

# International Business: a European Perspective

## 5. International and Regional Institutions: the EU and the WTO



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de  
CANTABRIA**

- Organization of class
  - 1) EU trade patterns
  - 2) EU trade policy – decision-making
  - 3) EU trade policy – instruments
  - 4) The WTO
  - 5) Doha agenda – WTO.



Regional Trade Policy: The European Union

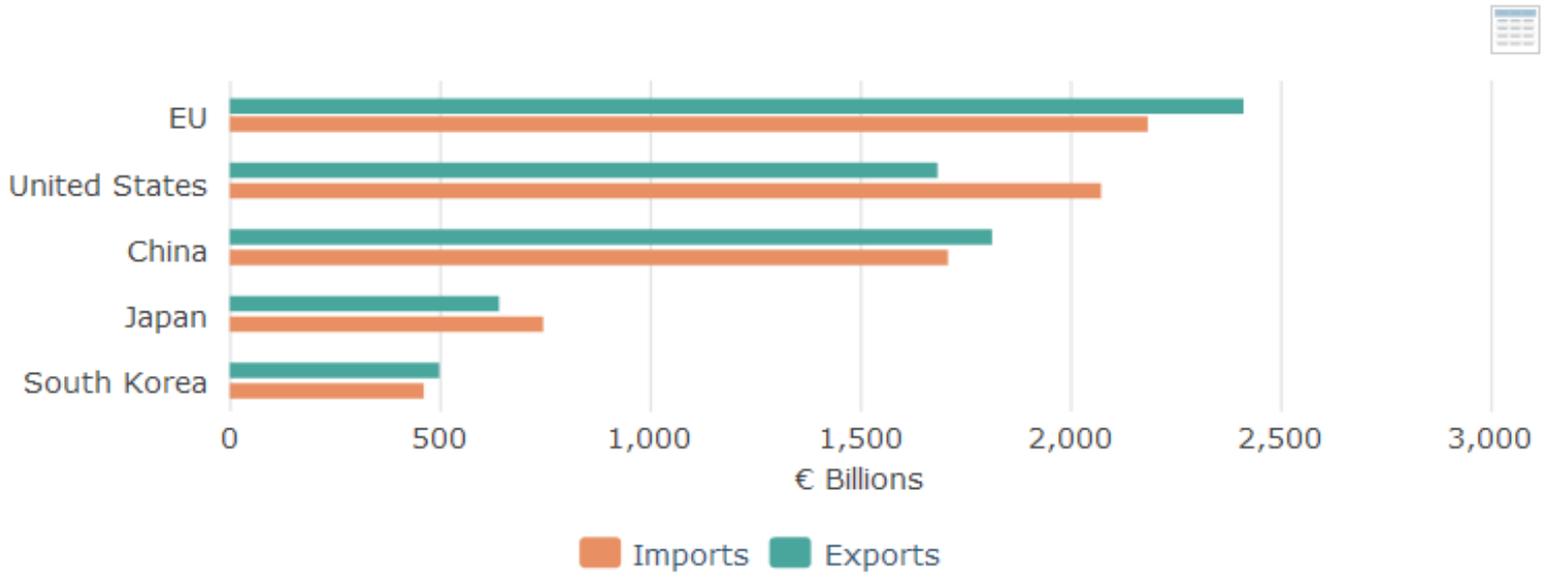
- One fifth of world trade
- Common Commercial Policy (CCP)
- CCP originally focused on tariffs and quantitative restrictions affecting trade in goods
- Today much more diverse
- **Trade for All - New EU Trade and Investment Strategy**
- But...things could change quickly due to geo-political shocks (e.g. Brexit).

# EU TRADE PATTERNS

## EU trade patterns

- The EU is in prime position when it comes to global trade. The openness of its trade regime has meant that the EU is the biggest player on the global trading scene.
- Europe is the world's largest exporter of manufactured goods and services, and is itself the biggest export market for around 80 countries.
- Together, the European Union's 27 (plus the UK) members account for 16% of world imports and exports (source: EC)

### Trade in goods and commercial services 2013



Source: Eurostats, WTO

<http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/statistics/>

# Why is the EU an attractive market to do business with?

- Over 500 million consumers looking for quality goods
- World's largest single market with transparent rules and regulations
- Secure legal investment framework that is amongst the most open in the world
- Most open market to developing countries in the world

Source: European  
Commission

- Composition of EU trade
- A difference between imports and exports
- Machinery and transport equipment dominate EU exports (about 42-44%) but share in imports is lower
- Minerals: the EU is a net importer
- As regards services, the EU is a net importer of travel services and net exporter of financial services.

Source: European Commission

# **EU TRADE DECISION-MAKING PROCEDURES**

- Key provisions: customs union and progressive development of world trade (liberalization)
- Lisbon Treaty novelty:  
EU as global actor (as reflected in creation of new post High Representative of Union for Foreign Affairs and Security Policy)

- Decision-making in goods trade
- Qualified Majority Voting (QMV) in the European Council
- With Council approval, the Commission negotiates with a special committee appointed by the Council
- I.e. in the WTO
- Lisbon Treaty: more power to European Parliament in some areas of trade policy

Source: European Commission

- Decision-making beyond goods trade
- Non-tariff barriers increasingly tackled
- European Courts of Justice 1994: Commission would be in charge of service trade, but Member States and Commission would share competence on factor movements and commercial presence
- Nice Treaty (2001) QMV extended
- Lisbon Treaty (2007) Extends competence of the Commission to FDI.

Source: European Commission

# **EU TRADE POLICY - INSTRUMENTS**

# EU trade Policy instruments

In the last decades a broad range of instruments have been developed:

- **The common external tariff.** The common external tariff (CET) is one of the essential features of the European customs union: it consists in applying unique customs duties to imports from third countries, whatever is the importing Member State (some exceptions PTA).

Source: European Commission

# EU trade Policy instruments

- Tariffs – Most-favored nations (MFN) tariffs for all WTO members not enjoying EU preferential treatment (PTA).
- Tariffs are calculated on an *ad valorem* basis, i.e., expressed as a percentage of the c.i.f. (cost, insurance and freight) value of the imported goods.
- Three sectors present by far the highest protectionism: agriculture, fish and fishery products, and textile and clothing.

**Table 3.2. Summary analysis of applied MFN tariffs in the European Union, 2008**

	Simple average tariff (%)	Range tariff (%)	Share of duty free imports in %
<b>Total</b>	<b>5.6</b>	<b>0-236</b>	
Non-agricultural products	4.0	0-26	26.2
Agriculture <sup>1</sup>	16.0	0-236	29.6
– Animal products	27.6	0-236	25.3
– Dairy products	64.1	0-205	0.0
– Coffee and tea	7.2	0-99	83.4
– Fruit and vegetables, plants	12.4	0-233	17.5
– Cereals and preparations	22.3	0-123	6.7
– Oil seeds, fats, oils and their products	6.4	0-180	69.7
Sugars and confectionary	33.3	0-143	0
– Beverages and tobacco	20.7	0-203	23.9
– Other agricultural products	5.8	0-133	70.6

MFN: Most Favoured Nation; CV: Coefficient of variation; std-dev: Standard deviation.

1. WTO definition.

Source: <http://stat.wto.org/TariffProfile/WSDBTariffPFView.aspx?Language=E&Country=E27>.

StatLink  <http://dx.doi.org/10.1787/888932476057>

Source: World Trade Organization

# EU trade Policy instruments

- **PTAs and multilateral negotiations.** These instruments have the scope to eliminate obstacles to trade on international markets concluding trade agreements which allow partner countries to be given special treatment.
- It should be noted that these preferential treatments are exceptions to the most-favoured nation (MFN) clause which have been authorised by the WTO.

Source: European Commission

# EU trade Policy instruments

## **Non-Tariff Barriers** also used to limit imports

- Quantitative restrictions: quotas remain on steel imports from non-WTO countries (Kazakhstan, Russia and Ukraine)
- Regulatory barriers: Technical, health and safety. Trend to international standardization.
- Other trade defence instruments: anti-dumping, anti-subsidy policy,.

Source: European Commission

# Import and export rules

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## TRADE

European Commission > Trade > Import and export rules

**Trade**

Policy

Import and export rules

Export from EU

- Dual use controls
- Waste shipment

Import into EU

Trade policy and you

### Import and export rules



The EU wants to help traders make the most of global trading by making the information clear.

Trading with the wider world brings growth to the EU economy and jobs for European workers.

The European Commission has the data on tariff duties, the technical requirements to trade, food health requirements, anti-dumping and anti-subsidy duties and other issues.

This information is set out according to whether you are [exporting from the EU](#) or [importing into the EU](#).

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# TRADE

## Market Access Database

European Commission > Trade > Market Access database > EU Tariffs

- Home
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  - Tariffs
  - Procedures and Formalities
  - Statistics
  - Trade Barriers
  - SPS: Sanitary and Phytosanitary Issues
  - Rules of Origin
  - Services for SME
- Import into the EU**
  - EU Tariffs**
  - Other Resources

### EU Tariffs

This section provides information on tariffs and other import measures applied to a given product imported into the EU.

Exporting country:

Product code (4 to 10 digits):

[Find code](#)

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# The World Trade Organization

- The WTO was created during the Uruguay Round of GATT (General Agreement on Tariffs and Trade): enforce GATT rules
- Most comprehensive trade agreement in history
- Formation of WTO had an impact on
  - Agriculture subsidies (stumbling block: US/EU)
  - Applied GATT rules to services and intellectual property (TRIPS)
  - Strengthened GATT monitoring and enforcement

Source: World Trade Organization

## WTO principles

- **Trade without discrimination.** **Most-favoured-nation (MFN)**: treating other people equally
- **Freer trade**: gradually, through **negotiation**.
- **Predictability**: **through binding and transparency**

## The WTO

- 164 members in 2018
- Represents about 98% of world trade
- 405 disputes (1995-2010)

[http://www.wto.org/english/res\\_e/webcas\\_e/webcas\\_e.htm#intro](http://www.wto.org/english/res_e/webcas_e/webcas_e.htm#intro)

[http://www.wto.org/english/tratop\\_e/dispu\\_e/dispu\\_by\\_country\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/dispu_by_country_e.htm)

- Tariff reduction from 40% to 5%
- Trade volume of manufactured goods has increased 20 times

# The WTO

- Policing organization for:
  - Goods
  - Services
  - Intellectual property
- Responsibility for trade arbitration:
  - Reports adopted unless specifically rejected
  - After appeal, failure to comply can result in compensation to injured country or trade sanctions
- 405 disputes brought to WTO between 1995 and 2010
- 196 handled by GATT during its 50 year history

Source: World Trade Organization

# WTO Decision Making

WTO Conferences:

- The topmost decision-making body of the WTO is the Ministerial Conference, which usually meets every two years.
- It brings together all members of the WTO, all of which are countries or customs unions.
- The Ministerial Conference can take decisions on all matters under any of the multilateral trade agreements.

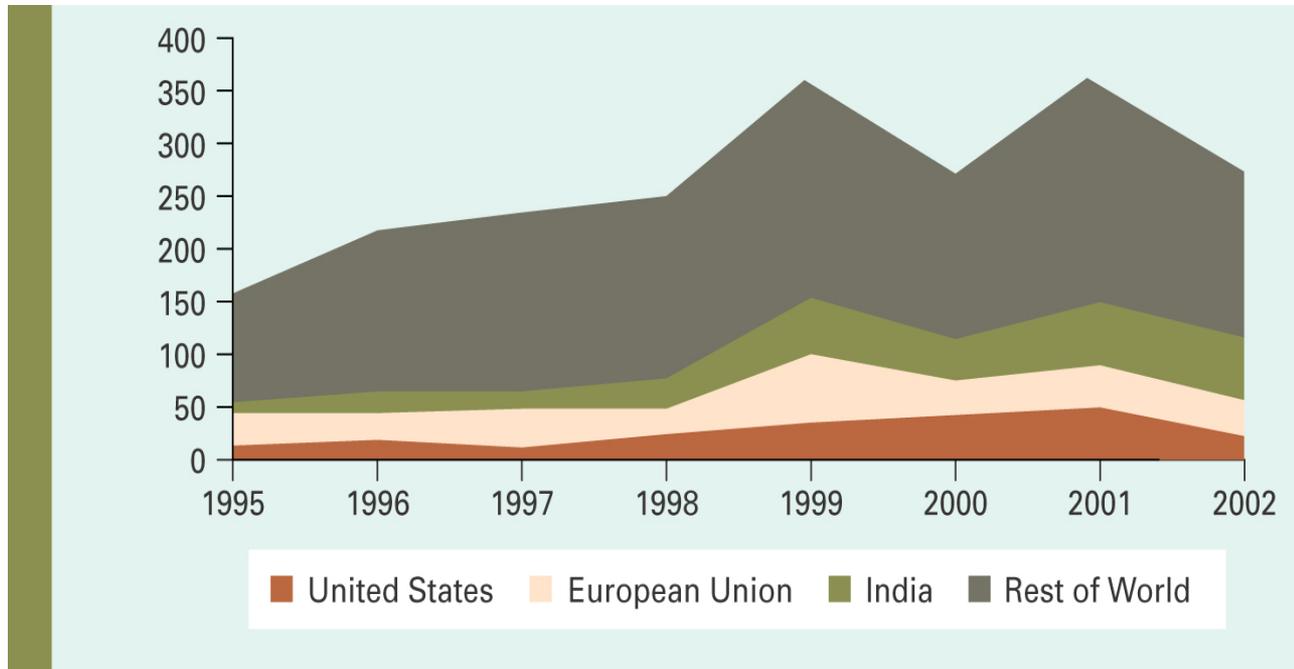
Source: World Trade  
Organization

# WTO Decision Making

## WTO Conferences:

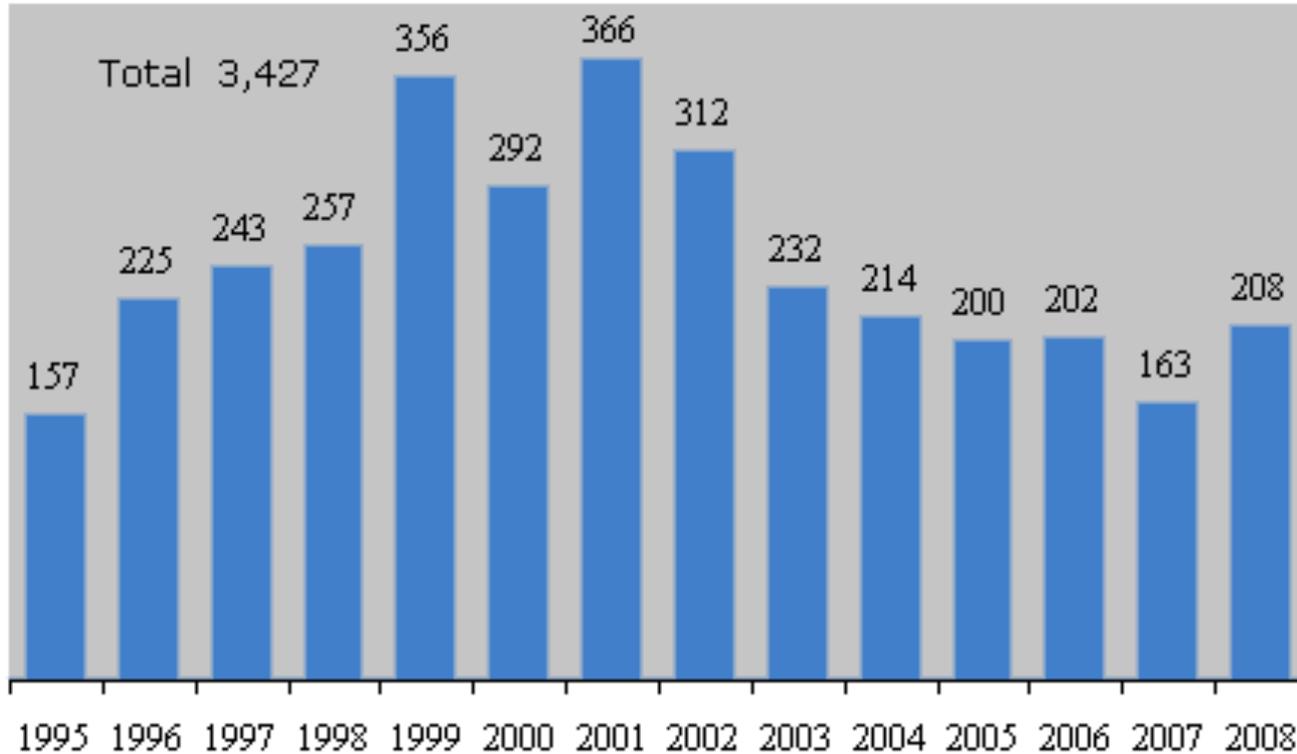
- Buenos Aires, 10-13 December 2017
- Nairobi, 15-19 December 2015
- Bali, 3-6 December 2013
- Geneva, 15-17 December 2011
- Geneva, 30 November - 2 December 2009
- Hong Kong, 13-18 December 2005
- Cancún, 10-14 September 2003
- Doha, 9-13 November 2001
- Seattle, November 30 – December 3, 1999
- Geneva, 18-20 May 1998
- Singapore, 9-13 December 1996

# Antidumping cases by WTO members



Source: World Trade Organization

## ANTI-DUMPING: NUMBER OF INVESTIGATIONS INITIATED 1995 — 2008



Source: World Trade Organization

## Antidumping actions

- Four sectors account for 70 percent of all antidumping actions reported to WTO
  - Metal industries
  - Chemicals
  - Plastics
  - Machinery and electrical equipment
  - Actions often initiated by politicians in the various countries to please strong lobbying groups in exchange for votes

# Protectionism in agriculture

- Recent focus of WTO on agricultural subsidies
  - These are 3 to 5 times higher than non-agricultural subsidies
  - Advanced nations are the strongest defenders of this system
- Combination of high tariffs and subsidies on agricultural product
  - Raises price to the consumer
  - Reduces volume of agricultural trade
  - Encourages overproduction of subsidized products

# Protection of intellectual property

- Trade related Aspects of Intellectual property (TRIPS)
  - WTO members allowed to grant and enforce patents and copyrights
  - This encourages innovation
  - Reduces piracy rates in drugs, software music
- Expected to boost global economic rates and social and economic welfare around the world

Source: World Trade Organization

## Managerial implications

- Trade barriers act as a constraint on firm strategy
- May be useful to establish more production activities in the protected country (To be discussed in the next lesson).
- Business gains from government's efforts to open protected markets are more than gains from governments efforts to protect domestic industries/firms