

Trade And Enlargement

Why is enlargement good news for third countries?

Ten countries will join the EU on 1 May 2004: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia. As of their day of accession, the new member states will apply the EU's Common Commercial Policy in its entirety, including the Common External Tariff, EU preferential trade agreements, WTO commitments and EU trade defence measures. They will also adopt internal market rules and benefit from the four freedoms set out in the Treaty.

Why is this good for third countries' businesses? Are there any mechanisms to ensure that the interests of third countries' businesses are respected?

Third countries will fully benefit from enlargement

➤ **An even larger market than before**

With a population of almost 455 million and a GDP of around €231 billion, the enlarged EU will account for some 19% of world trade and be the source of 46% of world outward FDI and host to 24% of inward FDI.

The current European Union is already the largest single market in the world. There are no internal borders between the Member States and the harmonisation of regulations and standards ensures a freer circulation of goods and services than is possible within some countries. Enlargement will extend these characteristics to the acceding countries.

Third countries will benefit from an increased single market, and a simplified and enhanced access to the current acceding countries' markets.

➤ **A single set of rules for business**

Enlargement will extend the EU's trade policy regime to the acceding countries. The current system, featuring a single trade regime for the EU and a different regime for each of the candidates, will disappear. A single set of trade rules, a single tariff, and a single set of administrative procedures will apply not just across the existing fifteen member states but across the enlarged Union of twenty-five. This will greatly simplify the dealings that third country operators have within Europe.

Beyond the simplification of procedures, enlargement will bring a range of immediate and tangible economic benefits to third countries. These will arise out of the acceding countries adopting the same open standard of treatment of third countries which the current EU applies.

➤ **A very open economy with a high standard of rules**

For trade in goods the new member states will have to adopt the Community Common Customs Tariff (CCT) upon accession. The average weighted industrial tariffs of the acceding countries are in general higher than the 3.6% average for the EU; the same applies to agricultural tariffs. Thus, in most cases, third countries' business will benefit from lower tariffs in their trade with new member states.

In the case of services third countries' services providers will benefit from the implementation of the single market in acceding countries, where they will get the same treatment as in the rest of the EU.

For investors the very high standards of treatment currently afforded by investors in the EU will be applicable throughout the enlarged Union. The national treatment provisions for inward investors as set out in the Treaty of Rome will be extended to the new Member States. For instance, the right of establishment and free movement of capitals entrenched in the Treaty will be applicable to all companies of the new Member States.

As regards technical regulations and their impact on the openness of an economy, the "one standard for all" principle of the single market will be extended to the acceding countries with the obvious advantages to third country suppliers. The advantages in terms of trade facilitation will accrue for the exporters of the third countries with which the Community has concluded mutual recognition agreements (or MRAs) as regards their exports to the new Member States.

There are some sectors where the European Union maintains some limited quantitative restrictions with third countries, notably in the cases of textiles and steel. Although the new member states will apply these restrictions as of their accession, the effect on third countries will be limited. Indeed, WTO rules foresee that all textiles and clothing quotas shall be phased out by 31 December 2004. As far as steel is concerned, the two EC agreements which foresee quotas run until 31 December 2004 and would disappear if the countries concerned joined the WTO before then.

Third countries will receive enhanced levels of intellectual property rights (IPR) protection in the acceding countries due to their adoption of EU directives in this field upon accession. The Europe Agreements already contain an obligation for the acceding countries to join the relevant international conventions in this area and bring levels of IPR to a similar level to that afforded in the EU.

At present no candidate countries is a member of the WTO's Government Procurement Agreement (GPA). Upon accession, all will have to apply the EC directives on public procurement, which go beyond commitments in the GPA. In terms of the direct impact on market access for third countries, the application of EU public procurement rules, especially directive 93/38 which opened up procurement in the water, energy, transport and telecom sectors, will bring major benefits.

Likewise for subsidies: new member states' subsidies will be brought within EU rules, which are in line with OECD and WTO disciplines. Once again this will benefit third countries by imposing stricter standards than the rules currently applied by the candidate countries. With accession, the new member states will lose their transition economy status and with it the right to obtain exemptions from WTO subsidies disciplines through the use of Article 29 of the Subsidies Agreement.

The EU will fully discharge all its obligations under WTO rules.

The integration of new Members into the EU will contribute to the expansion of world trade. Should other WTO Members having initial negotiating rights in bindings being modified or withdrawn estimate that they are negatively affected, they can seek compensation according to WTO rules. The EU has in the past and will in the future fully discharge its obligations under the relevant WTO rules.

In the field of trade in goods the GATT allows WTO members to submit claims for compensation in cases where in a given tariff line enlargement leads to an increase in the applicable bound duty. If substantiated, WTO rules foresee bilateral negotiations to agree to appropriate compensation following enlargement.

A comparable compensation mechanism exists in the GATS, i.e. for trade in services.

➤ **When can compensation be applied for?**

Third countries will be allowed to apply for compensation when a new member state's bound tariff is higher after enlargement than the bound tariff before. No compensation can be asked in the case of the termination of preferential agreements between new member states and third countries, as the tariffs applied under contractual preferential trade are not the MFN bound tariffs.

➤ **Who is entitled to claim compensation?**

WTO rules foresee that compensation can be claimed by principal suppliers and "suppliers with a substantial interest". In the case of EU enlargement, a supplier can only be considered a principal supplier if its share of MFN trade in the product is greater than the EU share (here too, contractual preferential trade is excluded). There is no formal definition of a supplier with a substantial interest but as a general rule, it is considered to be 10% of the market.

➤ **How is compensation calculated?**

Compensation is calculated on the basis of the difference in the tariff rates and trade flows. In this context, benefits from lower rates following enlargement will also have to be taken into account. As some of the data are still being collected, discussions on this issue are currently premature.

➤ **Is the procedure the same for services?**

The service sector is treated in a similar manner. The GATS covers the question of regional integration and sets out similar conditions to the GATT agreement. If, as a result of enlargement, third countries believe they face higher barriers to entry than before, and substantiate it, they will be entitled to claim compensation.

➤ **What about trade defence measures?**

In full conformity with the EU's WTO obligations, taking over the EU's Common Commercial Policy as of accession will include the application of EU trade defence measures against third countries.

The GATT rules on compensation do not concern the application of anti-dumping measures since such measures can be imposed notwithstanding the provisions concerning bound duty rates.

As for the last enlargement the EU will be prepared to receive requests from exporters if they can show that circumstances with regard to a case have changed substantially due to enlargement.