

3 The EU as an economic power and trade actor

The EU is above all an economic power, and trade provides the foundations of its actorness. Underlying this is the presence of the Single Market. Within its tariff walls live 455 million consumers with an aggregate GDP of €9.6 trillion. Comparable figures for the USA show a significantly smaller population of 291 million people but a somewhat larger economy with a GDP of 11 trillion euros (Eurostat 2004). Although the US and EU currently constitute the largest economic entities on earth they have only 4.6 per cent and 7 per cent of global population respectively.¹

Europe's economic presence, as it has developed from a customs union of six nations to a single market of 25, has not been entirely matched by the development of a capacity to behave as a single purposive actor in the world system. The foundations of such a capacity were legally provided by the Treaty of Rome, which granted exclusive Community competence in the management of external trade in goods as a necessary corollary to the creation of a customs union with a Common Commercial Tariff (CCT). Since 1961 the EU has fully developed its potential as a trade policy actor in ways that were extensively determined by the structural influence of the world trade regime. However, trade in goods is only one aspect of the contemporary global economy, and one which has declined in relative significance since the establishment of the Community. In these other areas – services, investment and monetary affairs – the burgeoning presence of the EU has not been reflected in an equivalent capacity to act as a single player. The relationship between economic presence and different forms and degrees of external actorness are the subject of the first part of this chapter.

Based, at least initially, on its position as a trade policy actor, the Union has developed a repertoire of roles in the world political economy. Most evident, to the very large number of states that rely upon trading access to the single market, is its role as gatekeeper and negotiator of access to the markets of others. The utilization of various degrees of preferential access to the single market, discussed in the second part of this chapter, positions the Union at the centre of a web of bilateral links. For those outsiders at the periphery of this system the EU can appear as a very potent, sometimes inscrutable, and on occasion domineering, single actor.

The EU is also a key contestant in the often conflictual relations between the major blocs in the world economy. 'With the end of the Cold War', wrote the Director of Economic Studies at the US Council for Foreign Relations, 'US trade policy is becoming high foreign policy even if policy-makers in Washington do not always

recognise it' (Aho 1993: 19). If this was so for the only remaining military superpower, it is likely to be an even more relevant observation for Europeans. The third section of this chapter thus considers the role of the EU as a 'big power' in relation to Asia and, most significantly, the United States. A notable element of transatlantic interaction is the way in which US administrations, despite continuing quarrels over the specifics of trade policy, have increasingly 'constructed' the European actor as an equal with whom to conduct a whole range of economic and political business. The final part of this chapter considers the Union as a multilateral negotiator on the expanding and controversial trade agenda of the World Trade Organization (WTO).

Trade: foundation of presence and actorness

This most fundamental aspect of Community presence derives from the initial creation of a customs union. The method employed, under General Agreement on Tariffs and Trade (GATT) rules, was to establish a Common Customs Tariff (CCT) calculated by taking the average of all the existing tariffs of the original six members.² As soon as this was put in place it had real impacts for outsiders in terms of what economists describe as trade diversionary effects. Trade statistics indicate that the customs union was effective in bringing about a reversal of the ratio between internal and external trade.³ Successive enlargements greatly added to the presence of the EC in the world economy and the accession of Britain in 1973, with its high dependence on overseas trade and its extensive system of ex-imperial preference, which necessitated a new EC relationship with the African, Caribbean and Pacific countries (ACP), was particularly significant.

The Union can lay claim to being the 'world's biggest trading power' (Commission 2003b: 11). Despite all the shifts in the volume and composition of world merchandise trade, its share of global imports and exports has remained relatively stable at around 20 per cent (Figures 3.1 and 3.2). The composition and direction of EU merchandise trade is described in Figure 3.3 and in the accompanying list of the EU's top 20 trading partners (Table 3.1). In the context of the rapid de-industrialization of the advanced economies, the Union is the largest trader in services, responsible for nearly 30 per cent of the world total. The EU is the foremost exporter of capital and 'dominated world foreign direct investment outflows ... accounting for forty-seven per cent of the total' (WTO 2002a: 2).

A key set of indicators of presence measure the dependence of trading partners on the EU market. This can be very extensive indeed for some European and African economies. In 1995 the ten accession countries were conducting some 63 per cent of their foreign trade with the EU (Commission 1997a: 5–7). In 2003 a similar pattern was observable for Romania (75 per cent) and Bulgaria (59 per cent). However, they accounted for a mere 1.6 per cent and 0.4 per cent respectively of the total external trade of the EU 25. Turkey, already part of a customs union with the EU, conducts 56.5 per cent of its trade with the Union representing 3 per cent of the EU total. Russia, the most significant neighbour of the Union, displays equivalent figures of 64 per cent and 6 per cent (Commission 2004j).

Africa is another region of high trade dependence. In the late 1990s Uganda conducted 75 per cent of its trade with the EU, Mauritania 79 per cent and Equatorial

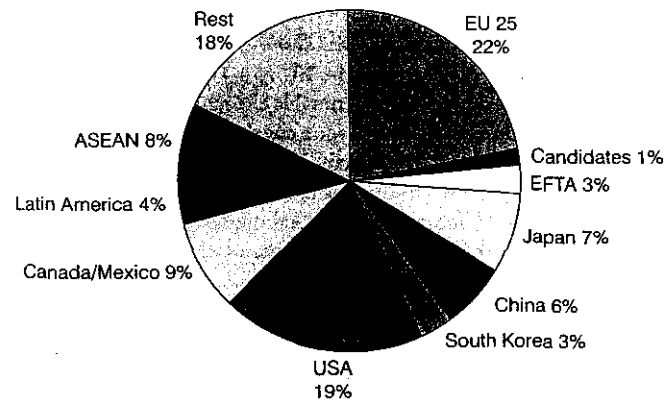


Figure 3.1 Share of world trade in goods 2002

Source: Commission 2004m.

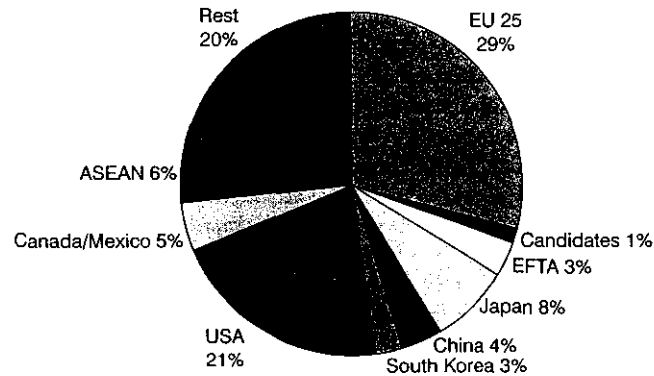


Figure 3.2 Share of world trade in services 2002

Source: Commission 2004m.

Guinea 99 per cent (Commission 1997d: 56–7). The entire ACP, which comprises 78 developing countries joined in a preferential trade and aid relationship with the Union, only accounted for a tiny and diminishing share of EU trade. In 1980, 7.9 per cent of EU imports were sourced from ACP countries and by 2001 this figure had fallen to 3.1 per cent. The export figures are similarly depressing, reducing from 8.9 to 2.9 per cent (Commission 2004j).

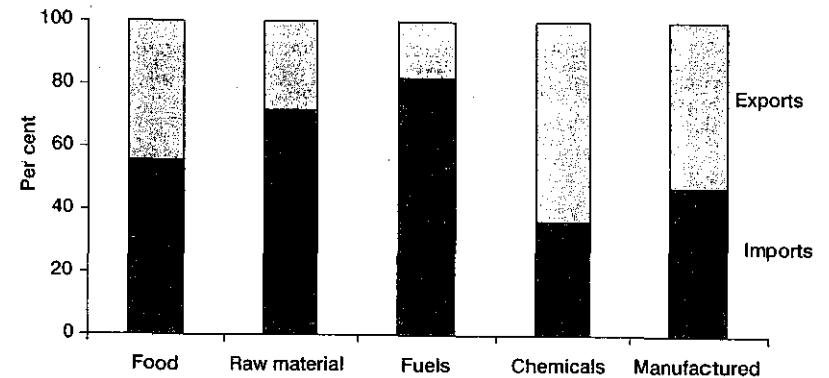


Figure 3.3 Composition of EU external trade

Source: Eurostat 2003: 143, 145.

Table 3.1 Top 20 trading partners of the EU, 2004

Rank	Exports	%	Imports	%
1	United States	24.3	United States	15.3
2	Switzerland	7.8	China	12.3
3	China	5.0	Japan	7.2
4	Russia	4.7	Switzerland	6.0
5	Japan	4.5	Norway	5.4
6	Turkey	3.9	Russia	4.7
7	Norway	3.2	Turkey	3.0
8	Canada	2.3	Korea	2.9
9	Australia	2.1	Taiwan	2.3
10	Hong Kong	2.0	Brazil	2.1
11	United Arab Emirates	1.9	Singapore	1.6
12	Romania	1.9	Canada	1.6
13	Korea	1.8	India	1.6
14	India	1.8	Saudi Arabia	1.6
15	South Africa	1.7	Malaysia	1.5
16	Singapore	1.7	South Africa	1.5
17	Mexico	1.5	Algeria	1.5
18	Brazil	1.5	Romania	1.4
19	Taiwan	1.3	Libya	1.3
20	Thailand	1.2	Israel	1.3

Source: Commission 2005b.

Actorness and the international trade regime

A customs union required consistency amongst its members and necessarily involved the granting of exclusive competence to the Commission to negotiate tariff levels with third parties. This continues to provide the basis for the oldest and most potent manifestation of the EU as an actor, the Common Commercial Policy, effective since

1961. At that time the EC, in the shape of the Commission, was almost immediately involved in developing its role as a trade actor, as its trading partners sought to negotiate on the effects of the customs union. The GATT 'Dillon Round' of 1960-1 was largely devoted to this.

The evolution of the Common Commercial Policy and the EU as a trade actor can only be understood with reference to the trade regime, initiated in 1947. For half a century the GATT provided the basis of a multilateral rule-based regime. Its fundamental norms have been 'most favoured nation treatment' (Article I) in terms of the tariffs set by members against each other and 'national treatment' of imported goods once customs duties at the border have been paid (Article III). Other important GATT provisions, sometimes honoured in their breach rather than observance, are the outlawing of quotas, non-tariff barriers (Articles XI-XIV) and trade distorting subsidies (Article XVI).

The Common Commercial Policy of the EC was something of a *tabula rasa*. Its development and the understandings and practices adopted by the Community as it emerged as a trade actor were the outcome of a mutual process of structuration. That is to say, EC agency was constructed in terms of the disciplines and institutional setting of the GATT regime, but equally the regime itself was moulded to the requirements of one of its most powerful participants. Of primary significance here is GATT Article XXIV concerning the creation of customs unions and free trade areas (FTAs).⁴ This provides the international legal justification for the EU itself and for its many non-MFN agreements with third parties. EU practice across the whole range of its trade activities and policy instruments has been framed, not only by the legal 'disciplines', but also by the common intersubjective understandings of the regime. Thus in the words of a Commission report to the WTO:

The WTO's system of rules, negotiated market access commitments and its commitment to future progressive liberalisation and strengthened rules constitutes, in a sense, an external framework for agreement on and implementation of the right economic policies, comparable to the EU's own internal market programme, its own experience of international cooperation and rule-making and its commitment to sustainable development.

(WTO 2002a: 4)

The original 1947 GATT was an agreement between 'contracting parties', not an international organization – indeed an International Trade Organization had been explicitly rejected by the US Congress.⁵ After the creation of the Common Market this gave rise to the anomaly that only the Member State contracting parties had full legal status and responsibility for carrying out obligations, while at the same time in terms of internal Community law the EC had succeeded them as participants in the GATT (Macleod *et al.* 1996: 179). Notwithstanding, the Commission exercised its exclusive competence in trade matters in the decision-making procedures of the regime – where the Community from the beginning has operated and been accepted as a single actor, a position that was regularized when the EC was given full membership, alongside the Member States, of the new WTO in 1995.⁶

Trade policy-making

As the Common Commercial Policy developed, the Commission exhibited a significant degree of autonomy from the Member States, and a real capacity to behave in a deliberate way in relation to other actors. This is evident both from the legal ascription of competence and in actual practice, which has on occasion moved well beyond the 'letter of the law'. The legal foundation is provided by the exclusive competence in trade granted to the Community in the Common Commercial Policy established by Article 133 of the TEC. This 'most frequently used Treaty provision in the exercise of the European Community's powers in the field of external relations' (Macleod *et al.* 1996: 266) transfers the making and implementation of trade policy to the Community level, and requires a common policy on tariff rates, international negotiations, liberalization, exports and trade protection measures; all based on uniform principles. On this basis the Union now has in excess of 10,000 separate tariff lines and a very extensive corpus of Community trade rules and policy instruments.

In the Common Commercial Policy the Commission has the exclusive right to initiate policy and to propose negotiations, while the Council has the right to approve or disapprove, acting by Qualified Majority Vote (QMV). It is in the field of merchandise trade relations that the Union exhibits the highest degree of actor capability through a daily requirement to identify policy priorities and to formulate policy as a single unit. The need to protect the Single Market and to negotiate externally on a Common External Tariff removes the flexibility and limits the inconsistency that may be evident in other areas of economic policy. This is reflected in the use of QMV by the Council. Yet on occasion, where the national commercial interests of large Member States are severely at risk, *a de facto* consensus may be politically necessary.

In a negotiation the Commission will propose and the Council approve a mandate which provides the brief from which the Commission will actually conduct the talks. Even when representatives of the Member States are physically present (as, for example, at WTO meetings) they will remain silent while the Commission articulates the Union's position. At the end of the negotiation the Commission will propose to the Council the conclusion of any agreement that has been reached.

The Commission, for the purposes of the Common Commercial Policy, is DG Trade – a potent force in Brussels politics and usually associated with an essentially liberal and market oriented approach under the leadership of formidable Commissioners including Sir Leon Brittan, Pascal Lamy and Peter Mandelson. Before the 1999 reorganization of the Commission, 'external relations' was essentially defined as trade. Post 1999, DG Trade exists alongside DG Relex which was given a coordinating role across the range of the Community's external relations. As with any government, bureaucratic and functional incoherence will always be present, but it need not diminish actor capability. There have been difficulties between DGs Trade and Relex described by one official in terms of 'permanent friction' (Interview, DG Trade, July 2001). One source has been the divorce of country desks, located in Relex, from Trade. But 'as 90 per cent of external relations is trade' (*ibid.*) there has been a need to create equivalent geographic desks within DG Trade (Interviews, DG Relex, July, September 2001). The exact division of responsibilities between the DGs varies according to region and issue and resists any set pattern. For example, in the

Union's negotiations with Mercosur, despite the predominance of trade issues, DG Relex has taken the lead. Similar divisions of responsibility have been required for the Commission's external delegations to third countries, whose focus has been described as 'first on trade, second on aid and only third on the CFSP' (Interview, DG Relex, July 2001). The size of delegations appears generally to reflect the scale of trade, but with some important exceptions such as the very large staff located in Sarajevo. This does not necessarily mean that DG Relex personnel will always lead and there are 22 Delegations (including Washington) where 'DG Trade have demanded priority despite the transfer of control to DG Relex' (Interview, DG Relex, July 2001).

Significantly, there is no formal Trade Council composed of national trade ministers within the regular schedule of Community business as there is, for example, an Agricultural or Environment Council. Instead the Council that deals with trade, alongside a great many other issues, is the General Affairs and External Relations Council (GAERC). This meets monthly and holds separate general affairs and external relations meetings. The scope of external relations includes all the Union's overseas activities: the CFSP, ESDP, trade and development. It may, therefore, be attended by several departmental ministers alongside the 25 foreign ministers of the Member States. Its agendas may be wide-ranging indeed, and have extended from the high politics of the Middle East to such recondite matters as anti-dumping measures against imports of Korean manufactured zip-fasteners. While such a forum may have the benefit of bringing greater co-ordination and coherence to the Union's widespread external actions it cannot have the tightly focused sectoral interest in merchandise trade issues that, say, the Agricultural Council will have with regard to the farming industry.

The function of the Council in trade negotiations is to authorize the Commission to negotiate by approving a mandate and then to ratify the results. Ensuring the enforcement of an agreement once ratified is the exclusive responsibility of the Commission, as is the actual representation of the EU at the WTO and elsewhere. Trade ministers do convene as a Council within the context of WTO meetings, allowing them to adjust the Commission's negotiating mandate 'on the spot'.

In the Common Commercial Policy, as in other areas, there has always been a degree of tension, not to say distrust, between the Member States and the Commission. Sir Roy Denman, then a British trade official, observed one of the early forays of the European actor into trade diplomacy: 'a Commission representative would sometimes turn up for negotiations, flanked by French and German officials who appeared to have him under a kind of house arrest' (quoted in Buchan 1993: 13). This was in the very early 1960s, during the transition period. By the end of the decade a more institutionalized means whereby Member States could monitor the external negotiating activities of the Commission was established. This had a treaty basis in Article 133, where the Commission was charged with the conduct of negotiations 'in consultation with a special committee appointed by the Council to assist the Commission in this task ...'.

The Article 133 Committee has been a significant body in the conduct of the Union's trade diplomacy ever since, in many ways obviating the need for a formal Trade Council. It meets in two formations: monthly at the level of 'full members', who are senior national trade officials assisted by their advisors, partly home and partly Brussels based,

and more regularly at the level of deputies, who cope with the technical detail. The Commission is similarly represented at the meetings, and at the more specialized *ad hoc* working groups that the 133 Committee spawns. Working relationships become close and informal and a 'club like atmosphere' pertains (Hayes-Renshaw and Wallace 1997: 90). Although the original function of the Article 133 Committee was to monitor the Commission it has become a close policy collaborator, relating the views of Member State governments to the Commission on a day-to-day basis.

The European Parliament has not been allowed to play a major role in the negotiation or conclusion of trade agreements under Article 133. Despite extending the scope of parliamentary powers elsewhere, the Maastricht Treaty maintained the rule that, although the Council was required to consult the Parliament where other international agreements (including association agreements with significant trade elements) were being made, this should not be the case for the Common Commercial Policy.⁷ An extensive set of informal practices have, however, grown up involving consultation with the relevant parliamentary committees during trade negotiations.⁸ Co-decision powers for the Parliament would have been introduced by the entry into force of the Constitutional Treaty. There has also been a campaign by the Commission to involve 'civil society' in a dialogue on trade policy, largely in response to popular concerns about globalization and antipathy to the WTO reflected in the collapse of its Millennium Round in Seattle at the end of 1999 (Commission 2004k: 26; WTO 2002a: 15).

Beyond trade in manufactures

While in 1958 the substance of what constituted trade was relatively well understood, by the time of the Uruguay Round, with the potentialities of liberalized trade in goods largely played out and with vast alterations in an increasingly globalized economy under way, this was no longer the case. First of all, however, the Uruguay Round served to place the question of agricultural subsidies at the heart of the trade agenda – a position that it has retained ever since.

The Common Agricultural Policy

As one official rather wearily put it, 'The EU is always at war with somebody over agriculture' (Interview, DG Trade, July 2001). The historic counterpart of the creation of the Common Market was the Common Agricultural Policy (CAP). The basic mechanism of this policy, which sought to increase food production and raise farming incomes, ensured that there would also be external consequences. Artificially high prices within the EC were maintained by the imposition of a 'variable levy' on imports, which served to adjust their price up to the high level set for European produce. The receipts went into the Agricultural Guidance and Guarantee Fund, which was used to intervene in the market to maintain high prices, thereby guaranteeing farm incomes.

Although the CAP soon became a budgetary nightmare (swallowing at one point around 75 per cent of the EC's financial resources), it achieved runaway success in encouraging ever higher levels of food production – way beyond that which could be

absorbed by the domestic market. Obligated under the CAP to intervene and purchase the surpluses, the Community sought alternatives to expensive stockpiling in the infamous 'wine lakes' and 'butter mountains'. The economic answer was to subsidize the export of the surpluses through export restitution payments, which made it possible to sell high priced European food on world markets.

The EC soon moved from being largely a food importer to the status of a major exporter. For example, its share of the world wheat flour market increased from 24 per cent in 1963/4 to 62 per cent in 1980/1, while the corresponding US share fell from 40 per cent to 18 per cent (Paemen and Bensch 1995: 24). Not the least dimension of the EU's presence in the global system, and certainly the most objectionable for third parties, has thus been its position in world agricultural markets. This was a function, not of externally orientated policy, but a series of internal developments and actions to cope with the burgeoning CAP, which essentially served to offload some of its problems on to outsiders. The United States, faced with the economic damage done to its agricultural exports, proceeded to retaliate with its own system of farm subsidies, further driving down world prices and worsening the terms of trade of those countries most dependent upon agricultural exports. The worst affected countries were those, like Argentina and Brazil, reliant upon the export of temperate products – cereals, beef, citrus fruits – falling within the remit of the CAP. The EC had, of course, no interest in interfering with trade in tropical products, which have duty free access to the European market.

Once agriculture had been added to the world trade regime's agenda, EC officials found themselves having to negotiate on and justify their farm subsidies. Driven by this, and by the realization of the financial consequences of enlargement for the CAP, reform involving direct income support for farmers rather than production subsidies has been underway since the early 1990s. Progress has, however, been slow. The level of EU agricultural protection remains high, with an average tariff rate four times that applied to industrial goods and a continuing resort to quotas (WTO 2002a: x). Similarly, in 2000, the EU remained the largest subsidizer of agriculture amongst the OECD countries (ibid.: 72), a position that was challenged during 2002 when the US Senate passed its Farm Subsidy Act raising payments to US farmers by 63 per cent (Jawara and Kwa 2004: 139).

The presence of the Single Market

The original Common Market, despite the removal of all internal tariff barriers by mid-1967, never yielded the expected benefits in terms of internal cross-frontier economic activity. In order to remove the remaining non-tariff obstacles to trade and revitalize the European economy, the '1992' project for the completion of the internal market was put in train. Implicit in this project was an understanding that far-reaching measures were required if Europe was to compete effectively with the United States and Japan. This had major external implications. In the EFTA countries it gave rise to the calculation that most of them could no longer prosper outside the Community and, in a process permitted by the ending of the Cold War, led to the accession of Austria, Sweden and Finland.

Presence is as much a matter of external perception as economic statistics, and in the United States the reaction to the completion of the Single Market, which was frequently dubbed 'fortress Europe', was both excessive and politically significant. It helped to stimulate a new US approach to the EU which increasingly focused upon the provisions of the 1992 project and its significant and largely unintended impacts within the US and elsewhere. Liberalization of the services sector and the active role of the Commission in setting technical and other standards across the Single Market had a number of powerful implications. One example is provided by the single GSM standard for mobile phones, which allowed the phenomenal growth of the mobile networks across Europe. Adoption of product standards has extended well beyond the Single Market to such matters as the metrication of US drink containers. In the words of one American commentator, the EU has become the 'world's regulatory superpower':

...because of the sheer size of its market and because the Europeans are more philosophically inclined to regulate than their counterparts in Washington and Tokyo for a vast panoply of agricultural, industrial and financial products. In the twenty-first century the rules that run the global economy are largely Brussels' rules.

(Reid 2004: 232)

Market presence had attracted very large in-flows of foreign direct investment (FDI).⁹ European firms of 'American parentage', as they are tactfully described, would include within their number most major US corporations. Within the single market, foreign owned corporations are subject to EU competition policy, where the Commission takes anti-trust action, regulates corporate mergers and polices state aids to industry. These actions are internally directed but have external ramifications. Thus, there have been a number of high-profile merger decisions by the Commission that have reverberated across the Atlantic. A good example is provided by the proposed merger of two American owned firms, Honeywell and General Electric in 2001; although approved by US regulators, it was blocked by the Commission. The Commission has also successfully prosecuted Microsoft for its monopolistic practices in software development.

We may generally describe the effects of competition policy in terms of presence but there is also evidence of the growth of actorness. In 1997 the merger between aircraft manufacturers Boeing and McDonnell was challenged by the Commission, even though their operations were entirely conducted within US jurisdiction.¹⁰ For one analyst, competition policy came to represent 'a new instrument of the EU's foreign economic policy' which significantly increased the EU's role in the international political economy and its identity as an international actor (Damro 2001: 208).

The process of 'perfecting' the Single Market has continued with the 2000 Lisbon Agenda, which sought to make the EU the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth and more and better jobs. Sluggish growth in the major European economies since then has made these aims appear utopian but the difficult quest for the full liberalization of

telecommunications, energy, transport and services across the Single Market continues. There are parallel and controversial ambitions to reduce labour market 'rigidities' and to stimulate education, research and e-commerce. Behind the Lisbon Strategy was an implicit fear that the sluggish growth rates of many EU national economies were being outpaced by the dynamism of the main competitor – the United States (Wallace 2004: 102). This is not the least of the ways in which the US serves as the most significant comparator in the construction of the Union.¹¹

Trade in services

The Single Market, in common with other developed economies under conditions of globalization, has been increasingly dominated by the tertiary sector and invisible trade across frontiers. Services have been well described as 'things which can be bought and sold but which you cannot drop on your foot' (*Economist*, 12 October 1985), but more precise definition has been problematic provoking major questions as to the extent of Community competence. With manufacturing activity increasingly located in the developing world, it was important for the major developed economies, including the Union, to obtain market access for their service industries and to bring the latter within the disciplines of the world trade regime. Thus the Uruguay Round was not only marked by the inclusion of agriculture but new agreements on trade in services (GATS), intellectual property (TRIPS) and investment (TRIMS) were proposed. If any or all the latter were to be defined as part of the Common Commercial Policy then they would be subject to exclusive Community competence, something that a number of Member States were unwilling to countenance, and indeed regarded as the 'thin end of the wedge' in terms of a loss of national sovereignty.¹² During the Uruguay Round negotiating efficiency dictated that the Commission be allowed to exercise a *de facto* competence, but the issue re-surfaced in a European Court of Justice case between the Commission and the Council at the end of the Round. The result was an unsatisfactory compromise judgement (Opinion 1/94ECJ) of the European Court and persistent confusion and complexity in this area, which was alleviated by revisions made at Nice.¹³ While, for insiders, the failure to achieve full competence in the new areas of trade in services clearly diminished the capability of the EU as a single economic actor, other WTO members had already assumed that the unitary representation of the EU's interests would continue – that it would constitute a single and comprehensive trade actor – for the ECJ appeared to deny to the EU 'a competence that the rest of the world already took for granted' (Meunier and Nicolaidis 1999: 490–1).

Economic and Monetary Union

From the beginning the Member States of the Union have been charged with the coordination of their macroeconomic policies and the ECOFIN formation of the Council of Ministers provides the necessary forum. Yet, for most of its existence, the Union has exhibited a peculiarly unbalanced economic presence, where a coherent trade bloc and investment market contrasted starkly with a fragmented fiscal and

monetary order. This represented a missed opportunity to enjoy the power and status that is associated with ownership of one of the principal international currencies.

The main motivation for the creation of the euro was, however, not primarily '... the empowerment of Europe on the international stage and the raising of its stature in global economic diplomacy' (McNamara and Meunier 2002: 849). Rather, Economic and Monetary Union was sought in order to complete the Single Market and to protect its operation from damaging exchange rate fluctuations. These efforts came to substantial fruition with the adoption of a single currency in 1999 and the circulation of notes and coinage throughout the eurozone at the beginning of 2002. The result was incomplete in at least two ways. First, not all EU Member States have adopted the euro. The United Kingdom and Sweden have remained outside the single currency, while Denmark does not use the euro but remains a member of the exchange rate mechanism. Similarly, the ten new Member States will only adopt the euro after an extended transition period. Second, while the EU has a centralized monetary policy for the eurozone members it retains a de-centralized set of 25 national budgetary and fiscal policies, those within the eurozone being imperfectly restrained by the controversial Stability Pact.

Despite these provisos the introduction of the euro had an immediate impact upon the rest of the world and was extensively hailed as providing an alternative reserve and international currency to the dollar. Expectations about currencies are of particular significance because they bear upon confidence and exchange values. There were profound implications for the United States, where the privileged position of the dollar, particularly as the currency in which oil was denominated (after a 1973 agreement with Saudi Arabia and OPEC), had enabled it to sustain huge deficits with the rest of the world. Some external analysts prophesied conflict between the two global currencies (Feldstein 1997) while others, even after its launch, saw only the euro's degeneration (Ferguson and Kolutikoff 2000).

The euro, having recovered from its early weakness against the dollar, is clearly a presence to be reckoned with, something which is acknowledged by its adoption as a reserve asset alongside the dollar by a large number of countries including China. Critics also noted that members of President Bush's 'axis of evil' Iran and Iraq were united by their flirtation with the pricing of their oil in euros and that the third member, North Korea, had adopted the euro as a reserve currency.¹⁴ Although there is some evidence that the Union has included provisions on the use of the euro as a reserve asset in its partnership and association agreements with third parties, there has not been an ambition to establish the currency as a clear competitor to the dollar. Rather, concerns have been expressed as to the dangers of reserve currency status for the stability of the new currency. Nor, apart from the coordinated action that was taken after the destruction of the World Trade Centre in September 2001, has there been an indication of eurozone willingness to intervene in external financial crises (Bretherton 2004: 17). In summary, despite the evident and growing presence of the euro, many expectations and a number of significant opportunities related to the problems of the US dollar, the Union has not yet become a monetary actor.

The most evident reason for this is the lack of full participation by the Member States and the way in which this precludes the type of arrangements and external

Community competence that exist for the Common Commercial Policy. The situation is complicated by the existence of another player alongside the Eurogroup of the ECOFIN Council and the Commission – the European Central Bank (ECB). Obligated to be independent it has day-to-day responsibility for maintaining the value of the euro, but the Council, in association with the Commission, has powers in relation to the 'general orientation' of exchange rate policy. Article 111 of the TEC, negotiated at Maastricht, provides for the external representation of the euro by the Council, but the situation remains confused and unsatisfactory.¹⁵ Expectations of actorhood remain unfulfilled while:

The mismatch of the EU's model of 'single currency, many states' and the assumptions of international financial institutions of a one-to-one relation between states and currencies critically limits the EU's ability to project its power internationally in the two key arenas of the monetary realm: the IMF and the G7.

(McNamara and Meunier 2002: 857)

Although the EC is not a member of the IMF, the larger Member States are amongst the major shareholders and ECOFIN meets 'in the margin' of IMF meetings in order to coordinate a European position. The ECB has been granted observer status but the Commission is absent and the Union's representation is fragmented across five separate executive directors, a situation which may not be unwelcome to some EU Member States.¹⁶

Recognition of the significance of the EC as an economic entity for the purposes of global macroeconomic coordination has been evident since 1980, when the President of the Commission was first invited to attend G7 summit meetings. The G7 is a very different body from the formal quota-based IMF, being essentially a self-appointed club of rich nations. Thus only some eurozone Member States are represented, Germany, Italy and France, while Britain, outside the zone with its own currency, is also a member. Once again there is fragmentation that emphasizes the failure of the Union to build actor capability upon the basis of the presence of the euro.¹⁷

Capabilities and instruments

We have described the availability of policy instruments as a key aspect of actor capability. The EU's approach has been characterized, in a rather unfair adaptation of Theodore Roosevelt, as 'speak softly and carry a big carrot'. Certainly, the interruption of trade and the political use of aid continue to be the essential instruments available to the Union.

In 'trade defence' there are a goodly number of 'sticks' available alongside the inducements. Trade instruments, permitted by the WTO, are employed directly by the Commission in support of the Common Commercial Policy and to protect the Single Market and specific European industries. These include the use of countervailing duties (GATT Article VI), emergency protection of industries through quantitative restrictions on imports (GATT Article XIX) and anti-dumping measures. The latter

remain the preferred instrument for the Commission's defence of the European market against 'unfair' competition.

In 2001 the EU had 175 product categories in which anti-dumping measures were in force – a total only exceeded by the United States (WTO 2002b: 49). However, measured in terms of investigations initiated and definitive anti-dumping measures in the period 1995–2003, the EU ranked third behind India and the US (Commission 2004k: Annex 4, p. 56).¹⁸ Other trade instruments include the enforcement of rules of origin and regulatory action to prevent imports of goods hazardous to health or the environment and trade defence 'safeguard measures' allowing the imposition of retaliatory duties to protect an industry. It is worth pointing out that the EU has only deployed industrial special safeguard measures once since 1992; in response to the effective closing of the US steel market in 2002 (WTO 2002a: 11).

The use of trade defence instruments is closely connected to the extensive activities of the EU as litigant in the WTO's reformed disputes procedure, introduced as part of the Uruguay Round, involving independent adjudication, which can ultimately lead to WTO sanctioned retaliation. In the period 2000 to 2005 the EU was involved in some 40 disputes. Some of them were well publicized, such as the case of US safeguard action over steel imports and its Foreign Sales Corporation subsidies, where the EU was allowed to threaten the imposition of \$4 billion in retaliation. The EU has 'continuously been more on the offensive than the defensive' and has generally been a successful litigant winning 13 and losing only 4 completed cases in the period of the Prodi Commission (Commission 2004k: 10, Annex 3).

For years, trade and aid provided the only hard instruments available to the CFSP and they are still pre-eminent. Trade inducements and penalties are available through the manipulation of agreements, quotas and preferential arrangements, and sanctions are deployable under Article 301 of the TEC.¹⁹ Sanctions, mandated by the UN Security Council, have been imposed in respect of imports from the Former Republic of Yugoslavia (terminated in 2000), Saddam Hussein's Iraq (although there was little or no trade to interrupt) and Liberia (under Security Council Resolution 1343 which prohibits trade in conflict diamonds). In less coercive contexts the granting or withholding of trade relations (alongside aid and other benefits) continue to provide the backbone of the Union's relations with most third parties, as discussed below in relation to association and preference agreements. There are also instances where trade measures have had very specific political objectives. For instance, in the immediate aftermath of the terrorist attacks of 11 September 2001, trade instruments, in the form of a Third Generation Cooperation Agreement including enhanced access for Pakistani textile exports, were deployed to encourage the Pakistani government in its alignment with the US and its allies (WTO 2002a: 20). The Union has also attempted to manipulate its extensive trading relationship with Israel for political ends.²⁰

Gatekeeper of the Single Market

The everyday economic role of the Community in the world system, and the role in which most countries have direct experience of the Union as an actor, is as gatekeeper of the Single Market and regulator of trade relations. It also now aspires to a more

offensive role, as opener of overseas markets, under the Commission's Market Access Strategy.²¹

Trade, market access and aid provide the core business of the more than 140 Brussels missions accredited to the European Community and the essential reason for their existence. For countries as varied as Russia, New Zealand and Israel, the EU is the major trading partner. The composition of missions will reflect this, although there has been some change as the scope of the Union's external activities has expanded. For example, the New Zealand mission was staffed in 2002 by five foreign ministry officials, four of whom were mainly concerned with agricultural trade issues. The fifth post was created in 2000 to cover 'everything other than trade' (Interview, Brussels mission, October 2002).

The first line of defence at the borders of the Union is through the use of tariffs, which have been progressively reduced – at least on industrial goods. There are also quantitative restrictions or quotas, which, although contrary to the principles of the WTO regime, are often imposed upon textiles and agriculture products. As previously discussed, the Commission also defends European producers through the use of 'safeguard measures' and anti-dumping action. More positively, it can also extend preferential access to the Single Market and it is this that provides the underlying structure of relations with all but a few of the Union's trading partners.

Association and preference

In acting out its role as gatekeeper, the Community benefits from its position at the centre of a complicated web of institutionalized bilateral links, as set out in Figure 3.4.²² The common element in all these agreements is trade and, usually, some form of discrimination or preference. They are also increasingly 'trade-plus' agreements comprising a great deal more than an agreed removal or realignment of tariffs. Association agreements, for example, include Association Councils, annual meetings at ministerial level plus Association Committees of senior civil servants, and there may even be a parliamentary element.

From the earliest arrangements with Greece and Turkey the number and scope of agreements has increased markedly, especially since the 1980s, and renegotiated 'second and third generation' agreements have further broadened the range of items covered. These now include elements of human rights and political conditionality, cultural and technical/scientific cooperation plus security related measures. They are, therefore, 'mixed' agreements in the sense that both the Community and Member States will be parties and parliamentary assent will be required. Furthermore, items within the agreement will not only be beyond exclusive Community competence, but may, as in the case of political dialogue clauses, be beyond Community competence altogether (Macleod *et al.* 1996: 372).²³ Association and cooperation agreements are now so extensive that the majority of states comprising the contemporary international system beyond the Union itself are now in some form of institutionalized relationship with the Union. At the last count the EC had preferential (non-MFN) agreements with no less than 99 states (Commission 2004j). Those excluded are the Union's principal interlocutors and main trading

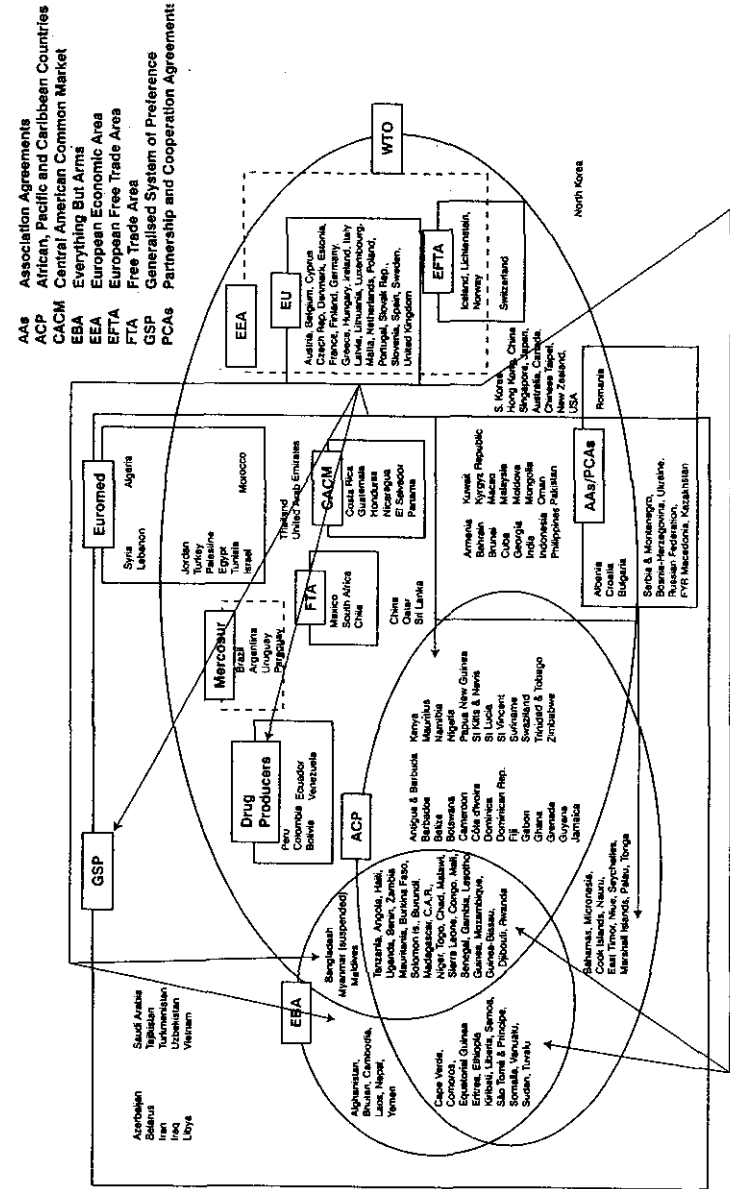


Figure 3.4 EU trade regime 2004
Source: Overseas Development Institute (ODI) 2004c: 3.

partners within the WTO, the ironically styled *most favoured nations*: the United States, Japan, Australia and New Zealand.

The arrangements are legitimized either as Free Trade Areas (FTAs) or customs unions, which are permitted under GATT Article XXIV.²⁴ This has allowed the Union to attach large areas of the globe, and especially Europe's neighbours in the Mediterranean and the old Soviet bloc countries, to itself. For critics, bilateral FTA agreements between a central customs union and various individual economies have a 'hub and spoke' character in which specific exclusions of 'sensitive' sectors and the use of safeguard clauses can be utilized by import competing industrial lobbies to fend off effective trade liberalization (Hockman and Kostecki 1995: 226–7). However, the process of accession and the development of trade relations have led to a situation that diverges from such a simple model (see Chapters 5 and 6). The EU's Generalized System of Preferences (GSP) benefits all developing countries, including China, while the Everything But Arms (EBA) initiative of 2001 provides extensive market access for the 49 least developed countries.²⁵ In addition the Union relates collectively to ACP countries (see Chapter 5) and has tried to develop a Mediterranean regional FTA; opened in 1999 region-to-region talks with Mercosur; and attempted to build upon its links with the Association of South East Asian Nations (ASEAN). These inter-regional exercises have exhibited variable levels of success, but common to all is the propagation of the Union's model of itself and, indeed, an element of mutual identity construction. One explanation of the Union's regional trade strategy reflects a constructivist insight that 'only through self-conscious interaction with comparable "others" does the conception of "self" take shape' (Aggarwal and Fogarty 2004: 15).

Bilateralism, actorness and power

Despite its commitment to WTO multilateralism and to new forms of inter-regional cooperation, the Union continues to rely heavily on bilateral dealings. This has implications for actor capability and for the way in which many states experience it. The 'hub and spoke' arrangement of the EU's preferential arrangements, in particular, bestows a great deal of structural power on the centre in relation to the periphery. The Union is potentially able to dominate a divided set of supplicants and trade partners. For most of the participants in these bilateral arrangements the Union is frequently a domineering actor whose external face is the Commission.

When interviewed, members of the missions in Brussels, professionally concerned with the management of 'trade plus' issues, were in little doubt as to the EU's 'actorness'. It is, said one, 'undoubtedly a coherent actor on trade – almost a trade superpower', and in the words of another 'they are real players' (Interviews, Brussels Missions, October 2002–January 2003). The Union is, of course, inordinately more complex than a state and, as one ambassador put it, the move from negotiating with a government in a national capital to negotiating with the EC in Brussels 'is like changing from playing draughts to playing chess' (Interview, Brussels Mission, June 1996). For others the EU lacked the warmth and cultural tradition experienced in a posting to a normal state. An oft-repeated view, expressed by another trade diplomat, was that the Commission would frequently not be open to negotiation at all, but would simply

'agree a position and push it down our throats ... sometimes we say no, but only occasionally'. 'The typical Commission position is "we've cooked up a deal [with the Member States], take it or leave it".' Commission officials will sometimes say 'if you want one word different we will have to go back to the Council' (Interview, Brussels Mission, January 1996).

Behind this lies not only the difficult internal arrangements of the Union, but more brutally, the immense structural economic power of the hub, represented by the Commission, as opposed to even quite substantial trading nations located at the ends of the 'spokes'. For a Trade Counsellor of one such nation it was simply the case that his country was not an equal partner and lacked the muscle to engage in 'aggressive reciprocity' on trade issues; another diplomat's view was 'that ministers had to go to Brussels wearing trousers with reinforced knees' (Interviews, Brussels Missions, June 1996).

The Commission does not solely rely upon an obduracy founded on the difficulty of persuading 25 Member States to agree. In trade matters DG Trade has long experience and competence in every sense of the word, and is quite capable of successfully pursuing its own view even if individual Member States may be uncomfortable. It was a common view amongst the personnel of the Brussels Missions that the Commission could, indeed, behave in an unaccountable way especially in the implementation of external policy. According to the representative of a European neighbour involved in an exasperating dispute over enlargement and the application of anti-dumping duties:

It is such a complicated machinery and nobody is responsible. When you compare what is said at the highest levels [where support for his country was voiced, especially by individual Member States] and at the technical level the EU is two different actors. At the political level there is encouragement but this is not legally binding; at the substantive, technical level matters are absolutely blocked.

(Interview, Brussels Mission, January 2003)

References to the difficulty of finding out where blockages had occurred in the EU system, and to the influence of individual Commission officials who could single-handedly impose major costs on outsiders dealing with the EC, were made quite frequently by mission trade diplomats. Difficulties frequently occur in the realm of technical detail and the implementation of the Common Commercial Policy, for which the Commission is exclusively responsible. It is, thus, important for the representatives of third countries to know their way around the Commission, the Council Secretariat as well, and increasingly the European Parliament. There was a consensus amongst members of the Brussels Missions interviewed that a critical difference between dealing with the EU and dealing with a state, as far as bilateral trade policy was concerned, was the absence of clear lines of accountability. In other capitals it had usually been possible to resolve technical problems by seeking a political decision from the relevant minister, but in Brussels this was not possible.²⁶ The EU is different because ultimate decision-making authority in the Union's external economic policy rests with the Member States in Council and with their permanent

representatives in the 133 Committee and COREPER. The latter was seen by outsiders as particularly opaque – ‘a dark animal’.²⁷

Decisions at COREPER, the 133 Committee, and ultimately in the Council, are bedevilled by what trade theorists have called the ‘restaurant bill-problem’ (Winters 1994). This uses the analogy of a group of depressingly self-interested diners who know that they will have to share a single restaurant bill and, therefore, have an incentive to maximize their own gastronomic pleasure by ordering the most expensive dishes on the menu. In a customs union all members bear the welfare costs of protection but there are individual incentives to obtain protection for the particular products in which a country specializes. Under QMV rules in the Council there is space for a degree of bargaining and reciprocity which, while they may satisfy the immediate political requirements of Member States, will lead to outcomes which are protectionist and, in the view of bilateral trade partners, mean-spirited. Portugal, for example, will not benefit from the restrictions on imported vehicles backed by the French and Italian governments with auto industries to sustain but can set against this measures to protect its own textile sector. For their part, French, Italians and consumers right across the Single Market will be paying higher prices for clothing as well as cars. In bilateral relations it will often be difficult for a partner, who does not have access to the intergovernmental horse-trading that lies at the heart of the EU system, to understand the reasons for discrimination:

In negotiating with the EU one has to find out which country is obstructing progress and there is a problem of pinpointing which Member [for example Portugal and textiles] is opposing and work on them. Also Member States blame each other. Sometimes it is difficult to pinpoint what is blocking agreement – countries may, for example, veto an issue as a bargaining chip related to some other concern. A deal that you reach is blocked somewhere else for extraneous reasons.

(Interview, Brussels Mission, January 1996)

Diplomats in Brussels are therefore careful to cultivate friendly Member States and their Permanent Representatives, talk, according to one interviewee, ‘as much to the *Perm Reps* as to the Commission’ (Interview, Brussels Mission, October 2002).

The EU as ‘Big Power’

The EU has been portrayed as ‘positioned between East and West in the new trilateralism of the early twenty-first century’ (M. Smith 2004: 255). One point of this triangular economic configuration was formed by the creation of NAFTA, involving the US, Canada and Mexico, with a further likely extension into Latin America to form the Free Trade Area of the Americas. The situation in the Asia Pacific lacks formal definition and is more ‘an emerging notion of economic Asia’ (Gilson 2004: 65), where Japanese technological dominance is now matched by a Chinese economy growing at an awe-inspiring rate. The EU has been involved since 1996 in the construction of an Asian bloc (including China, Japan, South Korea and

ASEAN) with which to negotiate in the biannual ASEM meetings. For one observer ASEM allows the Union ‘to project onto its embryonic counterpart an ideal-type regional institution’ (ibid.: 87). The third, most coherent and equally expansionist point of the triangle is, of course, the EU itself. Despite these formations, the critical relations remain bilateral.

China and Japan

Chinese accession to the WTO at the end of 2001 was ‘... arguably one of the most momentous events in recent history whose importance far transcends the realms of international trade’ (Commission 2004k: 15). As if to reinforce the point, in the subsequent year, China overtook Japan as the Union’s principal trading partner after the United States (ibid.: 16). For many years Japan had been regarded as something of an economic superpower with the strength of its exports in manufacture and the impenetrability of its domestic markets a particular problem for the Europeans.²⁸ Attempts by the Commission to manage these problems in the context of differing attempts at import control by Member States led to what it later described as ‘a particularly anguished’ trade relationship (Commission 2004k: 7).²⁹ Until the 1990s this remained the, almost exclusive, focus of the relationship and it was significant that the head of the EC Delegation in Tokyo was not granted the usual full ambassadorial status and accreditation to the Emperor.³⁰ Attempts have been made to develop a relationship that goes beyond arguments about voluntary export restraints, market access and dumping, based on the 1991 EC–Japan Declaration and involving the creation of an institutionalized political dialogue with annual summit meetings.

According to Buchan (1993: 139), 1991 marked an important turning point for the Japanese who, unlike the US, had no geopolitical interest in the European Union and had previously preferred to deal indirectly through Member State governments. Commission President Delors ‘was received by the Emperor, conferring on him virtual head of state status’. Little, however, has resulted and, despite continuing improvements in economic dialogue between the two parties, there remains a sense of mutual indifference. For whatever cultural, historical or geopolitical reasons relations have failed to expand into recognition of the political and strategic significance of either party. The view that here were ‘two fledgling superpowers’ both ‘at a similar stage in taking up their responsibilities on the world stage’ (Buchan 1993: 139), now appears far more applicable to the relationship with China.

The Chinese economy has demonstrated extraordinary dynamism with annual GDP growth, in the opening years of the twenty-first century, of the order of 9 per cent. The Chinese themselves expect the EU ‘to become China’s largest trading and investment partner’ (PRC Ministry of Foreign Affairs 2003: 4). Strong trade growth coupled with WTO membership has spawned a rapidly widening political and economic interaction at official level which, by 2005, had produced around 20 separate sectoral dialogues alongside an annual summit meeting. There are many specific problems to be resolved. As a developing country China remains the major beneficiary of the EU’s GSP system and its trade relationship with the Union is seriously unbalanced. In 2003 the EU ran its largest bilateral trade deficit with China amounting

to no less than €55 billion of a total trade valued at €135 billion (Commission 2004).

Both sides of the EU–China dialogue entertain geostrategic aspirations that are in some ways mutually contingent. In noting the new maturity of the relationship the key Commission Policy paper asserts that:

... the world community expects the EU to play a role which is commensurate with its size and importance not only in the economic area but also on issues of global security and other global concerns. These expectations will grow further as the EU enlarges and streamlines its constitutional structures.

(Commission 2003b: 6)

The Chinese response makes it plain that the 'EU is a major force in the world' and that, 'Despite its difficulties and the challenges ahead, the European integration process is irreversible and the EU will play an increasingly important role in both regional and international affairs' (PRC Ministry of Foreign Affairs 2003: 1). As well as possessing 'highly complementary' economies, both the EU and China 'stand for democracy in international relations and an enhanced role for the UN' (*ibid.*: 2). This pointed reference to mutual differences with the United States is backed up by the expectation of some future military collaboration and by extensive Chinese involvement in the EU's Galileo programme for a global satellite navigation system.

The developing relationship remains controversial, not least because of long-running concerns over the Chinese human rights record, the enthusiastic and widespread use of the death penalty and the lingering memory of the Tiananmen Square massacre of 1989. The latter was the occasion of a Union arms embargo, but the sheer economic significance of the Chinese relationship has tended to prevent anything other than a polite dialogue on human rights. China policy is also beset by the independent pursuit of the national investment and export interests of some highly competitive Member States, which have exerted pressure to lift the arms embargo. Inconsistency has been endemic in China policy and it is recognized in Brussels that '... it will be important to coordinate Member States' policies towards China to the maximum extent possible, so that the *EU speaks with a single voice* on all key issues ...' (Commission 2003b: 7, emphasis in original). The Chinese government is aware of all this, which makes it all the more significant that it has chosen to place such stress on its emerging geopolitical as well as economic relationship with the Union.

The United States

The multidimensional transatlantic relationship has been studied and agonized over since the days of Henry Kissinger's (1966) *Troubled Partnership*. At the onset of the Cold War the United States was instrumental in the foundation of the European enterprise and its representatives, from Kennedy onwards, have expressed a desire to do business with a European partner on a basis of equality. The only sense in which such an opportunity existed, in an otherwise subordinate and fragmented set of

relationships, was economic. In contrast to relationships with Asia, transatlantic economic interaction remains remarkably balanced and interdependent. Both the EU and US have economies of similar size and are each other's most significant trading partner. Around one-quarter of EU–US trade is actually *intra-trade* within transnational corporations, which provides one indicator of the extent of mutual direct investment. This is even more impressive than the trade statistics, with the EU providing 52 per cent of all inward FDI to the US, while the equivalent share of FDI in the Single Market, sourced from the US, was 62 per cent.³¹

Since 1961 the United States has been obliged to deal with a single European trading entity of which the embodiment was the Commission. A symmetrical and in many ways symbiotic relationship has developed over the years, in which the primary interface has been between the European Trade Commissioner and the United States Trade Representative (USTR). This relationship is often viewed by other members as cooperative and apparently collusive, but it is also conflictual. The two continue to dominate the WTO agenda in ways that lead commentators to assume a parity between the US Presidency and the Commission, thus: 'Nothing significant is likely to happen [in the Doha Round] for six months as a result of the US presidential election and the arrival of a new European Commission' (Elliott 2004: 23). Making a further comparison, policy analysts have also argued that the Union has enjoyed a much more defined policy and coherent decision-making system, less open to manipulation by special interests, than its US partner (Heidensohn 1995: 127; Peterson 1996: 111).

The history of US–EU bilateral trade relations is marked by specific conflicts within a broad consensus on the nature of the regime. The pattern was initiated by the celebrated 'chicken war' of 1963–4, in which the US side invoked GATT compensation rules for the loss of markets for poultry exports attendant upon the erection of the Customs Union. Since then the record of GATT and the WTO disputes panels has contained many, often bitterly contested, cases over tuna, subsidized steel exports, wheat, canned fruit, oilseed, bananas, bovine growth hormones and the US Foreign Sales Corporation Act. The US and EU have both been enthusiastic users of the reformed WTO disputes procedure – most often against each other!³²

The military analogies sometimes used to describe US–EU bilateral trade conflicts are essentially misplaced, because they occur within a complex multidimensional relationship which, in the last analysis, has always ensured that even the most acrimonious disputes have been settled. As we have seen, these also included the transatlantic effects of EU policies, in 'beyond the border' areas such as financial regulation and technical standard-setting, which had real implications for US competitiveness emanating from the presence of the UN. This posed what Hocking and Smith (1997: 56) have described as a 'challenge of conceptualisation':

... was the EC to be treated as proto-state, as a complex set of functional networks or as a type of federal system in which the member states were analogous to the American states?

The answer to this question was an attempt at wide-ranging engagement with the EU on a range of policy dimensions that went well beyond the Community's external

trade competence. American objectives were not simply to negotiate with the relevant parts of the European entity but actively to set agendas and to be closely involved with the formulation of policy. The 1990 Transatlantic Declaration sought to institutionalize an impressive range of bilateral meetings and consultative procedures from presidential down to 'technical' levels. For example there were, by 2002, 22 meetings at assistant secretary level between EU and US officials scheduled during each six-month presidency. The activities of the large US Mission in Brussels increasingly shadowed those of the Union itself and US business in Europe developed its own impressive representational arm in AMCHAM.³³

The transatlantic economic partnership, despite an impressive range of acronyms, initiatives and dialogues, some of them re-launched, has, nonetheless, failed to deliver anything approaching a full transatlantic marketplace. There have been multiple opportunities for discussion but very little substantive achievement to match either the underlying interdependence of the economies or the rhetoric of the various declarations. In the early years of the twenty-first century DG Trade's approach was to forswear grand initiatives, when 'such initiatives have not prospered in the past', in favour of more limited and concrete regulatory cooperation (Commission 2004k: 13).³⁴

The extent to which US recognition has moved beyond trade will be examined in subsequent chapters. There have been conflicts over the Kyoto Protocol and the International Criminal Court where Washington has been obliged to deal with the EU as its principal antagonist. In other circumstances, notably the Iraq invasion of 2003, it has sought to exploit divisions between the Member States, or in defence matters to prefer NATO to the emergent ESDP. Yet the functional basis of the transatlantic partnership remains in the growing interdependence of the EU and US which, although the high hopes of the late 1990s for a fully fledged transatlantic marketplace may have been disappointed, remains real enough to compel both sides to engage deeply with each other. Despite the conflicts and setbacks there has been an expanding US conceptualization of the capabilities of the European entity reflected in the organization of its diplomatic effort, which in the mid-1990s shifted posts from embassies in Member State capitals to the Brussels Mission (Interview, US Mission, Brussels, January 1997). It was undoubtedly symbolic that in February 2005 George Bush, much vilified for his insensitivity to European concerns, became the first serving US President to officially visit the Council and Commission of the European Union.

The Union as multilateral trade negotiator

Observers of the GATT and WTO and the shifting structure of their protracted negotiations are at one in stressing the central importance of the Union and its relationship to the US – whom Jacques Delors called the 'two elephants on the world market' (Buchan 1993: 9). During the Uruguay Round (which ran on from 1986 to 1994) a key group in determining the outcome was the 'Quad'. 'Quad' meetings involved the USTR, EC External Relations Commissioner and trade ministers of Japan and Canada (and on occasion Australia) or their chief negotiators or officials.

While the 'Quad' represented four major developed world players in international trade, the ultimate fate of the negotiations turned upon an intense bilateral confrontation between the two largest participants – including the famous or infamous 1992 Blair House agreement that dealt with the agricultural differences that had held up the conclusion of the round.³⁵

Since the conclusion of the Uruguay Round a number of developments have made it more difficult for the EU, US and other large developed powers to dominate the trade regime. In a process which deeply involved the EU, the organization was expanded to around 150 members including China, but also Cambodia, Nepal, Jordan and Moldavia. A substantial developing world majority was now also required to accept and implement the outcomes of negotiating rounds rather than being able to retire to the sidelines. With new popular concern about the manifold implications of globalization, the WTO acquired an unaccustomed political salience and became the target both of NGOs and organized protest. In consequence, the attempt to launch a new Millennium Round at the end of 1999, at the Seattle WTO ministerial meeting, collapsed amidst North–South disagreement within the meeting and violent protests outside it.

A lack of concern with development issues and Southern resistance to the inclusion of 'social' clauses lay at the heart of the failure to agree a new round and it was with this in mind that the Union led attempts to remedy the situation with the launch of the 2001 Doha Development Round (DDR). These efforts revealed how complicated the WTO negotiating situation had become. The EU, which was generally given the credit for bringing the DDR to life (WTO 2002a: ix; Young 2004: 215), engaged in extensive diplomacy within a new context, both before and after another setback at the Cancún Ministerial of 2003. This meeting also saw the emergence of a new grouping of developing economies, the G20 led by China, India and Brazil.

The old developed world dominance of the 'Quad' was replaced by 'a flexible feast of mini and micro Ministerials, ad hoc groupings, always with the EU, US, Brazil and India at the core ...' (Commission 2004k: 7).³⁶

Agriculture constitutes the key impediment to the advancement of the EU's other objectives in the trade regime. This has been so ever since the launch of the Uruguay Round with its objective of making agricultural trade and subsidies subject to GATT disciplines. Trade negotiations have served to stimulate reform of the CAP away from production subsidies, a process that has been slowly taking place since the 1992 McSharry reforms.³⁷ Achieving agreement with the US on agricultural subsidies remained fundamental to progress in the Doha Round, but even when there was progress on this issue, prior to Cancún, the results were rejected by the G20 as insufficient to remedy the damage done to their agricultural producers. They were also insufficient to warrant the kind of concessions that were required by the EU on the 'Singapore issues'.

These 'issues' (so named because they first appeared on the agenda at the 1996 Singapore Ministerial) comprise investment, competition policy, trade facilitation, public procurement and labour standards. The first four reflect sectors in which the EU has extensive and growing presence extending beyond the Single Market. It is in such areas, along with trade in services, that the EU, having opened its market to merchandise

imports and liberalized its agriculture, might be expected to enjoy a comparative advantage if closed foreign markets can be unlocked. Such objectives may be regarded as the external counterpart of the liberalization and integration proposals for the internal market set out in the 2000 Lisbon Agenda. The EU's insistence on the 'Singapore issues' precipitated the failure of the Cancún Ministerial in 2003 and they have since disappeared from the agenda of the DDR. Instead the EU has pressed forward with an offer on a further opening up of trade in services, alongside an initiative to ensure that new commitments arising from the round will not be onerous for developing countries – the 'Round for Free' proposal (Commission 2004k: 8).

As a counterpart to these liberalizing moves, EU policy at the WTO has also reflected a concern with labour standards and the links between trade and environmental degradation. The demand that trade liberalization be linked to certain minimum standards for workers was highly controversial at Seattle, where it received backing from a US Democratic administration and trade union demonstrators. Since then it has lost impetus in the WTO. The EU's concern with trade and environment has continued to be significant and is dealt with in Chapter 4. Both issues are regarded with scepticism and hostility by the majority of developing countries as a form of disguised protectionism for the markets of rich countries.

Trade negotiations make exacting demands upon actor capability. The Uruguay Round, for example, involved the detailed negotiation of the 26,000 pages of text that constituted the output of a negotiation conducted at 'expert' level by officials operating within the 15 working groups. In some respects the undisputed centrality of the EU in the trade regime served to highlight the negotiating inadequacies arising from its ambivalent position as an actor – even in the area of trade policy – where it might be expected to be at its most consistent and coherent. This view was commonly and effectively deployed by the US side to blame the internal disagreements of the Community on agriculture for various *impasses* in the long Uruguay process. Those on the European side were more than aware of the vulnerability of 12 states operating by EC rules, with mandates and conclusions dependent on qualified majorities, subject, always, to the threat of national veto under the Luxembourg compromise.

Uruguay was conducted by a Community of twelve Member States; contemporary negotiations will involve 25 or more. A Union delegation will be involved in a continuous two-level negotiation involving the 133 Committee operating in parallel to the formal and informal exchanges of the WTO itself. Mandates and the conclusions of the negotiations will also have to be ratified by the Council. We have in part defined actor capability in terms of the effective formulation of common policy – something that will always raise problems of inconsistency given the varying interests of Member States. A continuing theme has, for example, been the resistance of France and other Member States to the dismantling of the CAP, but there were others too. Greece, Italy and Portugal, for example, protected their national industries by opposing the phasing out of textile quotas under the Multi-Fibre Agreement by allowing the Commission minimal negotiating flexibility (Paemen and Bensch 1995: 136). GATT and WTO negotiations have thus been punctuated by well-publicized deadlocks in the Council. Awareness of the differences between Member States will ensure that Commission negotiators find themselves 'ducking and weaving in multilateral

discussions simply in order to avoid a split in the Community ranks' (Paemen and Bensch 1995: 157).

There can be no doubt that the EU's character and decision-making system introduce both complexity and inflexibility into its conduct of negotiations. However, just as it is unfair to assume that the EU is unique in its agricultural protectionism (in some respects it is exceeded by the US and Japan), it is wrong to assume that its policy is uniquely hidebound by its decision-making structure. The internal politics of trade and the power of special interests in Congress, particularly in a presidential election year, can also render United States policy immobile. In fact the record of the Doha Round indicates that it is the EU, despite its internal deficiencies, that has been able, more than any other member, to take the initiative in agenda-setting. At the same time, the history of the foregoing Uruguay Round indicates that despite the delay introduced by the evident inconsistency between Member State trading interests these were ultimately resolved and progress achieved.

Exclusive Community competence for trade certainly helps to explain the relative effectiveness of the Union at the WTO, particularly in terms of the arcane detail of a trade negotiation. Here, Woolcock and Hodges (1996) make a useful distinction between the 'technocratic' and 'political' control of policy. Generally, the Commission has to be given the latitude to negotiate in collaboration with the 133 Committee, and the Council merely 'rubber stamps' the results. The alternative mode of proceeding attracts publicity but applies to only a few high-profile areas, like agriculture or audiovisual services, where there is active 'political' involvement and open controversy.

There is also evidence that the Commission is adept at the deployment of various forms of pressure on other WTO members. In the campaign to build support for the DDR, 'The EC approached the issue of arm-twisting in a more subtle manner than the USA ... making sure that negotiators were aware of the EC's expectations' by the Trade Commissioner's 'endless trips to developing countries' and the way in which the latter were 'gently reminded ... of the importance of the various preferential economic and trade arrangements their countries enjoyed with the EC' (Jawara and Kwa 2004: 162).

Operating in 'technocratic' mode, the Commission can be an effective, coherent and frequently innovative negotiator. According to one commentator: 'it was possible to reach an agreement [on the Uruguay Round] largely because the European Union negotiated as a unit and showed itself willing and able to take on a global leadership role' (Leonard 1997: 18). In the words of Peter Sutherland, GATT Director General at the end of the Round, and admittedly also a former European Commissioner, 'We wouldn't have a WTO if the European Union did not have a common commercial policy and did not negotiate with one voice' (*New Statesman and Society*, 18 October 1996: 21). Similar comments would not be out of place in describing the role of the Union as the driving force behind the Doha Round.

Conclusion

The growing economic presence of the European Union has ensured that, in many respects, it can be regarded as a great power, rivalling and even exercising a form of

trade duopoly with the United States. Initial Community competence for the Common Commercial Policy has ensured that, in the field of trade relations, the Union has developed an equivalent capacity to act. For the many states with which it maintains preferential trade relations it can be a dominating and sometimes inscrutable actor. Its exclusionary practices in this respect, and its aggressive pursuit of market opening, are incompatible with constructions of the Union as a value-based actor. Nevertheless the EU also uses its economic instruments to pursue objectives in the area of human rights and poverty alleviation. The EBA initiative and attempts by the Commission to open up a civil society dialogue on trade policy suggest a more inclusive identity.

Although the EU increasingly appears to outsiders as a single economic entity, its external representation and capacity to act still varies by issue. Changes in the global economy, and the growth of the Union's economic presence in areas such as services and investment, have exerted pressure for the EU to find some way of representing itself externally. While this is being achieved in respect of trade in services there are problems elsewhere which render the Union an incomplete economic actor. Pre-eminent here are the expectations and potential associated with the development of the Single Currency.

This chapter precedes the other substantive considerations of the Union as an actor for a reason. The economic presence of the Union, its construction as a single entity by outsiders and the progressive development of actor capability from its basis in merchandise trade continue to provide the essential base of and roles in the global system. The Union necessarily utilizes its trading strength to underpin what might be described as its broader foreign policy objectives, which are the subject of subsequent chapters. Trade policy has provided the foundation of the Union's relations with outsiders and many of the key instruments available to its emergent foreign policy. It also provides a yardstick for the assessment of actorness in other domains.

4 Environmental policy

The Union as global leader

In contrast with its role as a world trading power, the Union's rise to prominence in global environmental politics was unforeseen. This chapter considers how this came about and how the Union, despite the special difficulties associated with mixed competence in this area, became a leading actor in both regional and global environmental governance. Its roles extend beyond participation in particular negotiations to encompass the propagation of environmental norms, the pursuit of sustainable development and, perhaps most important of all, leadership of attempts to curb the menace of climate change. As elsewhere, presence provides the foundation.

By any standards the countries of the European Union cast a long ecological shadow. Such presence is commensurate with the scale of industry, transport, energy consumption and agriculture within an economy second only in scale to that of the United States. Inevitably the EU will be amongst the largest polluters and resource exploiters on earth. One measure of the burden imposed by the EU on the earth's resources has been calculated in terms of annual 'total material requirement' – the volume of material, excluding air and water, that flows through an economy, about 80 per cent of which is released back into the environment within one year. The figure calculated for the EU, at the end of the twentieth century, was around 19 billion tonnes or approximately 50 tonnes per capita (the US equivalent was 84 tonnes), 'indicating continuous pressure on the global environment due to resource extraction for the EU economy' (Bringezu and Schütz 2001: 12, 16). Significantly, 40 per cent of the material involved was extracted beyond the borders of the EU (*ibid.*: 31).

In many other areas the countries of the EU exploit a substantial slice of the earth's resources. The scale of the European fishing 'effort' provides an obvious example, as EU-based trawlers range far beyond those depleted waters subject to the Common Fisheries Policy.¹ Apart from the sustainability implications of the Common Agricultural and Fisheries Policies (CAP and CFP) the EU's environmental presence is most directly experienced by the Union's immediate neighbours in Eastern Europe and the Mediterranean, but there has been an increasing realization that an economy the size of the EU's has major responsibilities on a global scale: for stratospheric ozone depletion, climate change, desertification and species loss.

In the beginning the Treaty of Rome was silent upon environmental matters which were, accordingly, almost entirely absent from considerations of Europe's role in the world system.² Just as there were no common environmental policies, the salience of