 1971 GATT provision.
- EU grants GSP to almost all poor nations.
- General GSP.
- “Super-GSP” more generous on market access.
- ‘Everything but Arms’ for least developed nations.
- On paper, EBA grants zero-tariff access all goods, except arms and munitions.
 - Goods in which these nations’ are most competitive are in fact excluded from the deal.
 - Tariffs on bananas, rice and sugar – products where these poor nations could easily expand their EU sales – are to come down only in the future.
 - Moreover, even though all tariffs on these items will be gone by 2009, the exports quantities are limited by bilateral quotas.
- 49 nations qualify for EBA in principle in 2005.

Non-regional FTAs

- Mexico, Chile, and South Africa, done.
- Ongoing with Mercosur, & the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates).

Non-preferential trade

- About 1/3 EU imports are not granted some sort of preferential treatment (US, Japan, etc.).