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Assessing the EC Trade Policy in Goods

By Patrick A Messerlin

The recent shift in European trade policy to bilateral agreements is taking Europe into dangerous waters. It is not only a risk of creating a “spaghetti bowl” of bilaterals. All the bilateral agreements envisaged by the EC may turn into a system of “electron colliders”: the bilaterals are so many that they clash against each other. Europe should reorient its trade strategy in accordance with its multilateral ambitions and table realistic proposals for the Doha Round. It should recognize its long-term interest of a world trading order that facilitates progressive liberalization of trade in an orderly fashion, and without creating new types of distortions.

The bilateral trade agreements envisaged by the European Commission are characterized by trade preferences so substantial that they could easily create severe trade distortions and be costly for both European consumers and producers. By contrast, the alternative option—a successful Doha Round—would provide substantial benefits to the EC for two reasons. The EC is one of the world’s worst offenders in agricultural protection and a highly protected services provider (as most WTO Members).

The Doha negotiations in “agriculture” are dominated by two not very well-known—but crucial—facts. Firstly, the negotiations deal with many more agro-industrial (“food”) products than farm products. Secondly, the tariff cuts offered by the current EC proposal protect food producers more than farmers. The EC food products that would remain the most protected items after the Doha Round would be a hodgepodge of waste products (dog and cat food, whey, etc), goods with very little potential in international trade (yoghurts) or with limited importance (cucumbers, gherkins, etc). Europe should therefore table a new proposal in the agricultural negotiations that cut tariff protection of agro-industrial products more than the tariff protection of farmers.

Non-agricultural market access (NAMA) issues cover all the industrial sectors, except the food industries. The EC strategy in NAMA negotiations should aim at achieving what the European business community is asking for – namely no single industrial tariff above 15 percent. Such a target make economic sense as it eliminate tariff peaks and increase the certainty of access to emerging markets for European exporters.

The Hong Kong Ministerial meeting in December 2005 made progress in improving the negotiating process in NAMA by adopting the “Swiss formula” as the base instrument for negotiating tariff cuts. This paper elaborates on various strategies to achieve a “business target” of no industrial tariffs over 15 percent. Applied to three different groups of countries, a Swiss20 or

Swiss25 formula would both achieve this target. But the Swiss25 formula should be applied to avoid many exceptions from the general formula cut.

The EC should position itself as a WTO Member taking a long-term view of the world trade regime. Europe's strategy in the Doha Round already assumes that other Rounds will follow after a successful Doha Round. Those future Rounds will take over the unfinished business from the current Doha Round. A "modest but clean" Doha outcome (based on simple and predictable exceptions) would more easily provide for new future Rounds than an ambitious Doha package which is riddled with many distorting exceptions on many products. The EC long-term interest is to promote the notion of a series of WTO Rounds of liberalization as a perennial "peeling of the protectionist onion".

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