

**Borragán (eds)**, *European Union Politics*, 4th edn (Oxford: Oxford University Press, 2013), 281–95. On migration, see **C. Boswell and A. Geddes**, *Migration and Mobility in the European Union* (Basingstoke: Palgrave Macmillan, 2011).

For reviews of the dynamics of the policy area, see: **C. Boswell**, 'Justice and Home Affairs', in **M. Egan, N. Nugent, and W. Paterson (eds)**, *Research Agendas in EU Studies: Stalking the Elephant* (Basingstoke: Palgrave Macmillan, 2010), 278–304; and **A. Geddes**, 'The Politics of European Union Domestic Order', in **K. E. Jørgensen, M. Pollack, and B. Rosamond (eds)**, *Handbook of European Union Politics* (London: SAGE Publications, 2006), 449–62. A useful summary of annual policy developments is provided by **J. Monar** in the special Annual Review edition of the *Journal of Common Market Studies*: for example, 'Justice and Home Affairs', *Journal of Common Market Studies: Annual Review*, 51 (2013): 124–38.



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## Chapter 25

# Trade and Development Aid

### Chapter Overview

Up to now, this part of the book has dealt primarily with the internal policies of the European Union (EU). In this chapter and the next, the focus shifts to policies that concern the relations of the EU with the rest of the world. This chapter looks at the external trade relations of the EU in the context of the wider framework of global trade agreements, and at its related policies on development aid, particularly with the African, Caribbean, and Pacific (ACP) states. It also looks at the combination of trade and aid policies towards the near neighbours of the EU in the rest of Europe and in North Africa. From this examination of policy, it becomes clear that too sharp a distinction cannot be drawn between economic and political aspects of the external relations of the EU.

### History

From the outset, the European Economic Community (EEC) aimed to become a major international economic actor. Its main pattern of bilateral and multilateral trade relations was structured through the international institutions that were set up after the Second World War to promote the emergence of the post-war trading system. It also pursued an active policy of cultivating special relations with former European colonies, which sometimes provided a tension with its commitments under the wider trading arrangements. More recently, the EU became concerned to use economic and trade instruments to help to stabilize the economies of its near neighbours in other parts of Europe and in North Africa.

### The International Context for EU Policy

When the EEC came into existence, international economic relations were governed by the agreements reached at negotiations in Bretton Woods, New Hampshire, in 1944. These agreements set up several institutions designed to help an international economic system to emerge. At the heart of the structure was a monetary system nominally based on gold, but in practice with the US dollar as the anchor. To assist the development of states' economies, the International Bank for Reconstruction and Development (IBRD), or World Bank, was created. To help states that got into temporary difficulties with their balance of payments, the International Monetary Fund

(IMF) was set up. There was also intended to be an International Trade Organization (ITO), to facilitate the gradual introduction of global free trade agreements, and to regulate trade disputes between states. However, the US Congress would not agree to the ITO, so instead a series of intergovernmental negotiations were initiated, known as the **General Agreement on Tariffs and Trade (GATT)**.

One important feature of the GATT framework was that the EEC, after its formation, had a single representative. This followed from the commitment in the Treaty of Rome to have a common commercial policy that was solely a Community competence (Article 113, now Article 207 TFEU).

Within the GATT framework, a key concept was that of 'most favoured nation' (MFN) treatment. This meant that states would not negotiate more favourable deals with some partners than they were prepared to offer to all of the participants in GATT. Exceptions were allowed to the rule, though, and the EEC received special dispensation from the MFN principle to allow it to dismantle tariffs on internal trade between the member states, because there was provision in the rules to allow the creation of **customs unions** and **free trade areas** that might speed up the process of dismantling barriers to free trade globally. Another area in which the EEC concluded preferential trading deals was in relation to the former colonies of the member states. There were also special agreements with prospective future members of the EEC. These arrangements were not uncontroversial, though, and they became more liable to challenge when the GATT was superseded by the World Trade Organization (WTO) in 1995.

The GATT was a weak organization. It was never intended to stand alone, and only became the arbiter of international trade relations because the ITO failed to appear. Although the GATT had a procedure for resolving disputes, it was easy for a state that was losing a case to block a ruling against it. The arrangements began to collapse in the late 1970s and 1980s with the growth of protectionism in the face of a global economic downturn. In response, GATT launched a marathon round of trade negotiations in 1986, known as the Uruguay Round. The negotiations were scheduled to be completed by 1990, but stretched out until 1994. The difficulty of reaching agreement, and the prospect of having to enforce a much more complex package of arrangements, led to the creation of the WTO, a far stronger body than GATT.

## Development Policy

One area of considerable concern to the original EEC was its relations with ex-colonies. When the Treaty of Rome was signed in 1957, the vast majority of independent countries that eventually became the ACP group remained the responsibility of colonial powers. In 1956, France, which of the original EEC member states had the largest number of colonies, requested that its overseas territories be granted associated status with the proposed EEC.

Relations were initially dealt with in an Implementing Convention, which was replaced in July 1963 by the Yaoundé Convention, named after the capital of Cameroon, where it was signed. Both these instruments had the objective of gradually moving towards a free trade area between the EEC and the former French colonies, and there was a European Development Fund (EDF) for the purpose of granting European Community (EC) financial aid to the associated countries and territories to promote their social and economic development (Frey-Wouters 1980: 14).

Neither the Implementing Convention nor the Yaoundé agreements marked a serious attempt to break with the traditional pattern of relations between Europe and the developing world. A. H. Jamal, a former Tanzanian Minister of Communications, described the Yaoundé Convention as providing 'an institutional dependence on the part of some African countries on one particular metropolitan power—France' (Jamal 1979: 134), and the EDFs under the Implementing Convention and Yaoundé were described by another commentator as 'basically a device to offload the costs of French colonial mercantilism on the EEC in return for other EEC states receiving access to their markets and sources of supply' (Green 1976: 50).

Many hoped that the first Lomé agreement would mark a turning point in these relations. Lomé was negotiated in the early 1970s as a result of the accession of Britain to the EC. Like France, Britain was a former imperial power, and the addition of its former colonies brought to forty-six the number of associated states. The Lomé agreement was received by the ACP states more enthusiastically than its predecessors had been. As one observer put it:

**When Lomé 1 was signed, both sides claimed that it was qualitatively different from anything that had gone before; a contract between equal partners and a step towards a New International Economic Order.**

(Stevens 1984: 1)

Revised Lomé agreements were reached in the late 1970s and the 1980s. In most respects, the terms of the subsequent Lomé Conventions were disappointing. Although aid was increased in each agreement, it was not by enough to take account of the combined effects of increases in inflation and in population. When inflation and population growth were taken into account, the period leading up to Lomé 3 (1976–85) saw a fall in EC real *per capita* transfers to ACP states of 40 per cent (Hewitt 1989: 291).

In the period 1980–87, Africa's *per capita* gross domestic product (GDP) fell by an average of 2.6 per cent and its returns on investment were substantially down (Glaser 1990: 26). This meant that, on top of the unfulfilled hopes of various aid schemes, many ACP countries were under intense pressure to repay loans. By 1983, the IMF and the World Bank were implementing stabilization and structural adjustment programmes in those countries, and the EC response to ACP problems had to be implemented in close co-ordination with these institutions. This situation placed the IMF in the driving seat 'with its own short-run conditions overwhelming those of all the other partners' (Hewitt 1989: 296).

Thus, by the late 1980s, ACP states believed that Lomé seriously neglected their main concerns: the impossibility of servicing debt, and the increasing demands of the World Bank and the IMF for changes in economic and social policies. By the early 1990s, to these concerns were added concerns over the effect of the completion of the single European market and over the aid demands on the EC from the former Communist countries of eastern Europe.

## Relations with Near Neighbours

With the collapse of communism, the EU faced the problem of instability among its near neighbours. At the end of the Cold War, the EC signed technical co-operation

agreements with the central and eastern European countries (CEECs). These were subsequently replaced with 'Europe Agreements': Association Agreements that fell short of envisaging full membership. Then, in June 1993, the Copenhagen European Council accepted the legitimacy of the aspirations of the newly independent states to become members (see Chapter 27).

In the Balkans, as part of its stability pact for south-eastern Europe, the EU agreed a Memorandum of Understanding (MoU) on Trade Liberalization and Facilitation with Albania, Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia (Serbia and Montenegro), and the former Yugoslav Republic of Macedonia. This was the first stage in what became known as the Stabilization and Association Process (SAP) which led to formal accession processes in a number of cases (see Chapter 27).

While the governments of France and the southern member states could see the arguments for enlargement to the east, and even accepted them, they were concerned that the problems of the Mediterranean, which affected them more than did instability in the east, would be relegated to a secondary issue. Instability in North Africa, particularly a civil war in Algeria, was already having an impact on them in the form of refugees, and in terms of threats to their companies' investments in the region.

Their concern that attention would be diverted from the problems of the Mediterranean was recognized by the German government when it held the presidency of the EU in the second half of 1994. Agreement was reached at the Essen meeting of the European Council in December 1994 to launch an initiative on North Africa and the Middle East. This assumed more tangible form during 1995 under the successive French and Spanish presidencies, culminating in a major conference in Barcelona on 23–29 November 1995 involving the EU member states, the Maghreb states (Algeria, Morocco, and Tunisia), Israel, Jordan, Lebanon, Syria, Turkey, Cyprus, and Malta. From this emerged the Euro-Med Partnership Agreement.

## External Trade Policy

The EU is the world's largest trading entity (see Table 25.1) and as of 2014 its twenty-eight member states accounted for around 20 per cent of total world trade. This makes trade policy central to its external activities.

**Table 25.1 Trade in Commercial Goods and Services 2010, € billions**

Country or region	Imports	Exports
EU	1956	1882
United States	1762	1358
China	1197	1319
Japan	641	685
South Korea	392	417

Source: <http://ec.europa.eu>, © European Union, 1995–2014.

## The Common Commercial Policy

In the negotiation of multilateral and bilateral trade agreements, the EU operates under the rules of its own common commercial policy. Article 207 TFEU gives the EU exclusive competence in commercial policy, including external trade negotiations. However, this is an EU competence, which is not the same as a Commission competence. Before it can even enter into trade negotiations, the Commission has to get the agreement of the Council of Ministers on a negotiating mandate. The negotiations are then to be conducted 'in consultation with a special committee appointed by the Council' (Article 207(3) TFEU). This committee, known as 'the Trade Policy Committee' since the Lisbon Treaty, consists of senior civil servants of the member states who monitor the position taken by the Commission at every stage of trade negotiations to ensure that it is in line with the negotiating mandate laid down by the Council of Ministers. The senior committee meets monthly throughout the year, and there are weekly meetings of deputies. Once an agreement has been reached in the negotiations, it has to be ratified by the member states meeting in full Council, using **qualified majority voting (QMV)** (see Chapter 12).

For a long time, not only was the Commission bound by the mandate and closely monitored in trade negotiations, but also the EC/EU did not even have formal full competence except for trade in goods. Until the Lisbon Treaty, trade in services and in intellectual products were not included. Originally, this was because they were not the subjects of trade negotiations when the Treaty of Rome was drawn up. In 1994, the European Court of Justice (ECJ) ruled that the EU did not have sole competence in negotiations on such matters, but shared the competence with the member states. In September 1996, the Commission asked the Council of Ministers to extend its remit to these sectors, but met with a cool response.

Young (2000: 101) suggested three considerations that made the member states, and especially the larger of them, reluctant to extend competence in these new trade issues to the EU: the new issues are more sensitive domestically than trade in goods; some member states do not trust the Commission to represent their interests in these areas; and if competence were ceded to the EU, where common agreement was blocked by a coalition of unwilling member states, there would be no possibility of those states that wanted to go further in liberalizing such areas concluding agreements independently of the EU.

In the Treaty of Amsterdam, the member states inserted a clause that allowed them to give the Commission full negotiating responsibility in these sectors for specific future negotiations, without further change to the Treaties, but only if they were unanimous in agreeing to do so. Eventually, they were defined as areas of exclusive EU competence in the Lisbon Treaty, but unanimity remains the voting rule in the Council for agreements in the field of trade in services and the commercial aspects of intellectual property 'where such agreements include provisions for which unanimity is required for the adoption of internal rules', and in the field of trade in cultural and audiovisual services 'where these agreements risk prejudicing the Union's cultural and linguistic diversity' (Article 207(4) TFEU).

Another set of instruments of the common commercial policy are those designed to protect the EU from unfair trade practices by non-members. These instruments include restrictions that can be imposed where non-members are suspected of

### Insight 25.1 The 1997 Internal Dispute over Measures Against Imports of Unbleached Cotton Cloth

The measures against China, Egypt, India, Indonesia, and Pakistan were demanded by Eurocoton, the association of European producers of cotton fabrics—but they were opposed by European producers of finished cotton goods, who benefited from the cheaper semi-finished products imported from the non-EU countries. The member states were evenly divided, with Germany abstaining when the first vote was taken in March 1997. This reflected the balance of industrial interests between producers of raw cotton cloth and producers of finished cotton goods in the different member states. Eventually, in May 1997, the German government decided to oppose the anti-dumping measures, to the fury of the French.

dumping produce on the EU market at less than the cost of production, and similar measures to counter unfair subsidies. On these sorts of issue, though, the EU prefers, wherever possible, to work through the WTO.

It is not always easy for the member states to reach common positions on external trade policy. For example, in 1997, there was internal dispute over the imposition of anti-dumping measures against imports of unbleached cotton cloth (see Insight 25.1). The divisions between member states in this case illustrated two aspects of the difficulty in reaching common positions: there was a straight division on the basis of national economic interest, and a more general issue about free trade versus managed trade. Among the EU fifteen (that is, prior to the eastern enlargement), generally the northern member states were more in favour of liberalization, while suspicions of market opening were felt most strongly in the southern member states. France has had particular difficulties with the idea of unmanaged global free trade.

Despite such difficulties, the thrust of EC commercial policy has been consistently in the direction of free trade. In the Doha Round of trade negotiations, which began in 2001, the EU's negotiating position with respect to traditional trade policy was described by Young (2007: 798) as 'aggressive, with a heavy emphasis on increasing market access in non-agricultural products, ... rather than a preoccupation with protecting European industrial sectors'.

While EC commercial policy had from the late 1990s supported multilateralism via the WTO, since 2006 the EU has once again explicitly pursued bilateral free trade agreements (FTAs) (for reasons that are considered later in the chapter). At the time of writing, the EU had agreements in place with a number of countries and was negotiating agreements with a number of others, including, since 2013, with the United States. While there was clearly some will on both sides to reach a wide-ranging agreement, a history of disputes between the two trading partners threatened to render such talks difficult in certain areas (see Insights 25.2, 25.3, and 25.4).

### Disputes within the World Trade Organization

Partly because of the increased complexity of the rules, and partly because of the advent of more effective machinery, recourse to dispute panels has increased

### Insight 25.2 The WTO Dispute over the EU Banana Regime

This was part of the Lomé Agreements with former French and British colonies. It gave preferential access to the EU market for bananas grown in those Caribbean and Pacific states that were parties to the agreement. The United States objected to the discrimination against bananas produced in Latin America, mainly by US-owned companies. Eventually, in April 1999, the WTO did authorize the imposition of sanctions by the United States, although at a much-reduced level from those originally proposed. The whole issue generated a surprising amount of bitterness and heat considering that it concerned a product that was grown in neither the EU nor the United States. It was eventually settled in December 2009 by an agreement under which the EU would reduce its tariffs on imported bananas progressively over seven years, and the United States and banana-producing countries from Latin America agreed to drop litigation against the EU.

### Insight 25.3 Two WTO Disputes over the Application of Biotechnology to Foodstuffs

In 1999, the United States won a complaint to the WTO against a ban by the EU on the import of hormone-treated beef. The ban reflected the strong prejudice of EU consumers against meat that contained hormones, and was first imposed in 1987. The United States maintained that this action was against WTO rules because there was no scientific evidence that there was any risk to human health from eating such meat. The EU insisted that it wanted to complete its own scientific tests before agreeing to lift the ban. Early in 1999, the WTO ruled against the EU, and the United States said that it would impose retaliatory sanctions unless the ban was lifted, but the EU refused to lift the ban in the face of intense consumer opposition. It did offer to allow the import of hormone-treated beef if it was clearly labelled as such, but the United States rejected this compromise because it said that the labelling itself implied that there was something wrong with the beef.

Also in 1999, the EU placed an effective moratorium on the granting of licences for genetically modified (GM) crops. This move was attacked by the United States as imposing a non-tariff barrier on agricultural trade. In 2001, the Commission proposed to introduce rules on the labelling of foodstuffs that contained GM crops, and a requirement that the origins of foodstuffs be traceable back to the crops from which they were produced. The United States considered these to be unreasonable requirements that would probably be impossible to implement, and would certainly be very costly, eliminating any advantage that US farmers gained from adopting the new technology, and requested a WTO panel on the issue.

considerably under the WTO, averaging forty disputes a year as compared to six per year under the GATT procedures (McQueen 1998: 436). This has affected the EU because of increased challenges to its practices, particularly from the United States.

Since the WTO began operation in January 1995, the United States and the EU have struggled to dominate the procedures and the agenda, or at least to ensure that the other does not dominate. Each side has brought complaints against the other.

### Insight 25.4 The WTO Dispute over the US Foreign Sales Corporation Tax Provisions

The FSC came into effect in 1984, and allowed US corporations to claim exemption on between 15 and 30 per cent of their earnings from exports. The EU maintained that this amounted to an export subsidy in breach of WTO rules. The United States considered that the appeal was simply EU retaliation against its appeals on bananas and beef, pointing out that it had taken the EU fourteen years to get round to protesting about the FSC, and that there was no evidence of pressure on the Commission from European businesses for the complaint to be made at this time (Ahearn 2002: 4). However, in October 1999, a WTO disputes panel found in favour of the EU, and the United States was told to come into compliance with its WTO obligations by October 2000. In November 2000, the FSC was repealed and replaced by the Extraterritorial Income (ERI) provisions. This allowed tax breaks up to the same amount to US corporations on all foreign earnings, including their earnings from foreign investments. By extending the provision beyond export earnings in this way, Congress hoped to redefine the tax provision. Predictably, the EU appealed and the WTO ruled against the ERI, and against the counter-appeal from the Bush Administration (Ahearn 2002: 5). In August 2002, the WTO disputes panel ruled that the EU could impose up to US\$4 billion of sanctions in retaliation.

In 1998, a fierce dispute blew up over the EU's banana regime (see Insight 25.2), and, in 1999, two issues arose about the application of biotechnology to agricultural produce (see Insight 25.3). In 1998, the EU launched its own WTO appeal against the foreign sales corporation (FSC) provisions of US tax law (see Insight 25.4).

The result of these moves and counter-moves was that the United States and the EU entered the twenty-first century each armed with the right to impose WTO-approved sanctions on the other. Further tensions emerged over accusations and counter-accusations of illegal subsidies by both sides to their major producers of civil aircraft (Airbus and Boeing). Perhaps because of the awareness of both sides of the potential for damage to themselves as well as to the global trading system, restraint has generally been shown in the application of sanctions.

## Relations with the African, Caribbean, and Pacific States

The original ACP states were all former colonies of one or other of the member states of the EU, although, as the Lomé Convention was regularly updated, other states joined that had never been colonies of EU members. When the Cotonou Agreement was signed in June 2000, more ACP states joined, bringing the total to eighty (see Box 25.1).

### The Cotonou Agreement

Negotiations on what became Cotonou followed a Commission 'Green Paper' highlighting the ongoing problems of ACP countries (European Commission 1996b). The

### Box 25.1 The ACP States

#### African States

Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo (Republic of), Congo (Democratic Republic of), Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Swaziland, Tanzania, Togo, Uganda, Zaire, Zambia, Zimbabwe.

#### Caribbean States

Antigua and Barbuda, Bahamas, Barbados, Belize, Cuba, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname, Trinidad and Tobago.

#### Pacific States

Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Solomon Islands, Timor-Leste, Tonga, Tuvalu, Vanuatu, Western Samoa.

Green Paper identified two main reasons why the Lomé pattern could not continue, as follows:

- The preferences under Lomé were becoming less valuable as the liberalization of global trade proceeded; this was evidenced by a decline in the ACP share of the EU market.
- Lomé was incompatible with WTO rules. Although various waivers had been granted, the rules were quite clear. Article 1 of the WTO Charter requires participants not to discriminate between other WTO members in trade concessions. Exceptions are allowed to this rule for less developed countries (LDCs), but the concessions must apply to all LDCs. There were two problems about the compatibility of Lomé with these WTO rules: first, many of the ACP states covered by Lomé were not classified as LDCs by the WTO; second, there were nine LDCs that were not included in Lomé.

In response to these problems with the existing arrangements, the Commission proposed dividing the ACP states into the LDCs, which could choose to continue to receive non-reciprocal trade concessions that would also be offered to the nine LDC states that had previously been excluded, and the non-LDCs, which would be offered Economic Partnership Agreements (EPAs). The EPAs would involve reciprocity, so the ACP states would have to offer free market access to EU goods. To be WTO-compatible, they would also have to cover 'substantially all' trade, which was generally interpreted as 90 per cent of products, so agricultural produce that had been excluded from Lomé to protect areas that were adjudged 'sensitive' by EU member states would

have to be included. The EU agreed that it would conclude such agreements either with individual states or regional groupings, but indicated a strong preference for Regional Economic Partnership Agreements (REPAAs). The most significant change from Lomé was the gradual replacement of the system of trade preferences by a series of new economic partnerships based on the progressive and reciprocal removal of trade barriers (European Commission 2000: Chapter 2, Articles 36–8). However, the negotiation of EPAs repeatedly stalled, and at the end of 2013 only the Caribbean region had signed a full EPA (in 2008).

## The European Neighbourhood Policy

In 2004, the relations of the EU with neighbouring states were brought together under the European Neighbourhood Policy (ENP). Its objectives were: to share the benefits of the 2004 enlargement with neighbouring countries without offering the perspective of membership, and so to prevent the emergence of stark dividing lines between EU and non-EU states; and to build security in the area surrounding the EU. Although the ENP is not a purely economic arrangement, the provision of financial assistance and economic co-operation, including access for the neighbouring states to the EU's internal market, are central to its operation. In 2013 there were sixteen ENP countries to the south and east of the EU: Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, Palestine, Syria, Tunisia, and Ukraine. It does not cover states to the east that already have a prospect of membership—Turkey, and the Western Balkan states of Serbia, Montenegro, Bosnia-Herzegovina, Albania, and the former Yugoslav Republic of Macedonia (see Chapter 27). Nor does it cover Russia.

In line with the objective of avoiding stark dividing lines between the EU and its neighbours, it was intended from the outset that the European Neighbourhood and Partnership Instrument (ENPI) would have a specific focus on cross-border co-operation and intra-regional co-operation. The principles used in the management of the ENPI are those that were pioneered first in the management of the structural funds for regional development in the EU—multi-annual programming, partnership, and co-financing (see Chapter 22)—and later deployed in the context of enlargement policy (see Chapter 27).

Throughout the political and economic dialogue with neighbouring states, the emphasis has been on the development of the rule of law, good governance, respect for human rights—including minority rights—the promotion of good-neighbourly relations, and the principles of the market economy and sustainable development. While the ENP consists in the main of bilateral relations between the EU and partner countries, it co-exists and overlaps with ongoing multilateral regional based initiatives in the 'neighbourhood', such as the Euro-Med Partnership, the Eastern Partnership, and Black Sea Synergy.

In the context of the ENP, the EU has been able to negotiate association agreements with many countries in the EU 'neighbourhood'. These agreements typically provide for the liberalization of trade to various degrees and often (though not necessarily) pave the way to formal accession processes. One of the earliest such agreements was

with Turkey in 1973. In recognition of the disappointment of Turkey at not being treated as a candidate for membership of the EU in the enlargement round that ended in 2004, in 1996, the association agreement with it was extended into a special customs union.

In the late 1990s and throughout the 2000s the EU negotiated association agreements with a number of countries in the Mediterranean region geared towards the liberalization of trade in goods. Since the late 2000s and in the context of its Eastern Partnership, the EU has sought to negotiate further such agreements. As of early 2014 it had made significant progress towards the signature of agreements with Georgia and Moldova. Despite having negotiated and initialled an agreement with the EU, Ukraine opted in late 2013 not to sign this in response to Russian pressure. This led to widespread political opposition and upheaval in Ukraine in early 2014 and significant tensions between Russia and the west (for more on these events see Chapter 26). Russia is generally concerned about the extension of EU economic and political influence in the east and particularly into soviet successor states.

## Explaining Trade and Development Aid Policies

Theoretical explanations of the external trade and development aid policies of the EU have focused on the politics of formulating a common commercial policy and on the relations of the EU with the ACP states. In both cases, use has been made of the idea of a 'multi-level game', derived from Robert Putnam's concept of a 'two-level game', combined with insights from institutionalist approaches.

### Explaining External Trade Policy

Explanations of the external trade policy of the EU have not generally supported supranational theories, although, given the qualms of France and some of the other member states about policies of liberalization, the idea of the Commission playing an autonomous role can be put forward. Most analyses, though, adopt an approach based on the idea of a multi-level game, to which has been added an institutionalist perspective.

One possible explanation of the trade policy of the EU is that the Commission is able to play a role as an autonomous actor (Damro 2007). On this view, divisions within the EU between member states, combined with the need for the Council to approve trade agreements by a qualified majority rather than unanimity, opened up an opportunity for active and committed Commission leadership to influence the direction of policy. Such leadership was provided by a succession of Trade Commissioners, all of whom favoured trade liberalization. In the Santer Commission, Sir Leon Brittan held the portfolio from 1994 to 1999, and set a strong free trade agenda; he was followed by Pascal Lamy (1999–2004), who, despite his French nationality, continued to push the EU in the same direction during the Prodi Commission, as did his successor in the Barroso Commission, Peter Mandelson (2004–08).

This does not mean that there were no differences in emphasis between the Commissioners. Meunier (2007a) looked at the differences between the 'managed globalization' favoured by Lamy and the position of his successor, Mandelson, as expressed in the 2006 communication *Global Europe: Competing in the World* (European Commission 2006b). 'Managed globalization' made multilateralism the central doctrine of EU trade policy, and linked trade to political objectives such as social justice and sustainable development. 'Global Europe' argued that the central objective of EU trade policy should be to open markets abroad for European companies. The shift of emphasis involved a downgrading of the political adjuncts to trade negotiations and a retreat from the commitment to multilateralism. Although multilateralism was still to be afforded primacy, an informal moratorium on bilateral agreements until the end of the Doha Round, which Lamy had introduced, was abandoned.

Meunier (2007a) noted that neither the adoption of the approach of managed globalization nor the shift to that of 'Global Europe' involved a new mandate from the member states. This seemed to indicate a degree of autonomy of the Commission in making EU policy on external trade. However, little evidence was found to sustain the argument that the Commission had a significant autonomous effect on the policy. The autonomy of the Commission was judged to be limited to reframing and repackaging the interests of the member states, and perhaps tweaking them at the margins (Meunier 2007a: 922).

Intergovernmental explanations have centred on the idea of trade negotiations as a multi-level game. Putnam (1988) described the making of foreign policy for a state as a 'two-level game'. Moravcsik (1991, 1993, 1998) incorporated this insight into his 'liberal intergovernmental' theorizations of the nature of the relationship between the EC/EU and its member states (see Chapter 1). At one level, the government of each member state has to find a position that will satisfy the balance of pressures in its domestic political arena. It then has to play a game at the level of negotiations with the other member states to try to achieve an agreement that falls within the parameters of what is acceptable domestically.

However, the position in EC trade negotiations is even more complex. The nature of the relationship between the member states, the Commission, and the trade partners means that it is a three-level, rather than a two-level, game (Collinson 1999). The three levels are as follows.

- (1) The government of each of the member states has to find a negotiating position that reflects its own domestic constraints.
- (2) All of the governments then have to negotiate around these positions in determining together the negotiating mandate for the Commission in the wider trade talks.
- (3) The Commission then has to negotiate in the wider talks within the tight parameters of this mandate.

If it is necessary to go beyond these parameters to reach a deal, the Commission has to refer back to its constituency in the Council, and the members of that constituency (the governments of the member states) have to refer back to their domestic constituencies.

Matters are made even more difficult by the multi-issue nature of trade talks. It has already been suggested that when the Treaty of Rome was drawn up, certain issues that are central to contemporary world trade were not considered to be part of the agenda. Trade in the 1950s was predominantly in goods. Today, there is growing trade in services and intellectual property. Foreign direct investment has also grown rapidly and become a matter of concern, with some governments wishing to regulate it and others wishing to embed international rules that ban national discrimination against foreign investment. In addition, agriculture, which was effectively excluded from the earliest rounds of GATT negotiations by a tacit agreement between the participants, has become a central issue.

Young and Peterson (2006) added even more complexity by pointing to the emergence of a new trade agenda that is no longer concerned with restrictions that occur at the border of national economies, but increasingly involves attempts to harmonize or regulate national domestic rules that affect trade, such as state subsidies, and technical barriers to trade.

Young (2000) had earlier advocated supplementing liberal intergovernmental analysis of trade policy with an institutionalist approach. According to this analysis, the three-level game is structured by the institutionalization of the policy sector. Young (2007) used such an approach in an analysis of the EU's positions in the Doha Round, in which the EU was argued to have taken a more liberal position on traditional trade issues than it did on the newer issues. Young explained this variation by examining the different institutionalization of political forces within each set of issues.

On the traditional trade issues, the range of actors was generally limited to national and EU-level officials and companies within the EU that were directly affected, either because they competed with imports and sought protection, or because they were export-oriented and sought the opening of markets in other countries even at the cost of dismantling EU protection. Within this limited policy arena, a growing acceptance among officials that free trade offered the best prospects for high levels of economic growth, combined with the increasing dominance of the export-oriented firms, ensured that since at least the mid-1980s the EU became more committed to trade liberalization.

Because the newer 'deep trade' agenda involves 'behind-the-border' issues, such as the adverse trade effects of national rules, state subsidies, and public procurement, a different range of actors is involved. As well as trade officials, non-trade departments, both of the Commission and the national governments, have central roles, and they are less likely to share the acceptance of the benefits of free trade that forms the ideological context for policy making among trade officials. National governments are more central actors at the EU level because the policies covered involve them directly, as with subsidies that they pay or public contracts that they award, in both cases for domestic reasons. Also, the sorts of issue covered by the new agenda have much wider direct political implications within states. This is particularly true of the 'social trade' agenda, which affects such issues as measures to protect the environment or consumers. Here, both politicians and campaigning interest groups, such as environmental groups and consumer groups, have an incentive to become active within the policy-making process. For all of these reasons, it will be more difficult for the EU to establish a liberalization agenda on these issues than it is for traditional trade issues.

That said, as noted below, some scholars have argued that just such an agenda is nevertheless emerging.

### Relations with the ACP States

Using another adaptation of the two-level game model, Forwood (2001), going against treatments of Cotonou as a radical restructuring of Lomé, argued that a closer examination of the negotiations showed 'that the ability of the negotiators to rise to the challenges facing EU-ACP relations was compromised by the complexities of international negotiations' (Forwood 2001: 424).

Member states of the EU took up different positions on the proposals in the Commission's Green Paper. France wanted to continue with the principles of Lomé to maintain the special relationship with the ACP states. It also opposed adjustments to the relationship that might lead to the ending of agricultural exemptions. Germany wanted to see an end to Lomé, which it considered to be a 'colonial relic'. It was most supportive of the proposals in the Green Paper. Denmark, Sweden, and the Netherlands were primarily concerned to protect the interests of the LDCs. They wanted to see the nine LDCs that were excluded from Lomé brought into the new arrangements. They were also concerned about the Commission's idea of REPAs because they believed that they would benefit the non-LDC members of the ACP group at the expense of the LDCs. Britain shared this suspicion of the idea of REPAs, but, like France, wanted to maintain a special relationship with the ACP states as a whole (Forwood 2001: 428-9).

The result of these divided views was a compromise mandate for the Commission to take into the negotiations with the ACP states: the continuation of a special relationship would be available, but those ACP states that were unwilling to continue with the relationship would be offered EPAs, either on an individual basis or as REPAs (Forwood 2001: 431).

During the negotiations with the ACP states, the Commission's hand was weakened by the collapse of the WTO trade talks in Seattle in December 1999. This focused attention on the position of developing countries, making it more difficult for the EU to force through any agreement with which the ACP states were unhappy and about which they might complain publicly, thereby damaging the international image of the EU. It also demonstrated that the developing countries still had the ability to throw a spanner in the works of global liberalization (Forwood 2001: 437), particularly in the context of growing public dissatisfaction with the perceived inequities of global trading arrangements. The principal reason, though, that Forwood (2001: 438) invoked for an outcome that is here characterized as one in which 'all the features of Lomé have fundamentally been rolled over into the new Convention' was the historical institutionalist idea of 'path dependence' (see Chapter 2, New Institutionalism). In the case of Lomé, it was explained thus:

*The legacy of 25 years of Lomé was such that negotiators were not able merely to wipe the slate clean and start afresh. This legacy is more than a legal commitment, but also a moral and political obligation of the EU Member States towards the ACP countries.*

(Forwood 2001: 434)

## Critiquing Trade and Development Aid Policies

The general orientation of EU trade policy has been, in accordance with its internal single market policy, towards a free trade agenda (agriculture being a notable exception—see Chapter 19). However, just as the single market project has provoked critiques from a critical political-economy perspective (see Chapters 4 and 20), so, increasingly, have trends in EU trade policy. These interventions have tended to focus on the EU's relationship with the developing world, but increasingly they also consider trade and development policy as a whole and the 'deep trade' or 'behind-the-border' issues discussed above.

Deploying a neo-Granscian perspective Gibb (2000: 477-8) analysed the shift from Lomé to Cotonou. He argued that the Commission, in its Green Paper, had presented the requirements of the WTO as an insuperable barrier to continuation of Lomé, but, in reality, the WTO system was one that the EU had been involved in installing. An alternative to changing the Lomé principles to make them compatible with the WTO would have been to change the WTO rules to make them compatible with the Lomé principles. Some ACP delegations had suggested that the EU and ACP jointly argue for the acceptance by the WTO of a new category of free trade agreement, a 'soft' or 'low' agreement, that would not be subject to the same stringent requirements as were implied by existing WTO rules. The EU chose not even to raise this issue during the Millennium Round of trade negotiations. The conclusion was that, '[t]he WTO is ... at the centre of the post-Lomé negotiations because the EU placed it there. And it placed it there because it is in its own best interests to do so' (Gibb 2000: 478).

Hurt (2003) went further by analyzing the aid provisions as well as the trade provisions of the agreement. He drew attention to the similarity of principles underpinning Cotonou to the principles of other institutions of international economic management, including not only the WTO but also the IMF and the World Bank. This similarity was again attributed to the dominance of neoliberal ideas, which served the interests of powerful actors within the developed world.

*The current neoliberal hegemony of ideas sits broadly compatibly with the self-interests of political élites and the outward-orientated fraction of the capitalist class within the EU member states.*

(Hurt 2003: 174)

More generally, the shift in agenda from multilateralism to bilateralism associated with the 'Global Europe' agenda can also be considered in terms of such a 'neoliberal hegemony of ideas', or what Heron and Siles-Brügge (2012) have termed a shift towards 'competitive liberalization'.

Moves to pursue bilateral agreements which focus on liberalization in areas with significant 'behind-the-border' implications, such as services and investment, have been understood as exemplary of this shift. Heron and Siles-Brügge (2012) emphasized in particular the importance of broader systemic factors in explaining such a shift: in particular, the efforts of competitor nations such as the United States and Japan to pursue such policies themselves. It can also, according to their analysis, be

understood in terms of the increasing power and influence of services and investment-industry interest groups, seen as vital to the fortunes of the EU and developed economies more generally. Commentators have similarly warned of the increased significance of certain 'big business' voices in the context of the EU-US trade negotiations (that were ongoing at the time of writing in 2014). These negotiations are focused on a range of 'behind-the-border' issues rather than free trade in a traditional sense, and critics have pointed to the potentially detrimental effects on a range of EU regulatory standards on issues ranging from food safety to the environment (Monbiot 2013; Corporate Europe Observatory 2013). The broader structural political-economy factors identified by Heron and Siles-Brügge perhaps go some way to explaining why, notwithstanding the above-mentioned difficulties in negotiating 'deep trade' agreements highlighted by Young, the Commission has increasingly been given the mandate to negotiate just such agreements.

There are important parallels here with the controversial shifts towards liberalizing services associated with the single market project (see Chapter 20, Beyond 1992). Both trends can be understood within the context of emerging conceptions of competitiveness and the 'knowledge economy', associated for instance with the Lisbon Agenda (2000) (see Chapter 10). Indeed, adopting a 'radical' constructivist perspective (see Chapter 4), Orbie and De Ville (2014) argued that EU discourse had increasingly used internal neoliberal policy to legitimize external trade policy and vice versa.

While these critical political-economy approaches (see Chapter 4) may at times understate the plurality and complexity of competing interests at play in the trade arena, they offer an important alternative perspective to a mainstream approach which does not explicitly question the normative assumptions underpinning EU trade policy. They point to an important liberalizing trend which has been apparently undiminished by the ongoing crisis within the EU (Orbie and De Ville, 2014; Siles-Brügge 2014), and highlight some of its often neglected and sometimes pernicious consequences for groups within and beyond the EU.

## CONCLUSION

Examination of the external economic relations of the EU brings to the fore several of the theoretical themes that have appeared throughout this book: the tension between nationalism and supranationalism; the complexities of bargaining within multiple international forums; the dominance of particular ideas across different forums. It also shows the difficulty entailed in clearly separating internal and external policies, and economic and political issues.

The complex decision-making rules for the common commercial policy demonstrate the dangers of any oversimplification of the relationship between intergovernmentalism and supranationalism. The Commission clearly plays an important role, and has a certain autonomy over the conduct of trade negotiations under the Articles of the original Treaty dealing with the common commercial policy. The member states have always been influential, though. They have to agree the negotiating mandate within which the Commission works, and they have to secure sufficient domestic support before their representatives dare vote for the ratification of the agreements, which acts as a further constraint on the Commission's room for making deals. This complexity is well captured by the theoretical concept of the multi-level game, especially when supplemented

by an institutionalist analysis that takes into account variations in the constellations of actors, established practices, and ideational contexts of the different issue areas.

From a more explicitly critical perspective, the dominant ideas that underpin EU trade policies have been called into question. The analyses that do this have, in particular, highlighted the free market and increasingly neoliberal bias inherent in recent EU policy. They emphasize the broader power relations that have supported this bias and draw attention to the often adverse consequences that it has for developing countries and other constituencies both within and beyond the EU. In many cases they have also highlighted the close connections between these external policies and the internal EU economic policies discussed in earlier chapters.

Whatever the approach adopted in considering trade policies, it is an area which makes clear that economic and political issues are interrelated in important and complex ways. This makes it difficult to distinguish clearly the economic external relations examined in this chapter from the political external relations discussed in the following chapters, even if they have traditionally operated under different institutional arrangements.

## KEY POINTS

### History

- When the EEC was set up in the 1950s, world economic relations were governed by the 1944 Bretton Woods agreements. Trade relations were governed by the GATT.
- A key principle of the GATT was MFN: members had to offer to all other member states terms of trade as favourable as the best terms they offered to any other state. The EEC gained exemption from MFN for the internal **common market** and for its relations with former colonies of EEC members.
- Relations with the former colonies initially continued their dependence on France in particular. When Britain joined the EEC, the Lomé Convention provided the ACP states with a fairer deal.
- Following the collapse of communism in eastern Europe, the EU concluded special trade and aid agreements with the CEECs in an attempt to ensure the stability of its near neighbours. For the same reason, special agreements were reached with the states of the southern Mediterranean.

### External Trade Policy

- Trade negotiations are conducted by the Commission on behalf of the EU as a whole, working to a mandate agreed by the Council of Ministers and supervised by a committee of national representatives.
- Until the Lisbon Treaty came into force, trade in services and intellectual products were not automatically covered by this arrangement: the governments of the member states had to agree ahead of each round of negotiations to allow the Commission authority in these areas.
- Under the terms of the Lisbon Treaty, trade in services and intellectual products are an EU competence, but unanimity remains the voting rule where sensitive domestic issues are concerned.
- The Commission has the power to impose duties and other restrictions on imports of goods to the EU where dumping or unfair subsidies are suspected.
- Member states are often divided over trade issues both by conflicting economic interests and by their general attitude to free trade.

- Since the introduction of the WTO, the EU has been involved in a series of trade disputes, mainly with the United States.

#### Relations with the African, Caribbean, and Pacific States

- Between 1975 and 2000, the relations of the EC/EU with the ACP states were governed by the Lomé Conventions. The terms of Lomé were more favourable to the ACP states, reflecting the international economic circumstances in which they were negotiated in the 1970s.
- By the end of the 1990s, when Lomé was renegotiated, it was clear that its terms were incompatible with the rules of the WTO in several respects.
- A new agreement was signed in 2000 in Cotonou, Benin. The Lomé system of trade preferences was replaced by a series of new economic partnerships based on the progressive and reciprocal removal of trade barriers. There was also a new emphasis on political, social, and environmental issues.

#### The European Neighbourhood Policy

- The ENP aims to prevent the emergence of stark dividing lines between EU and non-EU states by offering many of the advantages of association to neighbouring states that do not have a prospect of membership.
- The EU has negotiated association agreements with many 'neighbourhood' states. Such agreements lead to the liberalization of trade between the EU and association countries.

#### Explaining Trade and Development Aid Policies

- Shared responsibility for trade negotiations produces a complex pattern of bargaining that has been characterized as a 'three-level game'.
- Such rational choice analyses of trade negotiations have been supplemented by institutional analysis.
- Both types of analysis have also been applied to relations with the ACP states.

#### Critiquing Trade and Development Aid Policies

- Critical political economists have emphasized the increasingly neoliberal bias in EU trade policy and drawn attention to its negative consequences.

### FURTHER READING

The most comprehensive review of the external trade policy of the EU is provided by **S. Meunier**, *Trading Voices: The European Union in International Commercial Negotiations* (Princeton, NJ: Princeton University Press, 2007). A useful recent literature review is offered by **A. Poletti and D. De Bievre**, 'The Political Science of European Trade Policy: A Literature Review With a Research Outlook', *Comparative European Politics*, 12 (2014): 101–19.

The common commercial policy of the EU is analysed as a multi-level game in **S. Collinson**, 'Issue Systems', 'Multi-Level Games' and the Analysis of the EU's External Commercial and Associated Policies: A Research Agenda', *Journal of European Public Policy*, 6 (1999): 206–24. The increasing complexity of trade policy is well set out in **A. R. Young and J. Peterson**, 'The EU and the New Trade Politics', *Journal of European Public Policy*, 13 (2006): 795–814.

The chapters in **G. Faber and J. Orbie (eds)**, *Beyond Market Access for Economic Development: EU Africa Relations in Transition* (Routledge, 2009), address the emergence of EPAs in the context

of the ACP. **G. Siles-Brügge**, *Constructing European Union Trade Policy: A Global Idea of Europe* (Palgrave Macmillan, 2014) offers an up-to-date example of the critical approach enunciated above with reference to recent FTAs.



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