



EU Trade Policy: New Orientations and Challenges

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The common commercial policy of the European Union is one of the earliest and most traditional common policies. It played a crucial role in the first stages of integration and till now has been one of its most prominent fields. The formulation of community level trade policy was a logical result of the development track envisaged by the Treaty of Rome. Modifications of this policy were closely related to ever increasing progress toward integration, first the creation of customs union and the vision of the common market, later the completion of the single European market. The basic principles, methods of operation and main competences of member states and common institutions also have their origin in the founding treaties. Trade policy is among those common policies that have not witnessed radical systemic change during the past decades. There were no strong aspirations to completely reform this policy, the logical foundation for common trade policy has not been questioned or contested.

Nevertheless, despite the continuity of EU trade policy, the relative stability of its methods and principles, its permanent and decisive role in shaping the rules of the international trading system some dilemmas cannot be avoided. From time to time discussions have been launched about revising priorities and shifting the emphasis of trade policy. Sometimes the need to extend the common rules to new fields of regulations became evident and strong. From the beginning, trade policy has generated dispute about its manner of adjustment to change in the world

economy and about strengthening its conformity with the new requirements of European integration.

Since the creation of the WTO, disputes about the reform of EU commercial policy have speeded up. The European Commission, in cooperation with interested economic actors and taking into account the ambitions of the member states, has produced several strategy documents aimed at introducing new perspectives and directions for and reformulating the priorities of the EU's common commercial policies. The first document published in 1996, "The Global Challenge of International Trade: A Market Access Strategy for the European Union", reflects increased activity in the EU intended to implement WTO decisions on liberalisation and to extend the scope of bilateral agreements. This pro-active EU trade policy period was followed in the first half of the 2000s by a turn to a more cautious and more realistic assessment of EU trade policy manoeuvring room. This was reflected in the 2004 Commission document, "Trade Policy in the Prodi Commission: an Assessment". Following the likely failure of the Doha Round, the EU took a step back in enforcing far-reaching multilateral rules and procedures going beyond classical trade policy (such as government procurement, investment policy, competition rules and trade facilitation) Nevertheless, one of the most important internal messages was the revealed need for the better integration of trade-related issues with other community policy efforts. The most recent, significant trade policy document is the 2006 "Global Europe: Competing in the World. A Contribution to the EU's Growth and Jobs Strategy".

The Commission's *Global Europe* communication returns to some extent to its 1996 communication by focusing on the liberalisation of tariff and non-tariff barriers, both in multilateral and bilateral frameworks. This document particularly stressed fear of disadvantages and a worsening of the EU position arising from increased attempts by the EU's main trading partners to conclude bilateral market access agreements with third countries. By listing new potential priority partners for future bilateral deals and strategic partnership agreements (Korea, ASEAN, Mercosur, China, India etc.) the *Global Europe* communication reflected the readiness of the EU to take a more active role on the international scene. At the same time this document again emphasises the idea of establishing rules going beyond classical trade policy, either in multilateral or bilateral form. *Global Europe*, together with stressing the open nature of the European marketplace, also emphasises the improved coordination of trade policy with the general macroeconomic and sectoral policy objectives of the EU, in other words, the creation of an external competitiveness pillar.

Today EU trade policy faces new challenges. Moreover, in the last one and a half decades, essentially since the creation of the WTO, these challenges have become stronger than ever. This situation forces the EU to formulate new trade policy answers that take into account the internal interests and circumstances of European integration, as well as the modified external conditions. A large part of the challenge is related to globalisation. In a globalised world, the interests of many economic actors in extending liberalisation can contradict the interests of those seeking protection. The task of trade policy is to find a balance between these positions. The other outcome of globalisation is the increased speed of the international trade policy-making. The relatively slow, calculable and even predictable international process of trade policy change is now past. A third important consequence of extensive globalisation is shifting power relations in the world economy and the emergence of new powerful players. On the international scene, this has led to a larger diversity of interests

and actions, and to the emergence of new interest groups and coalitions of countries.

Important changes can be observed in the content and backdrop of trade policy. In previous decades, trade policy measures mainly focused on the elimination or phasing out of classical trade policy barriers. The GATT provides an illustrative example of this developmental stage. Now in the forefront of the international agenda on multilateral and bilateral agreements are liberalisation measures and the creation of new practices and codes of conduct that go far beyond classical trade policy efforts aiming at the reduction of existing barriers. These newer efforts and ambitions, among others behind-the border rules, environmental requirements, enhanced transparency, stronger consultation mechanisms, recognition of standards, affect much more than pure market access interests. They may touch deeper elements of the economy and regulatory systems and may even affect the existing system of social values. Dilemmas concerning the future of EU trade policy show that finding a consensus in such questions has become far more difficult and complex. The inefficiency and inadequacy of the old methods for arriving at trade policy decisions may even lead to a questioning or rethinking of the existing mechanisms of EU trade policy. This has never happened before.

The *Global Europe* strategy has served Europe relatively well since 2006. Its principal economic orientation and main components should perhaps remain in place if the EU is to continue to be competitive in the future. Certainly, challenges have increased in recent years. One need only refer to the recent economic crisis (with increased protective non-tariff measures and discrimination against foreign commercial interests in different non-trade policy fields), or to the drive towards greener growth. By promoting a greater involvement of the European Parliament in trade policy decision-making, recent Lisbon Treaty changes may also influence policy formation, as well as its values and priorities. An updated trade policy will need to take these challenges into account. However, the EU must address these new realities while remaining fully aware of trade's primary

purpose – to generate long-term growth and employment in the European economy. The EU's common commercial policy must work to support EU competitiveness and job creation. This is a crucial component of the EU's 2020 growth strategy.

On the basis of the evaluation of the achievements and shortcomings of the EU's current trade policy, in the second half of 2010 the European Commission started to prepare the intellectual background for discussions and consultations on a renewed strategy. As the first milestone in this process the Commission published a report assessing the *Global Europe* strategy ("Report on progress achieved on the Global Europe Strategy, 2006-2010") and shortly thereafter, a deeper analysis that also incorporated recommendations for the future ("Trade as a driver of prosperity"). These two working documents served a basis for the Commission communication, "Trade, Growth and World Affairs – Trade policy as a core component of the EU's 2020 strategy", which elaborated future directions for Community action in this field.

The main elements of the EU strategy focus on delivering new market access through multilateral and bilateral trade negotiations and ensuring that that these policy goals are more efficiently enforced. The EU is strongly committed to concluding the WTO Doha Round. At the same time, the EU has taken a more strategic approach to its relationship with its major partner countries. The European Union needs trade policy that will enhance the competitiveness of the European economy including, among other things, the regulation of raw materials and energy markets, the tackling barriers to participation in international public procurement markets, the addressing of regulatory barriers to trade and investment, the creation of new business opportunities in green and digital technologies, the ensuring of full protection of intellectual property rights through stronger rules and improved enforcement. Finally, the EU wants to achieve a higher level of coordination between trade and other policies that have a direct bearing on EU commercial policy.

At the end of 2010 and during the first weeks of 2011, representatives from European business and academic circles elaborated their contributions to the future strategy and formulated recommendations. Some of them highlighted the merits of the Commission's approach and suggested possible improvements. More critical views have also been expressed, especially within academic circles, arguing for a rethinking of global and EU-level trade governance, for a more cooperative, flexible, balanced and pragmatic EU approach in multilateral and bilateral negotiations. This is where we are now. The elaboration of a new EU trade policy will be continued during the first half of 2011 and remains on the agenda of the European Commission and the Hungarian presidency. By contributing to the development of consensus, Hungary now has the chance to play the role of a policy shaper, or at least that of a policy co-shaper.

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