

The European Union and world trade



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- for statistics: <http://europa.eu.int/eurostat.html>
- for the euro: <http://europa.eu.int/euro>

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According to a song, money makes the world go round. So it does. But even more so in this era of the borderless economy are global wealth and democratic security increasingly dependent on international commerce and investment.

Trade policy might appear a complex, technical area fit only for experts, but in reality it is a branch of economic policy, which itself is ultimately about growth, prosperity and jobs. And it is that prosperity which enables governments to meet the legitimate concerns of their electorates for better education, health and other demands on limited public resources.

It is for that reason that the European Union, already the most open trading bloc in the world, has taken the lead in abolishing its own internal frontiers and in encouraging interdependence among its members. It attaches similar importance to the removal of barriers to the free movement of goods, services and capital with the rest of the world. This global challenge leads the EU to play its prominent role as a key participant in the World Trade Organisation (WTO) which works to consolidate the progress achieved in previous international trade negotiations as well to prepare for the next set of agreements.

Trade: a boost for the economy

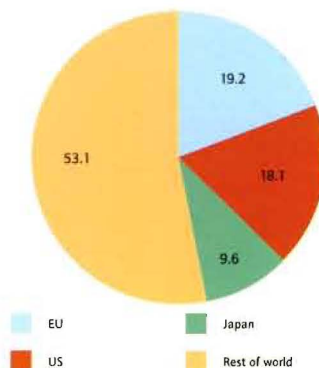
To maximise their influence on the international scene, the 15 EU members, who represent just 6% of world population but one fifth of global trade, negotiate as one with their commercial partners. For many years now, that role has been carried out by the European Commission on the basis of specific mandates agreed by Union governments. By speaking with one voice, the Union can also provide the rest of the world with the assurance that the rules of the game will be respected on our side.

Trade and foreign direct investment are essential ingredients in the economic health of a country, whatever its stage of development. The volume of world trade today, thanks to the

continuous removal of import and export barriers, is now considerably greater than it was almost 50 years ago. Between 1985 and 1996, the ratio of trade to world gross domestic product rose three times faster than in the preceding decade and nearly twice as fast as in the 1960s.

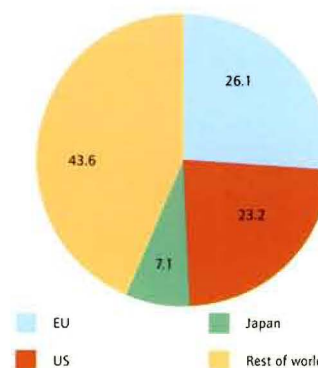
In addition, the sheer volume of foreign direct investment has mushroomed in the past 25 years from 23 billion euros annually to 275 billion and almost 60% of the sums involved are today directed towards service activities.

SHARES OF WORLD (*)
MERCHANDISE TRADE –
1996 (%)



(*) Intra-EU excluded.
Source: Eurostat and International Monetary Fund

SHARES OF WORLD (*)
TRADE IN COMMERCIAL SERVICES –
1996 (%)

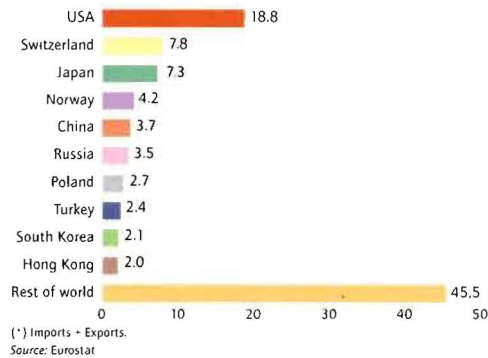


(*) Intra-EU excluded.
Source: Eurostat and World Trade Organisation

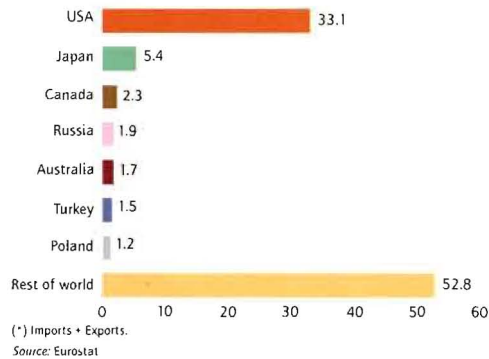
Within the European Union, trade is the equivalent of 18 % of the 15 Member States GDP. And while it is difficult to establish a direct correlation between trade and jobs, there is evidence to suggest that when the EU's share of world trade grows, unemployment in the Union tends to fall.

In addition, while more open markets may not create more jobs, evidence shows that trade does sustain better, more productive and higher-paying ones. It is true that industrialised countries are now importing more textiles, wood products, plastics and light consumer products such as toys from emerging economies. But at the same time their exports of high value-added and high-skill manufactures such as chemicals, aircraft, cars and machinery, as well as major services, to these very same countries are growing even faster than those imports. The EU is taking these changes into account in its key employment and social policies to help smooth any transition difficulties.

SHARES OF THE MAIN PARTNERS OF THE TOTAL (*) EXTRA-EU MERCHANDISE TRADE – 1997



SHARES OF THE MAIN PARTNERS ON THE TOTAL (*) EXTRA-EU TRADE IN COMMERCIAL SERVICES – 1997



The World Trade Organisation

Although the WTO came into existence only in the mid-1990s, the multilateral trading system on which it is based is considerably older, and eight separate rounds of international negotiations under the General Agreement on Tariffs and Trade (GATT) have progressively abolished tariffs and other trade barriers over the past 50 years.

The European Union played a major role during the eight years of negotiations, which eventually led to the establishment on 1 January 1995 of the World Trade Organisation (WTO). The new body closely reflects the Union's own view that multilateral rules, agreed by consensus, which encourage and guarantee the liberalisation of international trade are one of the best ways of promoting individual countries' economic development and prosperity.



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With most countries of the world as members, the WTO is the only international body policing the trade in goods, services and intellectual property rights between countries. While these are negotiated by governments, their aim is to ensure an understandable and reliable framework so that importers and exporters worldwide and companies providing goods and services, can operate in the certainty that there will be no sudden and unpredictable changes in policy.

For the WTO's international rules to be really effective and to prevent them being undermined, they need to apply to as many participants as possible. As a result the Union is keen to encourage countries to join—and is actively helping major international players such as China and Russia to prepare for WTO entry—provided they meet the basic membership requirements. These include the existence of a liberal trade and investment regime with market access commitments, liberalisation of the services sector, protection of intellectual property rights, harmonisation of standards and certification systems, and efficient customs procedures at national borders.

Settlement of trade disputes

There is little point in having international rules if there is no procedure for settling disputes which might arise. One of the key features of the WTO is that it operates an effective dispute settlement system. This can be triggered by any government which believes that the rules are being broken.

The Union is a strong supporter of this multilateral mechanism to deal with perceived violations instead of allowing governments to resort to unilateral action. During negotiations on the WTO, the European Union worked hard to ensure that the system would cover all disputes under

any agreement in the WTO framework, that its use would be compulsory and that no single country on its own could prevent an allegation being investigated.

Where possible, disputes are settled 'out of court'. About a quarter of all cases are successfully handled in this way, underlining the deterrent value of the new WTO mechanism. If, however, this fails, a panel of experts is established to examine the facts of the case and a ruling may emerge within a year.



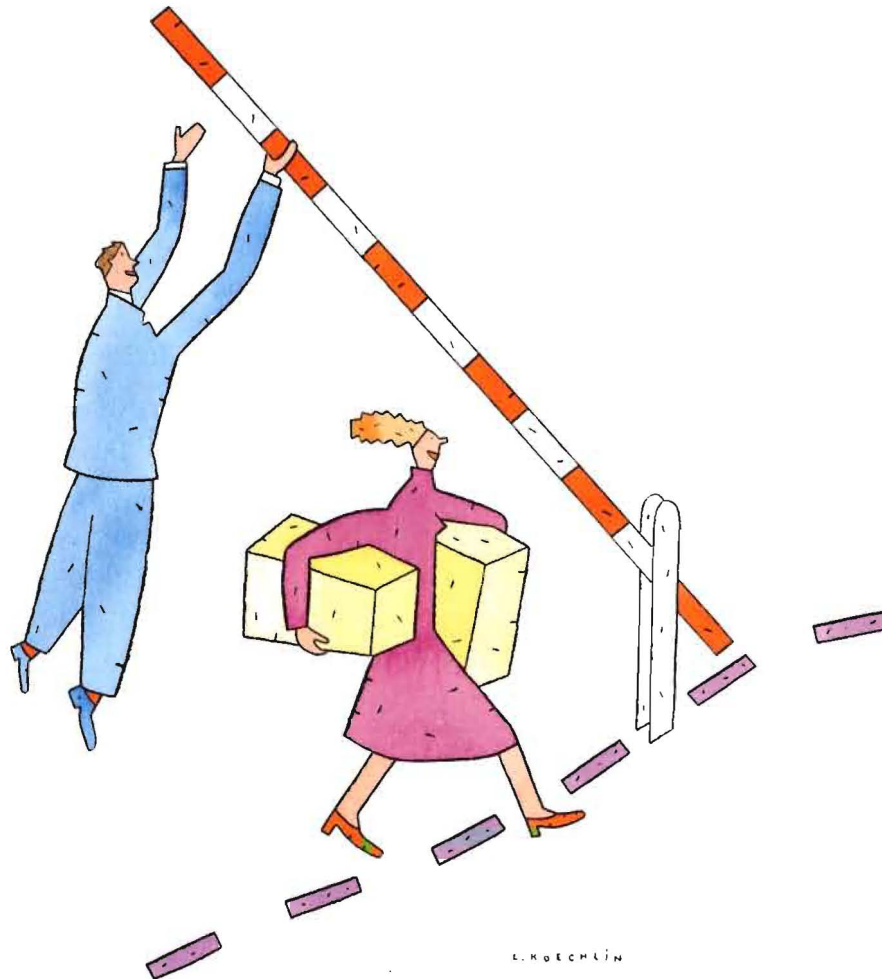
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Since the WTO was created, the European Union has gradually tended to bring more cases than it is called on to defend. In 1995 it was a complainant on three occasions and a defendant in 10. In 1997, it introduced 21 cases and defended 13.

Cases brought by the EU are often of major economic significance. It is estimated that a settlement reached with India over import restrictions could mean a potential increase in

Union exports to the country of up to one billion euros annually. Similarly, the EU has challenged the United States' tax treatment for foreign corporations which it believes gives its American competitors an unfair annual export subsidy of up to 2 billion euros. Equally, as the world's largest producer and exporter of spirits, the Union has used the WTO disputes system to challenge discriminatory taxes on alcoholic drinks introduced by Chile and Korea.

Towards a new global round of trade negotiations



While implementation of the Uruguay Round trade agreement is now a matter of course for WTO members, thoughts are already turning to the next round of liberalisation talks. Under the WTO's agreed work programme, negotiations on agriculture and services must begin by 1 January 2000.

The European Commission, with the full support of EU governments, would like to go considerably further and see WTO members undertake a more ambitious set of negotiations. The Commission's Vice-President Sir Leon Brittan has already dubbed it the 'new millennium round'.

The logic of examining a package of issues, rather than concentrating solely on one or two clearly defined subjects, is that a comprehensive approach can often open up different avenues towards an agreement when one route is blocked than more easily purely regional or sectoral negotiations. There is also strong evidence that global negotiations can bring gains for all participants, giving the lie to the suggestion that trade is a zero sum game in which there are only winners and losers.

In addition, a number of new issues have now come onto the international agenda and the Union believes these should be addressed by WTO members sooner rather than later.

As a result, the EU is maintaining that the next round of negotiations should include, not just the built-in agenda of agriculture and services and traditional aspects of liberalisation such as industrial tariffs, but also public procurement and investment and the complex relationships between trade, competition and the environment.

In an atmosphere in which the role of the WTO is increasingly under scrutiny, we must ensure that the interests of civil society are adequately reflected in our present and future work. The EU believes that one of the strategic challenges is winning the support of ordinary citizens, in an increasingly democratic world, for the open trading system.

It is clear that the successful launch and conduct of a future round will depend not simply on identifying the issues around which a consensus to negotiate can be built. It will also, in part, depend on how the WTO remains, and is seen to remain, relevant to society at large, against a background of growing concerns about the effect of economic globalisation. These are not matters for negotiation but loom large in the background. Issues such as the EU's relations with non-governmental organisations; the question of coherence in international economic policy making; the relationship between trade and sustainable development and the need continued cooperation between WTO and the International Labour Organisation on relevant trade and labour issues.

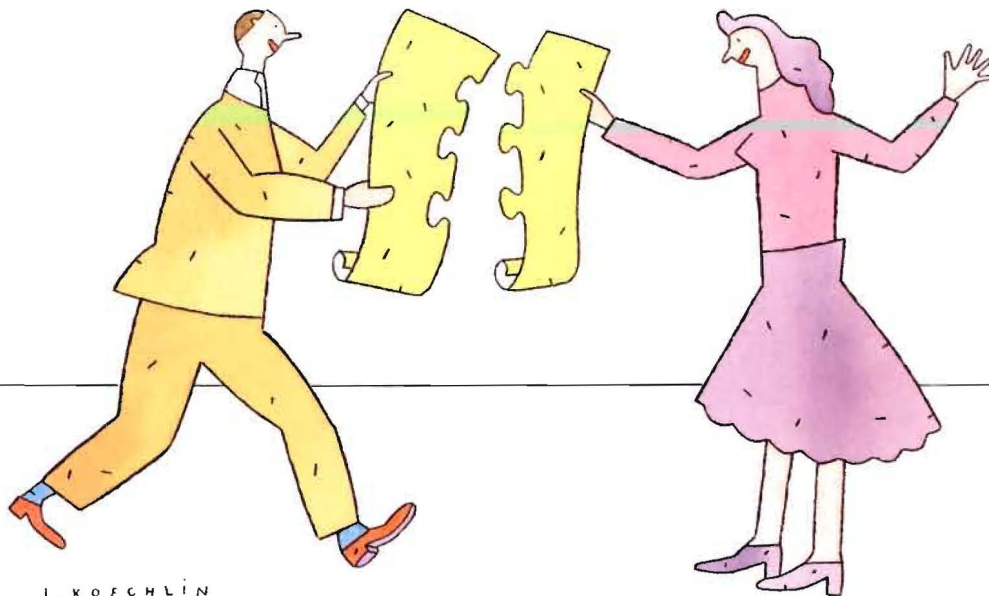
The importance of trade in services

Traditionally, trade involved physically moving goods and raw materials from one part of the world to another. Many people still visualise international commerce in those terms. But the reality now is very different and change is taking place at a hectic pace.

Ten years ago, no European courier company existed. Now, Europe is one of the biggest operators in an expanding worldwide sector. The services component in what people traditionally consider to be manufactured goods has become considerable. In a steel mill exported from Europe, for instance, this has risen from about a third to over 80 % during the past 20 years. Instead of simply shipping out parts for the finished item, such man-

ufacturing contracts now invariably include agreements to provide maintenance, training and software.

Trade in services is one of the main contributors to the European Union's success. The sector accounts for two thirds of the Union's economy and jobs, almost a quarter of the EU's total exports and half of all foreign investment flowing from the Union to other parts of the world. The sector is huge, and growing. By services, we mean computer and information activities, travel and tourism, hotels and restaurants, finance and insurance, construction, royalties and licence fees, transport, telecommunications, distribution, educational and environmental programmes, health-



related and social schemes, electronic information and even various government activities. For every one person in the Union working in manufacturing, just over two are employed in the service sector. The impact of the Internet is likely to accelerate this process even more.

The EU is by far the world's largest exporter of commercial services. In 1996, it was responsible for 26 % of total global services' transactions (a figure which rises to 43 % if trade between EU Member States is included), while the United States' share was 17 % and Japan's just 5.2 %.

Given this predominance, it is not surprising that the Union has taken the lead in trying to remove barriers to a truly global market and has helped to establish the concepts and structure on which existing multilateral rules are based.

A significant step was taken with the implementation three years ago of the General Agreement on Trade in Services (GATS), which is one of the pillars of the WTO system. It represented a first concerted effort to tackle the services sector which in many countries is represented either by public monopolies or is highly regulated.

Despite its undoubted contribution towards liberalising the services sector, the GATS agreement was incomplete. As a result, governments continued their negotiations after the Uruguay Round was formally brought to an end. They achieved a one trillion euro breakthrough in the related fields of basic telecommunications services and information technology goods in 1997. The telecoms deal, which covers well over 90 % of global international traffic and world telecom revenues, provides for the elimination of tariffs by 2000.

Later that year, another landmark was reached with a multilateral agreement to open up the financial services sector worth trillions of euros. In future, the WTO's rules will apply to over 95 % of global trade in banking, insurance, securities and financial information.

Given the solid foundation of a domestic services market which is one of the most integrated and lightly regulated in the world, the Union is well placed to argue the benefits of such policies on a global scale. But to marshal the strongest possible case, European Commission negotiators are also keen to increase the input from the business community so that they can work in partnership to respond to the sector's particular priorities.

The Commission has established a business-driven European services network. For more information, please consult the EU website:
<http://gats-info.eu.int/>

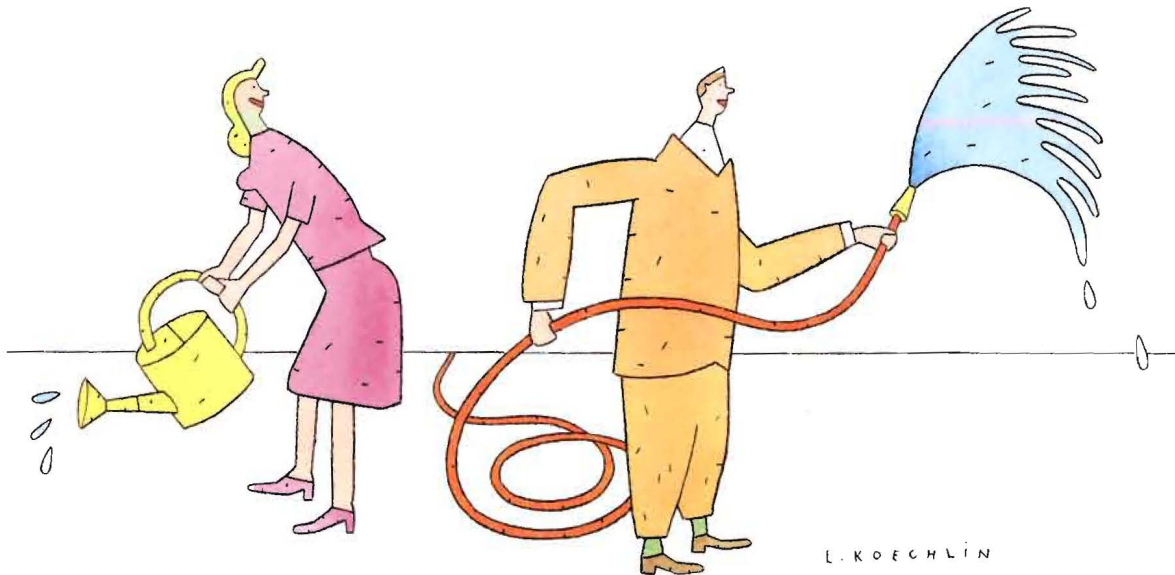
Investment: the need for clear multilateral rules

For international companies, deciding where to invest is an integral part of their overall strategy. Just as trade is now global, so too is investment and there is a growing need to create a coherent set of international rules to deal with this. At the moment, the treatment of foreign investment, whether it be the settlement of disputes or a policy of limiting investment to certain sectors of the economy, is mainly regulated by an extensive network of over 1 500 bilateral governmental treaties.

But increasingly, this situation is being seen as cumbersome and insufficient to provide the stable, clear and transparent rules required by all investors in order to be able to plan ahead. At the same time, foreign

direct investment is seen as an engine of economic growth and prosperity and has grown sevenfold from 1980 to 1996. These financial flows complement trade as the two main pillars of the international economy.

Put another way, the cost of capital rises in those countries which deny market access and national treatment to foreign firms. The funds arrive more slowly and the much needed investment takes longer to provide the desired benefits. On the other hand, more competition brings both cheaper finance and stimulates innovation.



The European Union is keen to encourage and protect these flows and to ensure their impact on home and host countries is carefully monitored. For these reasons, the Union is in the vanguard of moves to ensure a level playing field by ensuring clear, international rules. The ideal forum for such a framework is the World Trade Organisation and a working group has been established to examine the relationship between trade and investment. The Union would like the next set of WTO negotiations to tackle the question of investment since it believes that this is a major gap in the current set of international rules.

WTO rules must still allow countries to pursue their domestic policies in areas such as public health and the environment, and even to exclude certain sectors of their economy from an investment agreement if there are important policy reasons to do so. Safeguard clauses should also be introduced to allow countries to take measures they consider necessary to protect their national security, to ensure the integrity and stability of their financial system or to react to balance of payments crises.

The need to agree on an international framework of competition rules

World trade rules, incorporated in the WTO, were substantially strengthened by the successful conclusion of the Uruguay Round in 1994. Governments have, through successive GATT negotiating rounds, been made subject to increasing disciplines guaranteeing transparency, non-discrimination and access to each other's national markets. This has led to the explosive growth of trade and global welfare that the world has witnessed over the last 50 years.

All the same the WTO still has a 'missing pillar': there are no international disciplines on the conduct of commercial enterprises. Yet the number and size of transnational firms has been steadily increasing, and business activities and production methods have become truly international. It is important to ensure that the advantages of trade liberalisation are not nullified by anti-competitive private practices that have a similar effect: dividing markets, engaging in illegal cartels, abusing monopoly positions, etc.

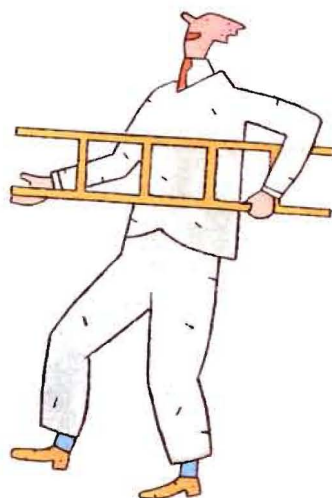
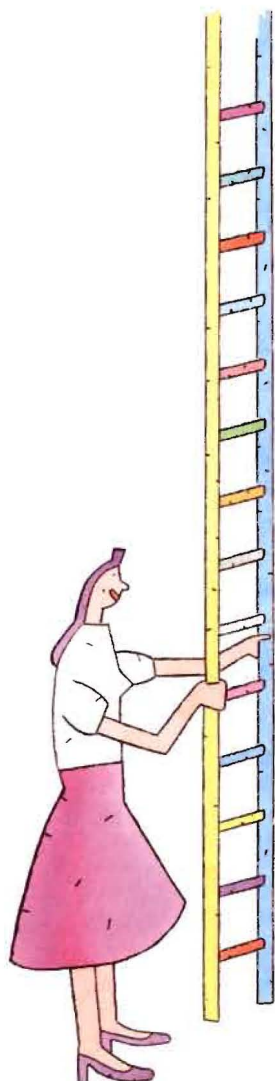
Competition law is a basic feature of our market economies and legal systems. When applied effectively, it supports the competitiveness of our industries, protects the individual right to compete in a sound and fair manner, and maximises consumer welfare. It also keeps economies open.

The competition policies of countries have had, up until recently, a clear domestic focus. Today they must keep pace with the further openness of economies and internationalisation of business behaviour. This means that competition authorities must be equipped with the instruments necessary to enable them to assess, and if necessary address, anti-competitive practices with an international dimension.

It is for the above reasons that the European Union is in favour of launching negotiations in the WTO, from 2000 onwards, to establish an international framework of competition rules. The basic objective of such negotiations would be to ensure that all WTO members adopt domestic competition legislation and enforcement structures, and that these would in principle apply to all sectors of their economy. Provisions could also be elaborated to facilitate cooperation between competition agencies regarding cases with an international dimension. Furthermore, basic WTO principles, such as relating to transparency and non-discrimination, could be made applicable to international competition policy cases. In keeping with WTO tradition an international framework of competition rules would be inter-governmental in nature.

In the view of the EU, bringing competition policy into the WTO, which would be a gradual, step by step process, would reduce costs both for business and governments, increase coherence and predictability, and reduce trade friction. Furthermore all nations of the world would benefit from the reduction of international

anti-competitive practices. After all, in a balanced and sustainable open trading system all WTO members have a stake in the vigorous and neutral application of competition law by their trading partners.



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Clamping down on fakes and pirate goods

Trade is not just about goods and services, it is also increasingly about ideas, inventions, knowledge and research which lie behind the finished product. To try and prevent their work being illegally copied and passed off, often at a considerably lower price, as the proper article, creators and inventors enjoy intellectual property rights. Thus, films and books are covered by copyright, brandnames can be registered as trademarks and inventions can be patented.

Despite these protective measures counterfeit and pirated goods still abound and are estimated to make up 3-6 % of total world trade. With technological advances, pirating and transmission of pre-recorded music has become even easier and is now thought to be worth at least 4 billion euros worldwide.

Given that the turnover of copyright and related rights account for between 3-5 % of the Union's GDP, the protection of the work of authors, performers, actors, musicians and broadcasters has assumed greater importance in recent years.

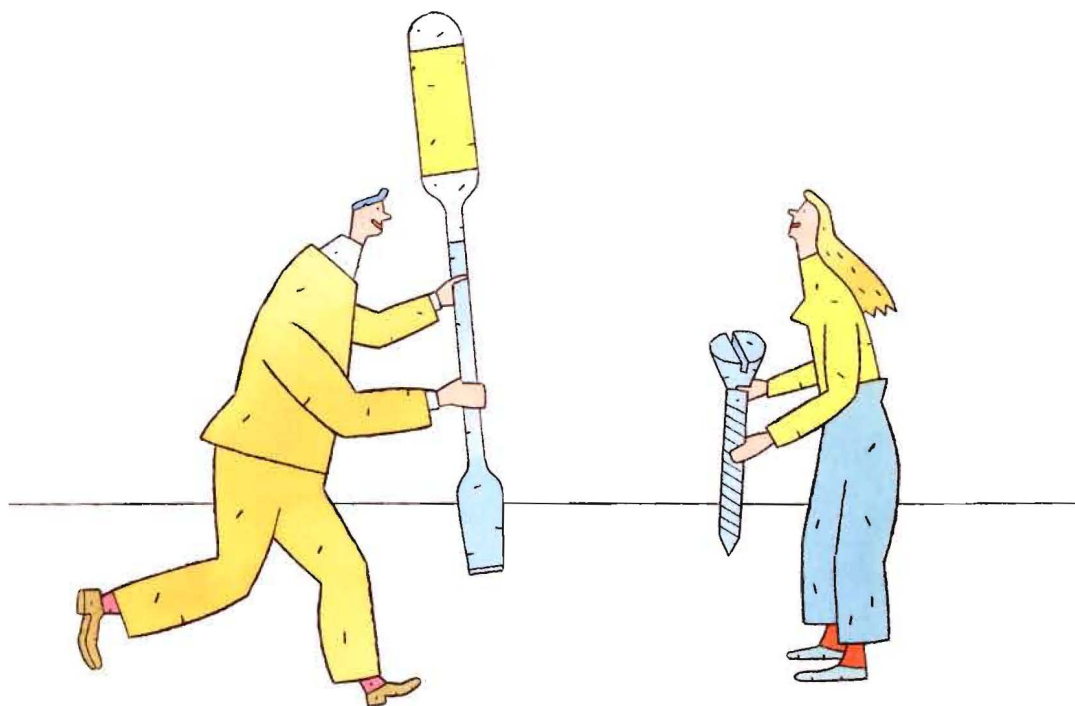
Tackling the problem has not been made any easier in the past by the fact that different countries approached the issue in different ways. The Uruguay Round was the first serious attempt through its agreement on trade-related aspects of intellectual property (TRIPS) to get to the root of the problem.

Drawing on existing international conventions, it ensures a worldwide recognition of minimum standards of protection of intellectual property rights. Developed countries have implemented the agreement since January 1996 and developing countries will do so from 2000. As a result, the works of many artists will be protected for the first time.

Technical conditions for products

Standards, regulations and certification procedures are guarantees for the protection of the health and safety of the consumer, the environment and product quality. For this reason they are the essential lubricants of an efficient and transparent market economy. If the same norms apply in different countries, exporters can save valuable time by avoiding going through additional testing procedures and can cut costs by not having to adapt their products to separate markets.

But the converse is equally true and a country's failure, or refusal, to accept internationally agreed standards can result in unfair barriers to trade. Hence the importance the European Union attaches to international harmonisation of standards, basing domestic standards on international ones, all to ensure their mutual recognition, wherever possible.



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Legitimate demands for more stringent standards and regulations to protect the health and safety of consumers or the environment or ensure quality controls appear to be on the increase in countries around the world. The danger, however, is that these demands may give rise to heavy-handed legislation or regulations which may be out of proportion to the guarantees sought or even discriminate against imports.

In addition, in many countries the administrative systems which apply these regulations are unable to do so without hampering trade and investment flows. By contrast, there is a trend in many developed countries now to combine a high degree of protection of essential public interests with as light a regulatory environment as possible.

The Union works hard to ensure that national standards are not used as a disguised form of protectionism. The agreement on technical barriers to trade (TBT) being implemented in the WTO is designed to ensure that testing and certification procedures do not create unnecessary obstacles. It allows countries to adopt the standards they consider most appropriate, but encourages them where possible to follow international norms.

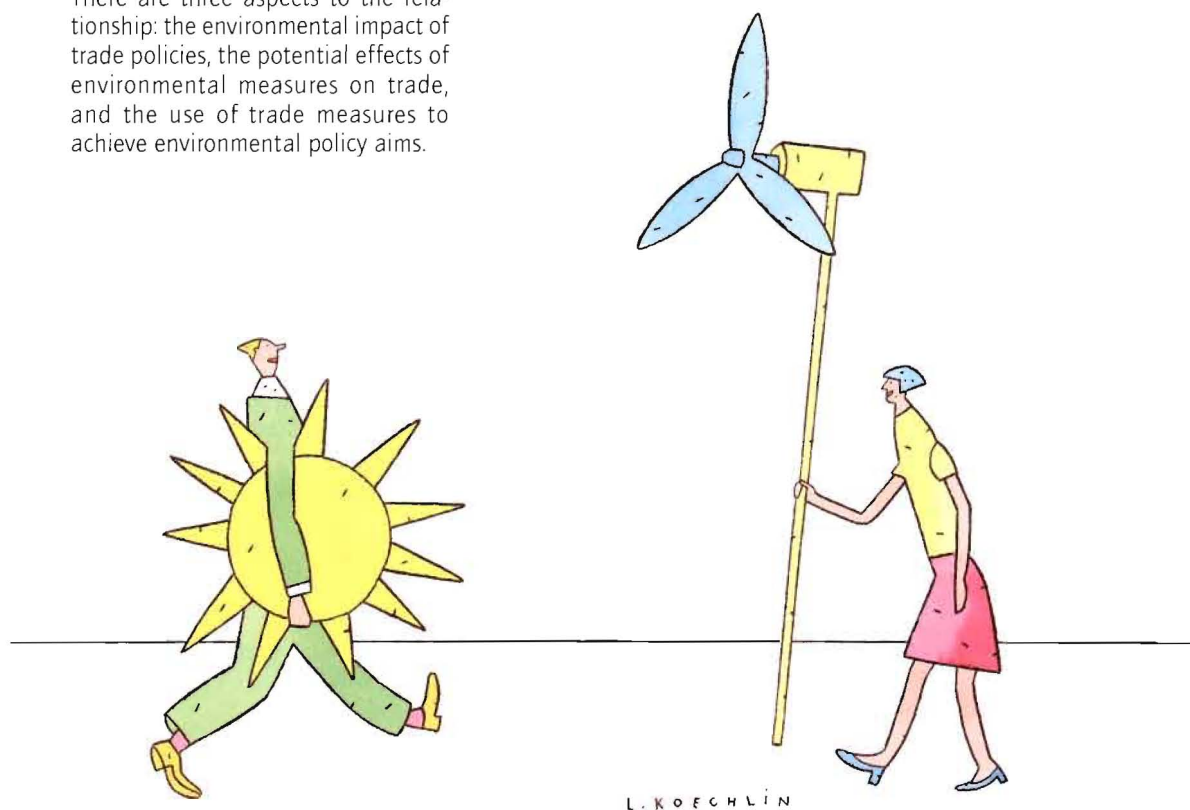
The WTO TBT Agreement has been functioning in a fairly satisfactory manner, even though a growing current of opinion considers that its rules should be strengthened further. For its part the Union has negotiated—and continues to do so—a network of mutual recognition agreements, whereby the testing of mandatory requirements applicable in the importing country can be done in the exporting country. This helps eliminate unnecessarily costly and time-consuming duplication of tests for imports. It also offers technical assistance to countries to help them apply the relevant regulations without these becoming an obstacle to trade.

Trade and the environment

The relationship between trade and the environment is increasingly important. It is evolving in response to growing environmental awareness in both developed and developing countries and the realisation that trade, environment and sustainable development are inextricably linked. The interface between trade and environment policies covers many areas which affect our everyday lives, including climate change, the ozone layer, biotechnology, dangerous chemicals and toxic wastes, trade in endangered species and methods of agriculture and fishing.

There are three aspects to the relationship: the environmental impact of trade policies, the potential effects of environmental measures on trade, and the use of trade measures to achieve environmental policy aims.

Trade and environment policies can be mutually supportive of sustainable development. Removing trade obstacles and distortions increases the overall efficiency of the world's economic system by allowing countries to specialise in sectors in which they enjoy competitive advantage, including advantages based on their particular environmental conditions. Furthermore, trade liberalisation can facilitate the spread of environmentally sound technologies, goods and services, as well as potentially making



available through increased income and wealth more resources for environmental protection. And improved living standards and rising income levels resulting from trade can and frequently do foster awareness and appreciation of environmental values.

WTO rules allow its members to take trade measures to protect the environment within their own territory provided they are not discriminatory vis-à-vis imported products. These measures can be to protect human, animal or plant life or health, or to conserve exhaustible natural resources. Where WTO members disagree on the use of such measures, they turn to the WTO's dispute settlement mechanism to assess their conformity with the rules of the multilateral system.

Although trade measures should only be taken as a last resort and be as least trade restrictive as possible, they are sometimes essential to protect the environment. The EU is therefore pushing for a progressive, environmentally friendly evolution of WTO rules that takes full account of the growing understanding of our fragile environment and our dependence upon it.

The EU is also in the forefront in the drive to ensure that the multilateral trading system adapts where necessary to the rapidly changing needs and perspectives of today's world and does not hinder the development of environmental policy at national and international level.

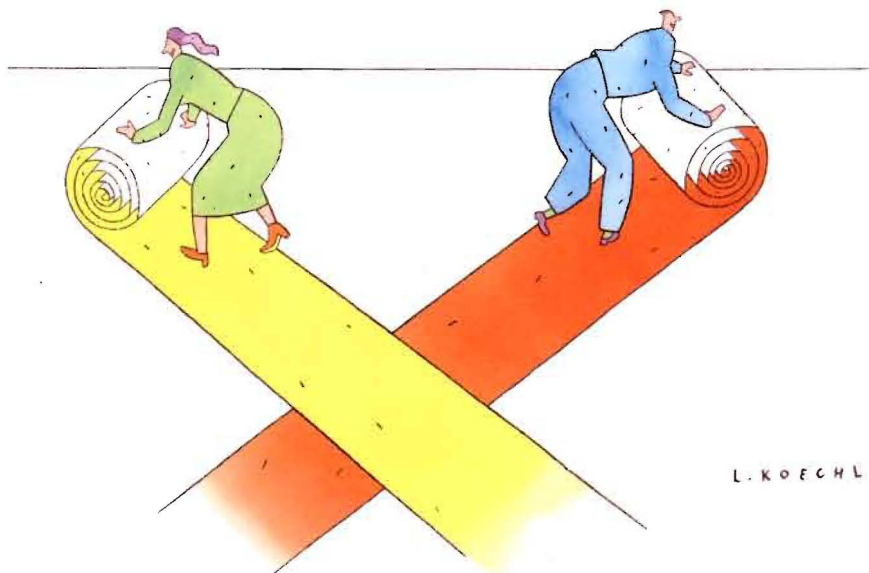
The EU takes a leading role in international forums where trade and environment are discussed, in particular in the WTO's Committee on Trade and Environment. The EU believes the most effective way of addressing international problems is through a multilateral approach, in particular by multilateral environment agreements such as the Montreal Protocol on substances that destroy the ozone layer, not by unilateral trade action. Unilateral trade bans would undermine the open trading system whilst doing little to tackle environmental problems, most of which cannot be solved by one country or group of countries alone.

Conclusion

The European Union's commitment to removing obstacles to trade and investment is clear and will become even more evident with the recent arrival of the single currency and its eastward enlargement.

There is no doubt that market liberalisation provides major gains overall. With technological advance and stronger economic links between countries, the benefits of trade and investment liberalisation are reaching an increasing number of people in industrialised and emerging economies around the world. More employees in more firms in more countries now depend for their livelihood on cross-border trade and investment than ever before.

As the next century approaches, the Union will continue campaigning to ensure that the multilateral trading system faces up to its new challenges by further liberalising and establishing rules in the fields of services, competition and investment. This will be accompanied by a clear message: that this inevitable change can be best managed through this multilateral system, and not outside it.



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A number of important issues are highlighted:

the growing significance of the service sector, rules on international investment and competition, measures to combat counterfeiting, technical standardisation and the relationship between trade and environment.

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