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The EC Trade Policy and the Doha Round

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Introduction

Trade negotiations at the World Trade Organization (WTO) require a strong stomach. One year after the launch of the Doha Round, the world trade regime is shaken by a series of bitter trade disputes – including in sectors, such as steel, that many observers thought to have disappeared for ever from the negotiators' radar screens. This wild roller-coaster may reinforce the impression that the Doha success was essentially caused by the 11 September terrorist attacks on New York and Washington. These dramatic events put certainly a lot of pressure on the trade ministers in Doha. And this should not be surprising. As far as one can go back into human history, trade and foreign policies have always been deeply intertwined.

But, that should not lead us to ignore that the Doha Ministerial Conference was much better prepared than the Seattle Conference by a full year of negotiations in Geneva on all the key topics. In fact, negotiations on one of the most difficult topics – agriculture – were the first to start after the Seattle Ministerial fiasco, giving the signal that the WTO survived its first crisis and could move again, at its usual slow pace – only anti-globalization supporters believe in fast trade liberalization, in complete contradiction with the GATT history of the last fifty years. The draft of the Ministerial Declaration elaborated under the leadership of STUART HARBINSON, Chairman of the WTO General Council, and MIKE MOORE, WTO Director General, was a robust basis for the Doha negotiators.

That being said, focusing on international aspects – be political or strictly trade-related – would not help much for reducing the ups and downs of trade negotiations. Rather, it generates a dangerous misperception – that trade liberalization is done for international motives (such as the desire to please trading partners), not for domestic economic reasons. Even if countries start trade liberalization most often because they do recognize the excessive costs of their closed economy (in the late 1940s and 1950s

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for the OECD countries, in the 1980s for key developing countries) they tend, after several decades of trade liberalization, to forget this primary reason for liberalization, and start negotiating routinely because they pertain to a negotiating forum – a sure recipe for trouble.

This is why it is so important, at the dawn of a new Round, to look at the level and costs of existing protection (hence at the potential magnitude and benefits of future liberalization) from a domestic perspective. Such a necessary task should be undertaken by all major WTO members. In this respect, it would prove most useful if the data and information patiently gathered by the WTO Trade Policy Review Unit between two Rounds be compiled at the beginning of every new Round, and put at the public's disposal, thus allowing nationals to do this exercise of self-assessment of the trade policy of their own country.[1] This paper presents a summary of such an exercise for the European Community (MESSERLIN 2001)[2]. It follows similar efforts done for the United States (HUFBAUER and ELLIOTT 1994), Japan (SAZANAMI, URATA and KAWAI 1995), Korea (KIM 1996), and China (ZHANG, ZHANG and WAN 1999) – all under the auspices of the Institute for International Economics.

The paper is organized as follows. *Section 1* describes the level of EC protection, focusing on the farm and industrial sectors. *Section 2* presents estimates on the costs of protection in Europe. *Section 3* derives lessons and policy recommendations in three key domains: trade in goods, trade in services, and preferential trade agreements. Lastly, *section 4* draws some general lessons for the EC trade policy in the Doha Round, and for the EC's own "constitution".

1 The EC Overall Protection: Higher and More Stable than Generally Said

The first step is to provide a measure of the "overall" protection imposed on all the goods imported in the EC. The rate of overall protection imposed on a foreign product is defined as the sum of the most-favored-nation tariff rate and of the estimated *ad valorem* tariff equivalents of the other major barriers imposed on this good – be it at the border, such as quantitative restrictions (e.g., in textiles and clothing or coal), or at the non-bor-

1 A first and very useful step in this direction has been done by the WTO Special Study entitled "Unfinished Business" (WTO 2001).

2 Readers are invited to look at the study itself for detailed bibliographical references.

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der level, such as certain subsidies (e.g., farm products or coal), or technical regulations (e.g., cars). Including major non-tariff barriers (NTBs) has an obvious domestic rationale because they may be the main source of the costs of protection. But it also obeys an international motive. When negotiating, countries should compare "equivalent" barriers – as best illustrated in agriculture where negotiations should aim at balancing reductions in the wide set of barriers (tariffs, export and trade-related production subsidies, etc.) imposed by OECD countries on their farm imports and reductions in a mostly tariff-based protection imposed by developing countries on their own farm imports.

Including NTBs imposes a constraint on the exercise undertaken. NTBs are rarely estimated or even imposed at the most detailed level of the tariff classification. As a result, in what follows, estimates of the overall protection are provided for sectors defined by the International Standard Industrial Classification (ISIC) at the 3 or 4 digit level of disaggregation. As these ISIC sectors cover dozens or even hundreds of "basic" tariff lines, the method raises the issue of the best procedure for aggregating tariffs or NTB tariff-equivalents available for individual tariff lines.

The approach adopted in the study has been to use the unweighted averages of the tariffs or tariff-equivalents imposed on the products included in a given ISIC sector. Using import-weighted averages would lead to systematic underestimation if the import structure used is the country's actual import pattern (because high tariffs reduce or eliminate import flows, whereas low tariffs keep them at their normal values, or may even inflate them). The alternative method – using import-weighted averages based on the import structure of a given set of reference countries – relies on the ability to estimate the "right" set of such countries (i.e., countries similar to the EC, but with a different protection pattern so that the imports used as weights would reflect EC imports under "free-trade"). Such an approach may seem appealing but it is ultimately not so convincing because it denies the deep causality between production and protection. A country with the same endowment and production structure as the EC should be expected to have roughly the same incentives to protect its economy than the EC (and hence to have the same import pattern, if one assumes the same demand structure). It could be different only if one assumes that countries intrinsically differ in their attitude vis-à-vis free-trade (some countries would be more, or less, free-traders than others), an assumption with little, if any, empirical evidence.

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Table 1 An overview of the EC protection, by industry, 1990 (Part 1)

ISIC4	Sectors	Nber of tariff lines	Average MFN tariffs [a] (%)	Non-tariff barriers [b] (%)	Antidumping measures: nber tariff lines	Antidumping measures: rates [c] (%)	Rate of overall protection [d] (%)
100a	Cereals (rice excluded)	16		63,0			63,0
100b	Meat (bovine & ovine)	44	20,0	74,0			94,0
100c	Dairy products	67		104,0			104,0
100d	Sugar	7		117,0			117,0
100e	Other Agriculture	443	10,1	10,5			20,6
200	Mining	110	0,5	65,0	3	24,0	2,9
311.2	Food Products	483	15,5	15,0	5	15,8	30,6
313	Beverages	52	17,5	5,0			22,5
314	Tobacco	7	66,6				66,6
321	Textiles	1081	9,9	11,0	23	22,0	21,4
322	Wearing Apparel	219	12,3	19,0			31,3
323	Leather & Products	102	4,7	5,0			9,7
324	Footwear	68	10,9	5,0	3	6,7	16,2
331	Wood Products	124	5,3		6	16,1	6,1
332	Furniture & fixtures	27	6,0				6,0
341	Paper & Products	196	7,6		3	4,6	7,7
342	Printing & Publishing	43	6,1		3	0,0	6,1
351	Industrial Chemicals	881	7,1		68	16,5	8,4
352	Other Chemicals	361	6,2		1	46,9	6,3
353	Petroleum Refineries	40	4,6				4,6
354	Petroleum & Coal Products	13	2,6				2,6
355	Rubber Products	80	5,9				5,9
356	Plastic Products, nec	139	8,9				8,9
361	Pottery, China, etc.	24	8,4		1	17,5	9,1
362	Glass & Products	131	8,3		8	17,5	9,4
369	Non-metallic Products	121	4,5		7	27,7	6,1
371	Iron & Steel	469	4,8	15,0	64	15,7	21,9
372	Non-Ferrous Metals	262	4,6		6	8,1	4,8
381	Metal Products	524	5,8	***	6	14,0	6,0
382	Machinery	924	4,1	***	28	21,8	4,8
3825	Office & computing equip.			***			
382x	Other machinery			***			
383	Electrical Machinery	501	5,8		30	20,3	7,0
3832	Radio, TV & Communication			***			
383x	Other Elec. Machinery			***			
384	Transport Equipment	342	6,1		2	15,0	6,2
3841	Shipbuilding			***			
3842	Railroad Equipment			***			
3843	MotorVehicles			***			
3844	Motorcycles & Bicycles			***			
3845	Aircraft			***			
3849	Other transport equip.						
385	Professional Goods	352	8,3	***	9	16,0	8,7
390	Other industries	263	5,5	2,0	3	18,1	7,7
Block A: All sectors							
Total number of tariff lines		8516			279		
Average level of trade barriers							
Simple average			7,4			17,5	13,8
Labor weighted average			8,1				17,1
Value-added weighted average			8,2				15,3
Block B: Industrial goods (from ISIC 314 to ISIC 390)							
Total number of tariff lines		7294			271		
Average level of trade barriers							
Simple average			6,8				10,8
Labor weighted average			6,8				9,7
Value-added weighted average			7,2				9,5
Block C: Agriculture							
100	Whole agriculture [d]	577					38,3

Source: Messerlin (2001)

Notes: ***: Ad valorem tariff equivalents of these NTBs are not available.
[a] The many specific tariffs in agriculture (ISIC 100a to 100e) are not taken into account.
[b] For agriculture, defined as global rate of protection minus MFN tariff and antidumping barriers.
[c] Ad valorem estimates of antidumping measures terminating cases.
[d] For agriculture, based on three-year averages of OECD "CSE-based tariffs" (see text).

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Table 1 An overview of the EC protection, by industry, 1999–2000 (Part 2)

ISIC4	Sectors	Nber of tariff lines	MFN tariffs: average rates [a] (%)	MFN tariffs: maximum rates (%)	Non-tariff barriers [b] (%)	Antidumping measures: nber tariff lines	Antidumping measures: rates [c] (%)	Rate of overall protection [d] (%)
100a	Cereals (rice excluded)	21	14,0	15,2	5,0			19,0
100b	Meat (bovine & ovine)	26	11,2	12,1	64,8			76,0
100c	Dairy products	61	9,7	10,3	100,3			110,0
100d	Sugar	7			125,0			125,0
100e	Other Agriculture	538	8,9	179,7	11,2	4	5,3	20,0
200	Mining	137	0,2	8,0	71,3	10	7,1	2,3
311.2	Food Products	1586	19,5	236,4	5,0			24,5
313	Beverages	180	8,6	64,0				8,6
314	Tobacco	9	47,3	81,9				47,3
321	Textiles	1059	8,5	13,0	8,0	141	18,9	22,1
322	Wearing Apparel	225	11,6	13,0	19,0			30,6
323	Leather & Products	102	3,2	9,7		9	27,9	5,7
324	Footwear	58	7,4	17,0		5	17,5	8,9
331	Wood Products	181	2,6	10,0		3	6,8	2,7
332	Furniture & fixtures	38	1,8	5,6				1,8
341	Paper & Products	200	3,8	7,5				3,8
342	Printing & Publishing	41	3,0	8,0		1	18,6	3,5
351	Industrial Chemicals	1153	5,3	41,7		32	24,5	6,0
352	Other Chemicals	423	3,4	22,0		3	19,0	3,5
353	Petroleum Refineries	62	2,1	6,5				2,1
354	Petroleum & Coal Products	17	0,4	6,0		1	30,0	2,2
355	Rubber Products	105	5,5	17,0				5,5
356	Plastic Products, nec	35	5,9	6,5		3	0,0	5,9
361	Pottery, China, etc.	25	5,9	12,0				5,9
362	Glass & Products	137	4,8	11,0		2	0,0	4,8
369	Non-metallic Products	132	2,4	7,0		1	0,0	2,4
371	Iron & Steel	521	2,7	7,0	4,0	51	24,0	9,0
372	Non-Ferrous Metals	255	2,9	10,0		6	15,3	3,3
381	Metal Products	354	3,0	8,5		17	31,0	4,5
382	Machinery	1017			***			
3825	Office & computing equip.	76	0,8	3,0	***	1	13,5	1,0
382x	Other machinery	941	1,8	9,7	***	3	0,0	1,8
383	Electrical Machinery	679						
3832	Radio, TV & Communication	321	3,6	14,0	***	45	37,7	8,9
383x	Other Elec. Machinery	358	2,6	6,9	***	3	19,5	2,7
384	Transport Equipment	354						
3841	Shipbuilding	63	1,6	6,2	***			1,6
3842	Railroad Equipment	40	1,8	3,7	***			1,8
3843	MotorVehicles	164	6,3	22,0	4,0			10,3
3844	Motorcycles & Bicycles	34	6,1	15,0		6	24,5	10,4
3845	Aircraft	47	1,7	7,7	***			1,7
3849	Other transport equip.	6	1,5	2,7				1,5
385	Professional Goods	381	2,2	6,7	***	1	0,0	2,2
390	Other industries	308	3,1	17,0		2	31,5	3,3
	Block A: All sectors							
	Total number of tariff lines	10427				350		
	Average level of trade barriers							
	Simple average		7,0				22,4	11,7
	Labor weighted average		6,4					12,8
	Value-added weighted average		6,6					12,3
	Block B: Industrial goods (from ISIC 314 to ISIC 390)							
	Total number of tariff lines	7871				336		
	Average level of trade barriers							
	Simple average		4,3					7,7
	Labor weighted average		4,3					7,1
	Value-added weighted average		4,7					6,8
	Block C: Agriculture							
100	Whole agriculture [d]	653						31,7

Source: Messerlin (2001)

Notes: ***: Ad valorem tariff equivalents of these NTBs are not available.
[a] The many specific tariffs in agriculture (ISIC 100a to 100e) are not taken into account.
[b] For agriculture, defined as global rate of protection minus MFN tariff and antidumping barriers.
[c] Ad valorem estimates of antidumping measures terminating cases.
[d] For agriculture, based on three-year averages of OECD "CSE-based tariffs" (see text).

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Table 1 provides two major results. First, the rate of EC overall protection for all the EC sectors producing goods is roughly 13–14 percent from 1990 to 1997, and it decreases to only 12 percent following the implementation of the EC commitments under the Uruguay Round. In other words, it is still 2–3 times the official figure usually mentioned (for the sake of simplicity, *Table 1* shows only 1990 and 1999–2000, but the years 1995 and 1997 are very similar to the year 1990). The modest decline observed in EC protection in the very late 1990s is probably an overestimate to the extent that it is likely to have been accompanied by a shift from transparent trade barriers (tariffs) to less transparent ones (from anti-dumping actions to technical barriers).

The second result from *Table 1* is that EC protection is very concentrated in certain sectors. Not only do the rates of overall protection vary very much according to the sectors, but these differences also tend to be stable in absolute value, and increasing in relative terms during the period examined. Highly protected sectors include agriculture (at the farm level), but also agribusiness (processed food) sectors (despite the fact that the amazing rise of norms and standards in this sector has not been taken into account), textiles and clothing, steel, and chemicals. The list of barriers not covered by the exercise (mentioned in Table 1 as "not available") clearly suggests that other products could have been added to the above-mentioned list of highly protected sectors.

These two results lead to four more general remarks. First, the still high level of protection shown in *Table 1* largely flows from the fact that NTBs have been taken into account – in sharp contrast to the usual official estimates. Including NTBs implies that a substantial share of the industrial goods is still very much protected. For instance, in 1999, the rate of overall protection in manufacturing sectors amounting to one-fourth of the EC industrial value added is higher than 10 percent. And it is higher than 20 percent for industries amounting to one-sixth of the EC industrial value added, and higher than 30 percent for the textile sector, the value added of which is larger than the one in beef and sugar – suggesting that dismantling EC agriculture protection should not be the unique objective of the Doha negotiations.

Second, the stability of the EC level of protection until 1997 shows that the fear of "Fortress" Europe and the belief in a more open Europe following the Single Market exercise were equally unfounded. This stability reflects the "communitarization" process undertaken by the EC trade po-

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licy during which the Community has substituted its own trade barriers (such as antidumping) for member-states' barriers (often quantitative restraints). In sum, the fear of Fortress Europe was focusing on the rise of EC barriers, whereas the belief in a more open Europe was focusing on the decline of member-states barriers – but there was no clear net move.

Third, the limited decline of the EC rate of overall protection after 1997 partly reflects the fact that one key EC commitment under the Uruguay Round (the final dismantlement of the quantitative restrictions under the Agreement on Textiles and Clothing) will only occur – hopefully – in January 2005. But it also shows that liberalization commitments under the Uruguay Round have been much more limited than has often been claimed, if only because tariff reductions have been concentrated in products already subject to small tariffs – a key point when assessing the costs of protection. The fact that after fifty years and eight trade Rounds, certain industrial sectors have been able to remain so resistant to trade liberalization shows how difficult the Doha negotiations will be – a lesson recently underlined by the EC and U.S. steel safeguards.

Lastly, the EC trade policy is completely "communitarized" only since the Uruguay Round. That will make the EC behavior more complex in the Doha Round because a common EC trade policy should be expected to have a differentiated impact on member-state economies to the extent that member-states' economies are different.[3] The Doha Round will be the first where EC member-states will not have the possibility to render void some EC commitments by imposing ex post efficient and cheap instruments (such as VERs) – as they used to do until the 1980s (they may try to do so, but they will have at their disposal only more indirect, hence probably more inefficient and/or costly, instruments of protection). As a result, intra-EC bargaining behind EC trade policy is likely to become more complicated in the future than it was in the past because each EC member-state may try harder to take into account ex ante the potentially adverse consequences of possible future EC commitments (since they would have less opportunities to deal with them on an ex post base, as was the case before the full communitarization of the EC trade policy).

3 In fact, measuring the rate of overall protection for each member-state in the late 1990s already shows differences between the observed change in the level of liberalization in each member-state, with some paradoxes – some apparently free-trade-minded member-states have seen their economies less liberalized than member-states considered as protectionist.

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2 The Costs of Protection in the EC: Still High

Estimating the costs of protection requires to focus on the remaining peaks of protection because these are the ones generating the highest domestic costs, hence the hottest international and domestic tensions. This is why this section is developed in a statistical framework different from the one prevailing in the previous section. It gives a key role to 22 sectors (5 in agriculture, 14 in manufacturing, and 3 in services) chosen for their particularly high rate of overall protection, whereas it aggregates all the other economic activities in one sector (the "rest of the economy" protected by a relatively small aggregated tariff).

There is an additional reason for such a focus. Most of the EC highly protected activities are similar to those listed by the study on the costs of protection in the U.S. done by HUFBAUER and ELLIOTT (1994). Many of these highly protected products are intermediate goods in which developing countries have a comparative advantage. This concentrated survival of protection may reflect the capacity of OECD firms to "passthrough" peaks of protection on downstream consumers (due to imperfect competition). It may also mirror the limited participation of the developing countries in past Rounds, much more than some kind of "diktat" of industrial countries in the GATT forum.

The absence of available information on the relations between these 22 products and services, and between them and the rest of the economy, has made impossible the use of a general-equilibrium approach which requires quantitative information on the existing links between sectors (hence it is forced to rely on "pre-fabricated" sectors derived from national accounts). Such an information deficit is a severe constraint when one focuses on trade negotiations because pre-fabricated sectors aggregate products with small and high level of protection all alike. The resulting average rates of protection by sector do not reflect peak rates of protection. Hence they generate systematic underestimates of the protection costs (those costs increase more rapidly than the level of protection: for instance, they are a function of the square of the rates of protection in case of linear demand and supply functions). As a result, such an approach has difficulties to predict the violence of the confrontations during WTO negotiations (to be expected during the Doha negotiations).

As a result, what follows relies on the use of partial-equilibrium models for estimating the costs of protection, although such models catch neither

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income effects nor the feedback effects from a better allocation of resources generated by freer trade (including potential dynamic interactions between economic growth and trade). Two models with different specifications (HUFBAUER and ELLIOTT 1994; FRANCOIS and HALL 1997) have been used. *Table 2* which summarizes the main results shows that the two models provide, most often, close estimates. *Table 2* provides three alternative estimates of the costs of protection: the costs limited to the consumers' and producers' deadweight losses, the sum of these losses as well as the rents associated with certain instruments of protection (quantitative restrictions and other NTBs), and the costs of protection for the European consumers which include deadweight losses, rents and tariff revenues. The costs highlighted in the rest of the section are those covered by the third definition – in sharp contrast with the traditional economic analysis which focuses on the deadweight losses. However, *Table 2* provides the results for all the three definitions of the costs of protection.

There are several reasons for choosing the costs of protection for European consumers – all being connected with the desire to give a sense of the waste of resources generated by protection. First, the costs of collecting small tariffs (a frequent situation in the EC) exceed their respective revenues. Second, introducing and keeping NTBs generates rents which can be shifted to the rest of the world, or lead to real trade costs – this last point being very important in Europe where the long and difficult communitarization process of these NTBs has necessitated a lot of efforts and money in private and public lobbying. Lastly, the fact that the EC is not (yet) a "country" generates many situations in which the traditional view of a tariff as a mere transfer from domestic consumers to the country's Treasury is far from being accurate.

Table 2 provides two major results. First, the estimated costs of protection in agriculture and manufacturing for the EC consumers amount to 6 percent of the value added generated by these two sectors, when perfectly competitive markets are assumed in the protected sectors.[4] However, almost all of the industrial products (12 out of the 14) and a significant portion of the farm goods examined in detail are produced or traded under imperfect competition. Taking into account this aspect increases the pro-

4 Estimates of the protection costs are based on, or derived from, data on domestic shipments drawn from "Panorama of the EC" (EUROPEAN COMMISSION 1995) and "The Agricultural Situation in the European Union" (EUROPEAN COMMISSION 1997), respectively, and on trade data from EUROSTAT. Data on jobs are from the same sources. Data on value added and GDP are from EUROSTAT. For the elasticity estimates, see Annexes in MESSERLIN (2001).

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Table 2 Estimated welfare effects of liberalizing the 22 protected sectors: the perfect competition case (Part 1)

Product category	Overall ad valorem tariff equivalent %	Induced increase in (cif) imports Mio.ECUs	Consumer surplus gain		Breakdown of the consumer surplus gain A2				Net na'l welfare gain [b] F=D+E Mio.ECUs
			A1 [a] Mio.ECUs	A2 [b] Mio.ECUs	Producer surplus [b] B Mio.ECUs	Tariff & tax revenue [a,b] C Mio.ECUs	Quota rent [a,b] D Mio.ECUs	Efficiency gain E Mio.ECUs	
The 22 sectors									
Cement	22,8	84,3	99,3	78,0	14,4	9,0	45,0	9,6	54,7
Fertilizers	32,7	479,7	829,2	641,6	86,0	477,3	0,0	78,5	78,5
Polyethylene	12,5	557,0	265,6	300,0	108,9	156,3	0,0	34,8	34,8
Polychlorure vinyl	12,5	252,0	120,0	132,0	49,8	66,4	0,0	15,7	15,7
Hard board	25,0	798,4	830,1	739,1	112,8	239,6	286,8	99,6	386,4
Neswsprint	7,0	159,9	82,2	191,5	26,6	159,4	0,0	5,6	5,6
Chemical fibres	22,9	686,0	433,1	580,1	138,9	362,4	0,0	78,7	78,7
VCRs	30,2	442,3	289,4	313,1	81,7	164,7	0,0	66,7	66,7
Integrated circuits	47,6	2373,3	3462,6	2187,4	138,6	547,7	936,4	564,2	1500,6
Photocopiers	33,7	394,2	287,1	313,5	4,8	242,4	0,0	66,4	66,4
Steel	21,9	3043,8	2423,1	1626,1	396,5	228,7	667,7	333,1	1000,8
Passenger cars	17,1	3223,9	2402,5	2100,8	277,9	978,5	568,5	275,8	844,3
Textiles	21,4	6275,0	5954,0	7095,6	2677,7	1742,4	2007,2	668,3	2675,5
Clothing	31,3	6891,4	7655,4	7102,8	1711,9	1695,6	2618,5	1078,5	3697,1
Cereals	63,0	2996,8	2792,0	3211,9	1770,2	497,7	0,0	944,1	944,1
Meat	95,0	2766,6	4998,8	4108,4	1599,5	1194,9	0,0	1314,0	1314,0
Dairy products	104,0	1842,1	3643,6	2717,2	1061,7	697,7	0,0	957,8	957,8
Sugar	117,0	3942,1	4040,6	4268,3	979,5	982,7	0,0	2306,1	2306,1
Bananas	81,9	448,4	1076,5	824,6	106,0	136,6	398,3	183,7	582,0
Films (France)	76,8	280,0	547,9	406,4	54,1	35,0	209,7	107,5	317,3
Air transport	71,0	2289,5	9414,3	8761,3	113,2	1654,9	6179,9	813,3	6993,2
Telecoms	45,2	5740,6	5887,8	3929,7	1169,0	0,0	1463,3	1297,4	2760,7

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Table 2 Estimated welfare effects of liberalizing the 22 protected sectors: the perfect competition case (Part 2)

Product category	Overall ad valorem tariff equivalent %	Induced increase in (cif) imports Mio.ECUs	Consumer surplus gain		Breakdown of the consumer surplus gain A2				Net na'l welfare gain [b] F=D+E Mio.ECUs
			A1 [a] Mio.ECUs	A2 [b] Mio.ECUs	Producer surplus [b] B Mio.ECUs	Tariff & tax revenue [a,b] C Mio.ECUs	Quota rent [a,b] D Mio.ECUs	Efficiency gain E Mio.ECUs	
Total of the 22 sectors, by economic activity [c]									
Agriculture	90,4	11996,0	16551,4	15130,4	5516,8	3509,5	398,3	5705,7	6104,1
Manufacturing	22,2	25661,2	25133,7	23401,7	5826,5	7070,4	7130,2	3375,6	10505,8
Market services	53,1	8310,1	15850,0	13097,4	1336,4	1689,9	7852,9	2218,2	10071,1
All 22 sectors	37,4	45967,3	57535,1	51629,5	12679,7	12269,9	15381,5	11299,5	26680,9
The "sector producing the rest of the goods" [d]									
Tariffs & NTBs	6,1	54679,6	35352,5	41162,3	15212,2	13848,6	10482,3	1661,8	12144,2
Only tariffs	3,4	30755,4	13263,0	22984,9	8603,7	13840,8	0,0	540,3	540,3

Source: MESSERLIN (2001)

Notes: [a] Based on FRANCOIS-HALL (1997) model
[b] Based on HUFBAUER-ELLIOTT (1994) model
[c] Tariffs are shipment-weighted tariffs of the corresponding 22 sectors
[d] This sector excludes all services

tection costs of the highly protected goods involved by one third (on average), despite conservative assumptions about the extent to which trade liberalization would allow to shift to more competitive domestic markets. As a result, the protection costs of the whole EC agriculture and manufacturing sectors (including all the products not pertaining to the 19 highly protected goods examined) would amount to 7 percent of the corresponding value added.

Estimating the costs of protection in the three services examined in detail suggests even higher figures – almost one sixth of the corresponding value added, with the introduction of imperfect competition doubling these estimates. However, as the three services represent only a small coverage of all tradable services, these estimates have not been extrapolated to the whole EC service sector. But they strongly suggest that the costs of EC protection (including services) could easily represent 7 percent of the entire EC GDP – that is, the equivalent of the Spanish GDP.

All these results rely on a key assumption – that the "Single Market" is effectively working so that there are no substantial non-border barriers left in intra-EC trade. This assumption is still not fulfilled for a noticeable number of goods (norms, standards, and other kinds of technical regulations still constitute substantial barriers to trade), and it is heroic for services (intra-EC liberalization in services is only at a very preliminary stage, see below). This *caveat* suggests the following remark. The level of EC protection may be similar to what exists in the other Quad countries, but this does not imply that the costs of protection are similar. Relatively high and frequent remaining intra-EC barriers are likely to allow more imperfect competition in the EC Single Market than is the case in the "single" markets of the other Quad countries – hence they are likely to make protection more costly in the EC than in the U.S. or Japan.

3 Three Major Pending Issues: Lessons and Policy Recommendations

The above results suggest lessons and policy recommendations on three key topics: trade in goods, trade in services, and preferential trade agreements.

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3.1 European protection on trade in goods: inefficient and easy to capture

Asking for protection and granting it has one essential motive: generating domestic income transfers. In this respect, the above results have two corollaries. First, contrary to a belief widespread in Europe, protection is a costly instrument for "saving" jobs. According to the author's estimates, only a few jobs – roughly 3 percent of the total number of jobs existing in the 22 sectors involved – have been "saved" by the high protection granted to these sectors. The combination of high costs of protection for EC consumers and few jobs saved leads to an exorbitant average annual cost per job "saved": roughly EUR 220,000, or ten times the European average wage of the sectors in question. If saving jobs is the issue at stake, it has to (and it can) be addressed by more efficient policies than trade protection.

The second corollary is that the instruments of import protection used by the EC have the crucial – and very undesirable – feature to grant large rents to vested interests. In fact, estimated rents are larger than tariff revenues collected by the EC authorities. For the 22 products and services examined in detail, these estimated rents represent 30 percent (if one minimizes the likelihood of the existence of such rents) to 40 percent (if one takes more plausible guesses about existing rents) of the total costs of protection for EC consumers – compared to 24 percent and 13 percent, respectively, for tariff revenues. Of course, the existence of such rents is not specific to the EC. But their magnitude might be specific to the EC to the extent that it reflects more frequently situations of imperfect competition – hence a EC protection more "captured" by vested interests having strong incentives and means for keeping the external protection unchanged and for slowing down the emergence of more competitive EC markets.

These conclusions contradict traditional views about protection and liberalization in Continental Europe, where protection is often perceived, and justified, as an expression of some kind of "public interest" (such as strategic goods, cultural differences, social stability, etc.), and where free trade is widely seen as favoring narrowly minded "private" interests. The above results suggest that the reality of European protection is quite the opposite: massive private rents are derived from protection by a happy few, and resulting large costs are imposed on many European consumers who may begin to realize this point, as illustrated by the tone less favorable to far-

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mers since the 1999 Berlin Council on Common Agricultural Policy (CAP) reform and its preceding debate. However, vested interests may be quick to adjust to this recent evolution by adopting a "smiling" face for promoting protection – for instance, by flaunting themselves as protector of the environment or food safety.

These observations suggest three main directions for improving the EC trade policy. First, as is well known, very little progress has been made in liberalizing EC agriculture during the last decade. The 1992 Reform of the CAP has been accompanied by a systematic over-compensation (through subsidies) of the price decreases. The 1999 Berlin Council has capped the overall level of subsidies, but subsidies per farmer are still increasing because the number of farmers is declining at an annual rate of 2 percent. The EC is fulfilling its Uruguay commitments, though it may encounter some difficulties for those about export subsidies and domestic support, and though it needs an intensive use of safeguard actions. The problem has been made worse by the fact that EC farmers (and a substantial share of the Europeans) believe that the Uruguay Round has "liberalized" agriculture (despite all the contrary evidence) so that they see the current difficulties of European agriculture as the consequences of liberalization – not as troubles self-inflicted by the CAP.[5] The best way to reform the CAP is to introduce a "two-track" CAP which would consist of "liberalizing" large farms (by lowering tariffs and subsidies granted to these farms) and of continuing to fully support small farms (by maintaining or increasing income subsidies to the small farmers). The July 2002 Commission's proposal seems to follow this approach, but it is much too timid in its reach – for instance, it introduces caps on subsidies only for extremely large farms, and it leaves unchanged the overall amount of subsidies (that is, it continues to increase the subsidies per farmer at an annual rate of 2 percent).

As emphasized above, a substantial proportion of European manufacturing remains protected, largely through antidumping measures and quantitative restrictions in textiles and clothing. The "pro-cartel" impact of antidumping measures on the European markets is well known, and it is all the more worrisome because large developing countries are now implementing such measures. The EC should thus push hard to include a thorough review of the instruments of contingent protection (antidumping

5 European farmers are also increasingly using the new U.S. Farm Bill as evidence supporting their views. Unfortunately, a worse U.S. farm trade policy (to a smaller extent than is often said) does not necessarily mean a better EC CAP.

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and safeguard) in the coming WTO agenda. It could also table an early implementation of the dismantlement of the quantitative restrictions in textiles and clothing, as a gesture of goodwill vis-à-vis the developing countries.

EC policy in technical regulations has partially shifted from harmonization of member-state technical regulations to mutual recognition of these regulations. However, this shift has produced limited results because mutual recognition (as currently applied) still requires a substantial amount of harmonization for "core" technical components. Food safety issues are a key sub-category of technical regulations which provide important policy-oriented lessons. The EC experience shows how EC farmers have tried (still are trying) to capture them, as best illustrated by the mad cow and foot-and-mouth diseases. It suggests that "scientific evidence" is too imprecise to be a sure guide in these matters, and that the precautionary principle is easy to be captured by vested interests. The collapse of the key EC common meat markets under food safety issues shows that the best approach should be based on labelling, and on consumers' responsibility – with the public authorities limiting their role to certifying that the information is correct. All these observations lead to the conclusion that the EC should adopt a much more "unconditional" mutual recognition – limiting much more severely the scope of harmonization of the core elements, and allowing more competition between the member-states' technical regulations. All these lessons drawn from the intra-EC market should guide the EC relations with the rest of the world – a first illustration of the fact that intra- and extra-EC trade liberalizations are intimately intertwined, with the next illustration being in services.

3.2 The case of services: tying intra- and extra-EC liberalization

Services were the main objective of the Single Market exercise launched in the mid-1980s. The number of European "directives" on infrastructure services (from telecommunications to energy, air transport and financial services) has been continuously growing since then. This growth of regulatory texts has been often seen as the proof of European integration in these services markets. Rather, the correct questions are as follows. Has this regulatory production had a real and positive impact on the level of competition in the European services markets? To which extent is the European Single Market more open to international competition nowadays than ten years ago?

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Table 3 Regulatory and market environment in 1998 (Part 1)
(the scale of indicators is 0-6, from least to most restrictive)

	Air passenger transport			Road freight			Mobile telephony		
	[a]	[b]	[c]	[a]	[b]	[c]	[a]	[b]	[c]
European Community									
Austria	3,2	3,4	3,1	2,8	2,7	2,8	3,5	4,0	3,0
Belgium	4,4	5,5	3,3	3,2	3,0	3,3	3,8	4,5	3,0
Britain	2,2	1,1	3,3	1,3	2,4	0,6	0,0	0,0	0,0
Denmark	4,7	5,8	3,6				3,4	3,9	3,0
Finland	3,6	3,4	3,8	1,7	3,6	0,6	2,3	4,6	0,0
France	3,2	2,3	4,1	2,5	2,2	2,6	0,8	1,7	0,0
Germany	3,0	2,6	3,4	3,0	2,7	3,2	3,2	3,5	3,0
Greece	5,5	5,8	5,1	3,6	4,0	3,4	2,4	1,7	3,0
Ireland	4,4	5,6	3,1				3,7	4,4	3,0
Italy	3,3	2,8	3,8	*4,6*	4,1	4,9	2,2	4,5	0,0
Netherlands	2,7	2,8	2,6	2,4			2,2	4,4	0,0
Portugal	5,1	5,1	5,1	2,3	2,1	2,4	3,4	3,7	3,0
Spain	2,9	1,9	3,9	3,0	2,3	3,4	4,6	4,6	4,5
Sweden	3,3	3,2	3,4	2,2	2,6	2,0	1,8	3,7	0,0
Candidate countries									
Czech Republic	5,8	6,0	5,5	3,0	3,0	3,1	4,6	4,7	4,5
Hungary				3,4	3,5	3,3	4,3	4,0	4,5
Poland	6,0	6,0	6,0	2,7	2,0	3,1			
Turkey	6,0	5,9	6,0	*2,7*			3,9	4,9	3,0
Rest of the OECD									
Australia	3,3	3,1	3,5	*0,8*			0,9	1,8	0,0
Canada	3,6	3,1	4,1	2,0	2,6	1,6			
Japan	3,1	1,5	4,7	*2,1*			0,4	0,8	0,0
Korea	3,8	3,2	4,4	1,1	0,5	1,4	1,6	3,1	0,0
Mexico	3,5	2,3	4,7	2,2	1,6	2,6	2,5	2,0	3,0
New Zealand	3,7	5,2	2,2	1,3	2,4	0,6	2,6	5,2	0,0
Norway	2,9	2,6	3,1	2,2	2,9	1,8	3,9	4,9	3,0
Switzerland	4,6	4,1	5,1	*3,8*			4,5	6,0	3,0
United States	1,2	0,4	2,0	1,5	1,5	1,5			
Averages:									
EC	3,7	3,6	3,7	2,7	2,9	2,7	2,7	3,5	1,8
Rest of the OECD	3,3	2,8	3,8	1,9	1,9	1,6	2,3	3,4	1,3
Candidates	5,9	6,0	5,8	2,9	2,8	3,2	4,3	4,5	4,0
Minima:									
EC	2,2	1,1	2,6	1,3	2,1	0,6	0,0	0,0	0,0
Rest of the OECD	1,2	0,4	2,0	0,8	0,5	0,6	0,4	0,8	0,0
Maxima:	5,8	5,9	5,5	2,7	2,0	3,1	3,9	4,0	3,0
EC	5,5	5,8	5,1	4,6	4,1	4,9	4,6	4,6	4,5
Rest of the OECD	4,6	5,2	5,1	3,8	2,9	2,6	4,5	6,0	3,0

Source: NICOLETTI (2001)

Notes: Figures in italics are simple averages of minimum and maximum indicators
[a] Overall indicator for the sector
[b] Market structure indicator
[c] Barriers to entry indicator
[d] Simple averages of sectoral overall indicators

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Table 3 Regulatory and market environment in 1998 (Part 2)
(the scale of indicators is 0-6, from least to most restrictive)

Fixed telephony [a]	[b]	[c]	Electricity [a]	[b]	[c]	Railways [a]	[b]	[c]	Retail distribution [a]	[b]	[c]	Average by country [d]
									4,1	3,0	5,5	3,3
3,0	6,0	0,0							3,1	3,6	2,3	4,1
3,0	6,0	0,0	5,5	6,0	5,0	6,0	6,0	6,0	2,5	2,8	2,1	1,4
1,0	2,0	0,0	0,0	0,0	0,0	3,0	3,0	3,0	*2,9*			3,6
2,2	4,4	0,0	5,0	6,0	4,0				3,0	2,9	3,0	2,4
0,4	0,9	0,0	0,0	0,0	0,0	6,0	6,0	6,0	4,7	4,5	5,0	3,7
3,0	6,0	0,0	6,0	6,0	6,0	6,0	6,0	6,0	1,2	1,3	1,2	2,6
3,0	6,0	0,0	2,1	1,5	2,7	3,0	6,0	0,0	*3,8*			4,5
6,0	6,0	6,0	6,0	6,0	6,0				1,4	1,6	1,0	3,8
2,8	5,5	0,0	4,5	3,0	6,0	6,0	6,0	6,0	3,1	3,3	2,8	4,0
3,0	6,0	0,0	6,0	6,0	6,0	6,0	6,0	6,0	1,4	1,8	0,8	2,8
2,9	5,7	0,0	5,3	4,5	6,0				2,6	2,5	2,8	3,9
6,0	6,0	6,0	4,2	3,0	5,3				2,5	2,8	2,0	3,5
3,0	6,0	0,0	3,8	3,0	4,7	4,5	3,0	6,0	1,7	1,7	1,6	2,1
1,7	3,4	0,0	0,8	1,5	0,0	3,0	3,0	3,0				
6,0	6,0	6,0				1,5	3,0	0,0	0,8	0,6	1,1	3,6
6,0	6,0	6,0				3,0	6,0	0,0	1,9	1,5	2,4	3,7
6,0	6,0	6,0				1,5	3,0	0,0	3,6	2,3	5,3	3,9
6,0	6,0	6,0				6,0	6,0	6,0	*3,0*			4,6
1,3	2,6	0,0	0,9	1,5	0,3				1,1	1,4	0,7	1,4
0,8	1,6	0,0	6,0	6,0	6,0	3,0	3,0	3,0	1,3	1,7	0,6	2,8
1,1	2,2	0,0	5,0	6,0	4,0	3,0	3,0	3,0	*4,1*			2,7
1,9	3,8	0,0				6,0	6,0	6,0	1,3	0,9	1,9	2,6
1,7	3,3	0,0				4,5	3,0	6,0	1,9	2,0	1,7	2,7
1,4	2,8	0,0	0,0	0,0	0,0							1,8
3,0	6,0	0,0	0,0	0,0	0,0	4,5	3,0	6,0	2,2	3,0	1,1	2,7
3,0	6,0	0,0				6,0	6,0	6,0	1,1	1,2	1,0	3,8
0,3	0,5	0,0	4,3	4,5	4,0	1,5	3,0	0,0				1,7
2,9	5,0	0,9	3,8	3,6	4,0	4,8	5,0	4,7	2,7	2,7	2,5	3,3
1,6	3,2	0,0	2,7	3,0	2,4	4,1	3,9	4,3	1,9	1,7	1,2	2,5
6,0	6,0	6,0				3,0	4,5	1,5	2,3	1,5	3,0	4,1
0,4	0,9	0,0	0,0	0,0	0,0	3,0	3,0	0,0	1,2	1,3	0,8	1,2
0,3	0,5	0,0	0,0	0,0	0,0	1,5	3,0	0,0	1,1	0,9	0,6	0,7
6,0	6,0	6,0	0,0	0,0	0,0	1,5	3,0	0,0	0,8	0,6	1,1	3,0
6,0	6,0	6,0	6,0	6,0	6,0	6,0	6,0	6,0	4,7	4,5	5,5	5,3
3,0	6,0	0,0	6,0	6,0	6,0	6,0	6,0	6,0	4,1	3,0	1,9	4,6

Source: NICOLETTI (2001)
Notes: Figures in italics are simple averages of minimum and maximum indicators
[a] Overall indicator for the sector
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[c] Barriers to entry indicator
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Table 3 provides some answers – indirect and qualitative – to these questions. It is based on the database built by the OECD Secretariat on the legal and regulatory structures existing in each OECD member for the covered services. Giving an index from 0 (the most open) to 6 (the most protectionist) to each regulation allows to "rank" the OECD countries in terms of relative openness. *Table 3* shows no evidence that the Single Market in services has really started to function. In fact, for the available set of services, certain member-states are still among the least OECD "pro-competitive" markets, whereas other member-states are among the most pro-competitive ones. This absence of regulatory "convergence" can be interpreted as a sign of the absence of a well functioning Single Market (it indirectly confirms the high level of protection found for the three services included in the estimates of the costs of protection in Europe).

It is interesting from a WTO perspective to understand why the "Single Market" has not been successful in services. A key reason for the very slow (and reversible) pace of the Single Market is the negotiating technique used by the EC. This technique is based on two components: mutual recognition by each member-state of the other member-states' regulations conditional to adopting a core of common provisions. The core (harmonization) component is defined by negotiations between EC member-states on appropriate legal provisions. The outcome of these negotiations is enshrined in European "directives". Initially, the core component was conceived to be limited in scope, leaving to the mutual recognition component the largest space. This approach aimed at generating competition between member-state-based regulations so that each member-state would be induced to design domestic efficient regulations ensuring that service providers based in the country could fully benefit from the country's comparative advantages in wide European service markets.

The reality has been quite different from this initial plan. Long negotiations on directives have systematically expanded the core component, hence reduced the scope of mutual recognition and slowed down the whole process of market access (because of the need of long periods for negotiations and long transitory periods of liberalization). During these negotiations, each member-state got ample time to insert parts of its own existing regulations into the core of common provisions in order to bend it as much as possible in its favor, and even to insert "poison pill" provisions (such as the undefinable notion of "services of general interest") in order to limit competition as much as possible. As a result, the "Single Market" process has been much more about regulatory convergence

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among still segmented markets than about regulatory competition in an enlarged and open market. The drift away from the initial conception has been exacerbated by the fact that the whole process did not benefit from any guidance from cost-benefit analyses on whether or not it was really necessary to adopt directives, and on the available options about the ideal relative doses of harmonization and mutual recognition.

Why has such a drift away from the initially envisaged regulatory competition to regulatory convergence emerged? A key reason is the rigidity of the concept of "progressive" liberalization in the EC. In the European Single Market – as in the WTO – progressivity is defined by an unique dimension which is the pace of implementation. A reluctant country could get more time to liberalize, but it cannot stay away from the process – sooner or later it should abide by the common rules. In particular, a country has no "opt-in" choice. As a result, a country reluctant to liberalize has strong incentives to limit as much as possible regulatory competition during the negotiations on the core element. The EC experience suggests two key negotiating instruments in the WTO context – another illustration of the fact that intra- and extra-EC liberalization are intertwined. First, there is the need to compile in a document the common basic conditions of competition – the directive in the EC context, the "reference paper" in the WTO context.[6] The mutual recognition component will then be defined by market access commitments. In fact, this structure of negotiating instruments has already been used in similar fashion in telecom services with the 1997 WTO Agreement.

However, reference papers will not be sufficient for liberalizing services if the definition of progressivity remains too narrow. Progressivity should include the "opt-in" alternative – the freedom for a WTO member not to participate in the first wave of liberalization and to join later on. WTO reference papers would then be elaborated by the most pro-competition minded member-states, and implemented only by them. Reluctant countries could join later on the same terms, without renegotiations (except possibly on the implementation pace). The opt-in approach will seriously curb the negotiating leverage of the countries initially reluctant to liberal-

6 Reference papers should be defined at the sectoral level because the key elements of a pro-competition framework are not exactly the same in each service – for instance, the problem of public monopoly is essential in telecoms, but relatively marginal in audiovisuals, whereas the subsidy issue is critical in audiovisuals, but secondary in telecoms (telecom firms have been a source of subsidies more than they have been subsidized).

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ize, allowing the first wave of pro-liberalization countries to focus on the best possible environment for regulatory competition.

To conclude on services, it is important to stress that a deeper intra-EC liberalization in services is likely to require simultaneously an extra-EC liberalization in the same services – as the Kennedy Round was necessary for completing the EC common market in goods. The parallel is not fortuitous: extra-EC liberalization offers additional trade-offs to EC member-states, making it easier to reach a deeper intra-EC liberalization.

3.3 Trade preferences: the EC addiction on a slow ebb?

In 1999, the Community has maintained contractual and reciprocal bilateral agreements with 22 countries, contractual and non-reciprocal bilateral agreements with 70 countries, and non-contractual and non-reciprocal bilateral agreements with 100 countries (WTO 2000). The EC is the direct source of 40 percent of all the preferential trade agreements (be it customs unions or free-trade areas) notified to the WTO. As EFTA and Central European Countries (CECs) have duplicated the EC approach, the EC is the direct and indirect source of two-thirds of the preferential trade agreements (PTAs) in the world. The future EC policy in these matters, and the positive or negative impact of these PTAs on the EC willingness to reduce trade barriers at the multilateral level are thus essential for the WTO. It is all the more the case because the EC is the only PTA for which there is convincing evidence of trade diversion on both the import and export side, with the EC propensities to import and export significantly lower in 1995-96 than in 1980-82 (SOLOAGA and WINTERS 1999).

The EC "addiction to discrimination" having prevailed until the late 1990s had two key features: it relied on a "hub and spoke" regime (strictly speaking, almost all EC-based PTAs are bilateral agreements, with the EC as the hub), and EC PTA partners were relatively small and inefficient countries. None of these PTAs has had a significant impact on the EC economies. By contrast, it is far from certain that the PTAs' net impact has been beneficial for the EC partners because the political and dynamic effects of these agreements may not have counterbalanced the static costs of their trade diversions. In fact, the EC has realized that many of the PTAs that it has signed in the past have been a costly bargain for its partners and an exercise in futility for its own economic interests – hence ultimately a political burden in the long run (which more than compensa-

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tes the immediate political gains). For instance, the non-reciprocal nature of the African-Carribbean-Pacific (ACP) agreements has been detrimental to the balance between export and import interests within ACP States (ACP exporters, having their export markets fully securized, were not induced to fight ACP import-competing interests so that the balance of forces determining ACP trade policies has been heavily biased in favor of protection).

The question to be raised is as follows. Will future EC initiatives in favor of new PTAs have any chance to lead to genuine free trade agreements between the EC and its PTA partners, or will they merely constitute a modern form of classic diplomacy, with no substantial trade consequences? It is interesting to note that the most recent PTAs involving the EC are often entitled agreements of economic partnership and political cooperation – a title underlining the political aspect of the PTAs.

The answer is that EC addiction to discrimination may be on its (slow) ebb for the following reasons. The EC is realizing that all the discriminatory agreements of some size that it could conceivably sign in the future offer a cost-benefit balance less positive than the one available in future WTO Rounds. This is simply because they include partners which are efficient by world standards (Brazilian sugar, Japanese electronics, U.S. services, etc.) so that the EC is subject to two forces pulling in the opposite direction. On the one hand, the political costs of adjusting the EC economy to efficient partners will be the same, whether the EC negotiates PTAs or a WTO Round. On the other hand, the economic gains in terms of access to partners' markets (the mercantilist routine prevailing in PTAs) are smaller for PTAs (they are limited to the PTA partners) than in WTO negotiations (they cover the whole world). In such a context, WTO deals will appear more appealing for the EC than genuine PTAs with these countries (that is, PTAs covering all the sectors, including the "sensitive" sectors for EC producers). In other words, the EC is doomed to support the WTO.[7]

That being said, it would be surprising if the EC would completely and rapidly abandon the bilateral approach that it has cherished so much for so

7 This situation is re-enforced by the fact that developing countries (such as Mexico) having signed PTAs with the U.S. and the EC (i.e., having opened up a vastly dominant portion of their trade to relatively efficient producers) will have strong incentives (both political and economic) to eliminate the "negative" discrimination against their other neighbours and the rest of the world. In other words, they will have incentives to "multilateralize", possibly unilaterally, the concessions they have granted to the U.S. and EC.

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long. PTAs have been seen by the Commission as a proxy for a foreign policy which has been (and still is) out of its reach, and by member states as a way to maintain or reinforce their political influence on certain non-EC countries – leading almost each member-state to get "its" EC PTA(s) by trading it (them) with comparable requests from the other member-states. Rather, for the foreseeable future, the EC may simply try to "rationalize" the web of its existing agreements, at a pace largely determined, as in the past, by political considerations: the Convention with the ACP countries has been a reaction to the independence of these countries; the EC Generalized System of Preferences to the Third-World movement of the 1960s; the agreements with the Central European countries to the fall of the Berlin Wall, those with the Mediterranean and Balkan countries to the fear of conflicts close to European borders, etc.

The case of the ACP States deserves special attention. The decision to renounce to the Convention "à la Lomé" is a step in the good direction – above all for the ACP States (for reasons mentioned above). But the currently fashionable proposal of regional economic partnership agreements (REPAs) between the EC and groups of ACP States is far from being the best alternative. It would impose geographical limits on ACP liberalization (ACP States are induced to create regional agreements which make little sense since the size of all these economies is so small that even regional grouping will not deliver noticeable scale and scope economies). Being based on strict reciprocity, the proposal would deprive the ACP States of tariff revenues which constitute their main source of public revenues. Of course, the EC could easily compensate such losses by adequate transfers. But this is not a good solution: it weakens even more the ACP States by depriving them of the sovereign right of collecting taxes; and it assumes that EC tax-payers will accept to pay more for developing countries (an unwarranted assumption in the long run, with the risk to reduce EC public and private efforts in favor of additional development programs). Moreover, the experience of the last 40 years about the use of EC aid to ACP States is so disastrous that it is hard to imagine that things could be improved on such a basis.

In an apparently paradoxical way, the EC could substantially improve the ACPs situation by adopting an approach based on "conditional reciprocity" (instead of strict reciprocity) in its new agreement(s) with them. More precisely, the EC could make its new trade agreement(s) with the ACP countries conditional upon a commitment by these countries to decrease and bind their MFN tariffs on a non-discriminatory and as uniform as

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possible basis (in other words, the EC would request, for its own exports, a reciprocity from the ACP States limited to a moderate and uniform ACP tariff, instead of 0 percent as in the current REPA plan). Such an initiative will be greatly beneficial for the ACP States. They could keep their tariff revenues (it has been estimated for several sub-Saharan countries that substituting an uniform tariff of roughly 15 percent for the current system of tariff peaks and exemptions would provide the same tariff revenues than those existing). They eliminate the distortions generated in the ACP economies by the existing complicated tariff schedules which range from 0 percent to 50 percent or more. Last but not least, they reduce a major source of state-related corruption in the ACP economies (ACP Customs officers will not be under constant pressures to change import classification in order to provide exemptions or lower tariff rates, etc.) and a source of tax-evasion (because being uniform, hence levied on the widest possible basis, the tariff can be moderate, hence reducing incentives of smuggling). The gains for the EC will be a (slightly) better market access, a much reduced need for granting direct aid so difficult to manage wisely, and no need to push for regional trade agreements between the ACP States.[8]

4 From the Doha Round to the EC "Constitution"

It seems natural to conclude this summary of the study on the costs of protection in the EC by looking back to the Doha Round evoked in the introduction. The EC went to the 2001 Doha Ministerial Meeting with the same negotiating agendas (one for each European institution, i.e., the Council, the Commission and the Parliament) than those adopted for the 1999 Seattle Ministerial. *Table 4* presents these agendas in a crude fashion (the importance of a topic is measured by the number of words devoted to the topic), and it does the same treatment to the Doha Ministerial Declaration adopted in November 2001. Two lessons can be drawn from *Table 4.*

8 Of course, this initiative could be combined with an extension of the "Everything but Arms" initiative to all the industrial and dynamic economies in order to provide to the ACP States (or to the least developing countries) a worldwide regime based on this notion of conditional reciprocity.

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Table 4 EC texts preparing the 1999 Seattle Ministerial, and the 2001 Doha Ministerial Declaration

Themes	EC Commission		EC Council		EC Parliament		Doha Declaration	
	share (%)	*rank*	*share (%)*	*rank*	*share (%)*	*rank*	*share (%)*	*rank*
Agriculture	9,2	4	14,4	2	12,3	3	8,7	5
Industrial tariffs	8,8	6	9,1	4	7,4	6	3,7	9
Trade & environment	8,9	5	8,3	5	12,3	2	11,2	2
Trade defence instruments	2,2	14	4,9	9	4,1	11	4,9	8
Trade facilitation	6,9	7	3,9	12	0,7	14	3,6	10
Technical barriers to trade	5,7	10	2,8	13	1,8	12	(cf Ind. tariffs)	(9)
Trade & consumer health	3,0	12	1,8	14	6,8	8	(cf TRIPs)	(3)
Trade & Labor	13,4	1	15,8	1	10,0	4	0,0	11
Services	5,8	9	7,1	6	15,9	1	7,8	6
Investment	10,1	3	5,3	7	4,9	10	8,9	4
TRIPs	3,6	11	5,2	8	9,4	5	9,2	3
Public procurement	2,9	13	4,7	10	1,7	13	3,9	8
Competition	6,7	8	4,6	11	5,4	9	6,5	7
Trade & Development	12,7	2	12,1	3	7,1	7	31,6	1
All topics	**100,0**		**100,0**		**100,0**		**100,0**	

Source: MESSERLIN (2001)

The first is that the Community has not succeeded in imposing its views. The Doha Declaration does not reflect European preferred themes. Differences can be explained by the increasing role of the developing countries. This is a desirable evolution for the WTO (which will be probably accentuated with China's accession if China is willing to play a much less negative role than India). But it will be a source of diplomatic challenges and creative thinking for the EC (and for the other industrial countries).

That being said, one should not give too much importance to the Doha Ministerial Declaration. This is a text opening a new round of negotiations, not closing it. Negotiators may thus reconsider their choices. And they may do so because a Round reflects the *"rapports de force"* prevailing between the coalitions in presence at the end of the Round. It is likely that these forces, and their relative strength, may substantially change between 2001 and 2006-07 (the more realistic deadline for the Doha negotiations). That will not be a new phenomenon. There are substantial differences between the Punta del Este Ministerial Declaration and the content of the Uruguay Round. One could regret these degrees of freedom, if one sees the Doha Declaration as a constraint on WTO members. But this freedom of manoeuvre should rather be assessed as a positive aspect of the WTO mechanics if one sees liberalization as a source of gains for the country which undertakes it (hence trusting the country for deciding what is good for it).

The second lesson to be drawn from *Table 4* concerns the EC itself. The EC negotiating agendas included topics that they should not have included, would the EC have applied its recipes for its own internal liberalization to its WTO agenda. For instance, the debates during the negotiations of the Treaty of Rome, in the late 1950s, have raised the issue of the relations between trade and labor. The Belgian and the French were willing to put strict constraints on intra-EC liberalization in case of too different social conditions, whereas the Germans were arguing that such constraints should not be imposed, and that freer trade would precisely be the engine for catching up. The Treaty of Rome has finally followed the German approach, and has not established a link between intra-EC trade liberalization and social policies. The last forty years have demonstrated how much this choice was well founded, with an huge expansion of trade being accompanied by an improvement of the social conditions in all the EC member-states. However, despite its own successful experience in these matters, the EC has tabled the "trade and labor" issue at Seattle and

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Doha – triggering a massive opposition among the developing and emerging economies.

Similar observations and lessons could be drawn for the other "trade and" issues, such as trade and investment, and trade and intellectual property rights, with both being topics for which there are no substantial provisions in the Treaty of Rome. The "trade and competition" issue could seem a better ground for the current EC position. But it is far from being the case. In fact, the relations between the EC competition policy and member-states' competition policies are much more complex than is often said – as illustrated by the current requests from some member-states for a "renationalization" of competition policy, and for increasing constraints on the EC state aid policy. And using the EC experience as a justification for introducing competition policy in the WTO would require the elimination of WTO antidumping rules (in the EC, competition law overrules antidumping regulations) and a complete reshuffling of the WTO anti-subsidy rules (EC state aid rules are based on bans, not on the countervailing principle) – two points that the EC has never tabled in the WTO forum. If really convinced by the merits of competition policy, the EC should induce every WTO Member (including itself) to adopt and enforce a competition policy independent from trade-related considerations – protecting it against its potential abuse as a strategic instrument in an international environment. The EC should also commit itself to sign a framework agreement on co-operation between competition authorities on a non-discriminatory basis, that is, with any WTO Member as soon as it fulfills the basic conditions of the agreement. Last but not least, the EC should table in the WTO forum a proposal for banning export cartels – by far the most pressing issue in the international trade and competition domain. Or alternatively, the EC should support the opening of negotiations on a trade-off between commitments by developing countries to reduce their import tariffs, and commitments by industrial countries to launch investigations against alleged export cartels.

The logical conclusion of these brief remarks on the "trade and" issues is that they should not divert the EC, and its WTO partners, from the key point of the Doha negotiations – market access, that is, dismantling the many barriers that still exist in farm and industrial goods, and in services.

The last remark links trade policy to "constitutional" policy in the broader sense of this term. Since the mid-1990s, popular support of the EC has been plummeting in almost all EC member-states. The main reason for

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this worrisome evolution seems to be the too long-lasting and too intensive use of JEAN MONNET's tactic – creating economic links as a substitute for a political union. This approach has reached the point of being counterproductive – it has led to an over-regulation of the EC, in turn generating "virtuality" (limited and chaotic law enforcement) in EC member-states. This is an important lesson that the WTO should always remember.

This recent evolution in the EC also suggests that it is time to create a "European Political Community" (EPC) which would remove the burden of political integration imposed on the EC economic integration process by the too longlasting MONNET tactic. However, the prime task of such a EPC should not be the establishment of an European Federation or Confederation. It should be to reinforce the EC member-states by greatly improving their accountability (substantially deteriorated by the too long use of MONNET's tactic) and by restoring the sense of responsibilities among member-states' politicians (always quick to use Brussels as a scapegoat, but lavishly relying on it). The main instrument for such an action would be a trust-based mutual recognition approach in all regulatory matters leading to a much more competitive approach between member-states' regulations. This situation could be described as installing "co-sovereignty" among EC member-states by which each member-state realizes that it has to improve its governance, and to help the others to improve their own governance.

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