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# The evolution of European Union Preferential Trade Agreements

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## Introduction

The trade policy of the European Union is one of its main pillars. For more than half a century foreign trade policy has been created in Brussels and is common to all member states. The basis of the common foreign trade policy is, on the one hand, the customs union which links all EU countries and, on the other hand, all Preferential Trade Agreements (PTAs)<sup>1</sup> concluded by the European Union. For more than fifty years the EU has been party to a great number of agreements liberalizing trade. As a result, despite the progressive liberalization, trading conditions have become obscure and it might be quite difficult to work out exactly what European trade policy looks like.

In the article I would like to present briefly the history and reasons for the formation of the current European Union trade policy and also draw some conclusions. One of the major elements shaping the present situation are PTAs signed by the EU. Therefore, at the beginning there will be presented reasons why the EU decided to sign different agreements liberalizing trade from a historical context. Next, there will be a description of the changes that have occurred in recent years in the approach to PTAs in the European Union, with maps presenting the most recent changes within the range of EU Preferential Trade Agreements. I will also present briefly the impact of two of the European Union's PTAs (EU-South Korea and EU-Peru) on the development of mutual trade.

## The European Union and its first Preferential Trade Agreements

After World War II the restoration of economic ties between war-damaged economies became a necessity. The first steps taken for this purpose had already started in 1944

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<sup>1</sup> PTA - broad class of international agreements that include common markets, customs unions (CUs), free trade areas (FTAs), and economic unions (Mansfield, Milner 2014, p. 2)

by trying to set up an International Trade Organization (ITO). These actions proved to be ineffective due to the failure by the United States to ratify the statute of the new organization (Hanclich 2008, p. 44). As a result, the only possibility to liberalize trade was the General Agreement on Tariffs and Trade (GATT). It was an agreement signed by 23 countries to help regulate trade on a multilateral basis in 1947, and consequently it allowed almost 45,000 tariff concessions between signatories. In the following years, GATT participants repeatedly decided to increase the degree of liberalization in subsequent rounds (Annecy in 1949, Torquay in 1950 and Geneva in 1956).

In the meantime, European countries established their own economic and trade cooperation in 1952, with the creation of the European Coal and Steel Community (ECSC). In subsequent years, after the Treaty of Rome was signed, the European Economic Community (EEC) and European Atomic Energy Community (EUROATOM) were also founded. As a result, the construction of a customs union began. An essential component of the new customs union was the inclusion of the former colonies of the Member States in the trade policy. Preferences for the African, Caribbean and Pacific Group of States (ACP) were included in subsequent agreements, in Yaoundé, Lome and Cotonou, and were initially mostly addressed to former colonies of EU Member States (Woolcock 2014, p. 718). Those partial agreements (Mansfield, Pevehouse 2013, p. 592) granted ACP states preferential trade in selected segments of EU Member States' markets. This was the first step towards the creation of the intricate system of EU trade agreements.

In addition to the establishment of close economic relations with the ACP countries, the European Union in the following years signed several agreements liberalizing trade with countries from its immediate surroundings. Further, in the sixties more member states joined the European Union, resulting in an increased number of entities tied together commercially. These were all activities of a bilateral or regional nature, but apart from them, the EU countries worked actively to develop a multilateral trading system, as active members of GATT.

In the period up to the mid 90's, the main reasons for which trade agreements were concluded had been political or security considerations (Menon 2007, pp. 30-32; Woolcock 2014, p. 719). On the one hand, in Eastern Europe the socialist socio-economic system collapsed. Most of the countries decided to transform their economies into capitalist ones, but to be able to do so they needed help from Western countries, especially EU member states. Important forms of assistance were agreements which, took into account solutions liberalizing trade, among other things. On the other hand, the EU tried to support countries in Northern Africa and the Middle Eastern States because an unstable political and economic situation in that region was feared. What is important is that almost none of the actions taken then were focused mainly on developing trade. New partners characterized rather low economic potential and it indicates the main motivation of new PTA – the wish for safety.

## Multilateralism as a basis for EU action vs PTAs

In the second half of the 1980s, the 8<sup>th</sup> multilateral trade negotiations within GATT were launched – the Uruguay Round. After eight years of discussions, success was

achieved. The contracting parties agreed to form the World Trade Organization (WTO) made up of GATT 1947<sup>2</sup>, GATS<sup>3</sup>, TRIMS<sup>4</sup> and TRIPS<sup>5</sup>. In 1995, the WTO began operations and for the next five years, all member states, including the EU, had time to implement tariff concessions settled at the Uruguay Round.

In the second half of the 1990s, the priorities of EU trade policy changed slightly, especially due to the fact it was a time when the World Trade Organization began to operate. In addition, it was also a period in which the EU was preparing for the accession of 10 new Member States. This all meant that the European Union was not interested in a new PTA. At the turn of millennium, the European Union introduced a moratorium on new bilateral agreements. It was an informal consensus to give priority to the prepared Doha Development Round (Doha Development Agenda, DDA), which started in 2001 (European Commission 2004, p. 6). New trade negotiations concerned the liberalization of trade in both goods and in services. WTO members sought to establish a compromise involving several issues: agriculture, services, tariffs and non-tariff barriers, and also trade remedies. Such a large number of issues caused the delay in concluding the new liberalization agreement and for the moment there is no indication on the possibility of its completion.

Changes in the approach to PTAs started at the end of the mandate of Pascal Lamy, European Commissioner for Trade. *Because, while the DDA is certainly the most important show in town, it is not the only one. We need to look at the whole picture of the EU's trade policy strategy: we seek a balance of market opening and global rule-making, and in doing so accord priority to the multilateral dimension. This is completed with bilateral agreements aiming at higher standards and geared towards fostering regional integration.* (Lamy 2004)

Revisions that have taken place in the commercial policy of the European Union's main competitors also have an impact on EU trade policy changes. On the one hand, the United States took action in favour of new bilateral trade agreements. On the other hand, a similar trade policy has been adopted by Japan. Both players decided to negotiate PTAs with, among others, Singapore, Mexico, the Philippines, Indonesia and Thailand (Woolcock, 2014 p. 721). It may be noted that in the early years of the twentieth century the significant political motives for PTAs had become of secondary importance while commercial motivations had become the most important. These may be divided into three groups (Woolcock, 2007 p. 3):

1. neutralizing potential trade diversion;
2. forging strategic links with partners enjoying rapid economic growth;
3. implementing international trade rules.

In such a situation, although Brussels still spoke much about commitment to multilateral liberalization, the new state of affairs completely changed European Union trade policy – its approach was moved from multilateral to bilateral (Commission of the European Communities, 2006b p. 14–19).

It's not only the previously mentioned European Union, USA or Japan which have changed their behaviour in trade policy. PTAs have become very popular since the 1990s and they may be identified by a number of factors affecting their growing popu-

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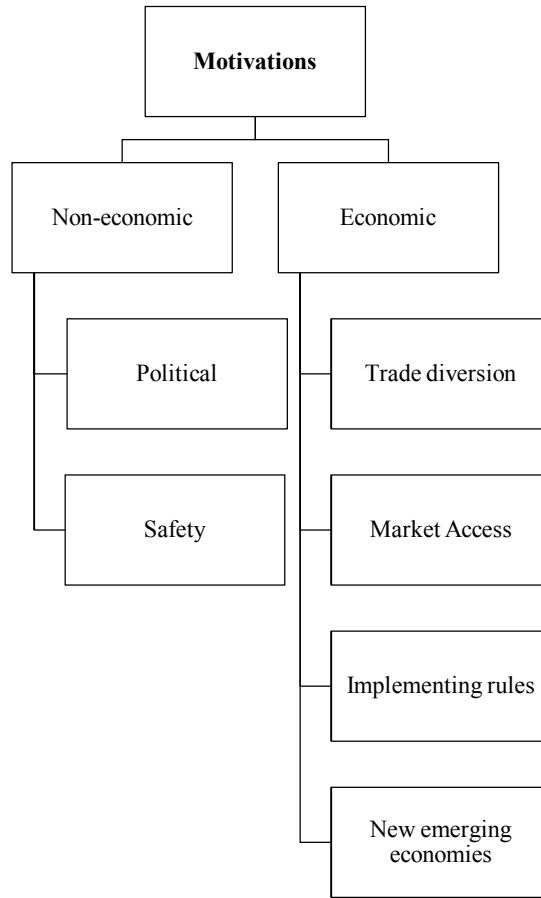
<sup>2</sup> It is an updated version of GATT 1947.

<sup>3</sup> General Agreement on Trade in Services

<sup>4</sup> Trade Related Investment Measures

<sup>5</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights

larity (Figure 1).



**Figure 1.** Motivations for creating PTAs

Sources: Author's compilation based on data from Menon 2007, pp. 30-33; Woolcock, 2007 p. 3; Woolcock 2014, p. 718–723.

## Changes in the commercial policy of the European Union since the mid-2000s

Article 207 of the Treaty on the Functioning of the European Union set down that common commercial policy shall be conducted in the context of the principles and objectives of the Union's external action. In 2006 Brussels decided in 'Global Europe: competing in the World A Contribution to the EU's Growth and Jobs Strategy' to start PTA negotiations with partners characterized by high market potential (meaning economic size and growth) and a high level of protection against EU export interests (like tariffs and non tariff barriers). Negotiations of potential EU partners in PTAs with European Union competitors should be also taken into consideration (Commission of the European Communities, 2006a p. 9). This document indicated some regions which should be carefully considered as PTA partners: ASEAN, Korea, Mercosur, India, Russia and the Gulf Co-operation Council.

The first preference for the European Union was to negotiate region-to-region agreements (Woolcock 2014, p.722). In such a case, regional agreements would be promoted which are closer to multilateral solutions. This approach is obviously more difficult, because it must reconcile different expectations and preferences. Therefore, due to the appearance of many misunderstandings, the EU decided to negotiate region-to-country agreements, as in the case of ASEAN.

The changes that have taken place within the EU PTAs' spatial distribution are best illustrated by maps (Map 1 and Map 2). The first map shows the situation concerning trade agreements in early 2007. It might be regarded as the initial state, before the PTA oriented trade policy was implemented by the European Union. There are several countries marked as potential trade partners for the European Union. Many of them are quite significant in terms of economic size and potential growth, like Canada, India, Japan or South Korea. Some of the countries are interesting for the European Union because the EU's competitors started PTA negotiations with them (e.g. ASEAN and Andean Community member countries). This may confirm that the aforementioned economic motives have become a priority for the European Union's trade policy.

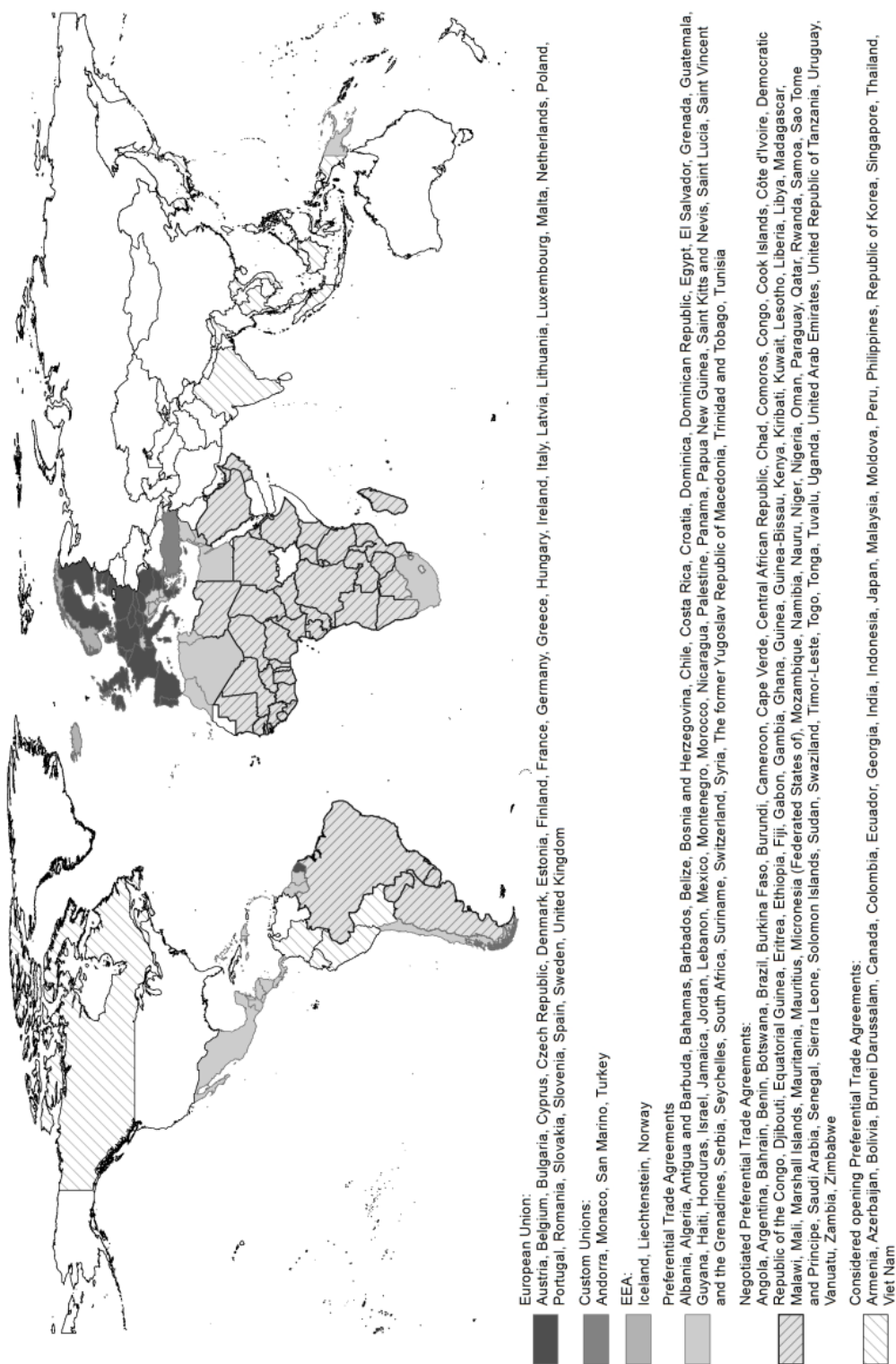
**Table 1.** European Union trade negotiations – January 2007 and September 2014

	The number of countries in 2007	The number of countries in 2014
European Union	27	28
EEA	3	3
Custom unions	4	4
Preferential Trade Agreements	42	49
Negotiated PTAs	68	75
Considered opening PTAs	19	5

Sources: Author's compilation based on data from the European Union web site: <http://ec.europa.eu/trade/policy/countries-and-regions/> (accessed 03/10/2011).

Part of the talks succeeded in subsequent years and the list of new PTAs lengthened (Table 1). One of the best examples was the negotiations conducted with South Korea. In the years 2007-2009, 8 rounds of negotiations were organized and in 2009 an agreement was signed and came into force on 1<sup>st</sup> July 2011. The main objective of the agreement is to liberalize and facilitate the trade in goods, services and investments, in accordance with art. XXIV GATT and art. V GATS. However, apart from the liberalization of trade, among the objectives there are also provisions specifying the promotion of competition, mutual liberalization of public procurement, the protection of intellectual property rights and facilitating investment. The Contracting Parties also seek to expand world trade, sustainable development and the promotion of foreign direct investment (European Union, 2011).



**Map 1.** Overview of European Union trade negotiations (01/01/2007)

Sources: Author's compilation based on data from the European Union website: <http://ec.europa.eu/trade/policy/countries-and-regions/> (accessed 03/10/2011).

**Table 2.** Import and export between the European Union and South Korea from 07/2008-06/2014 by SITC sections in €m

	Import			Export		
	07/2008-06/2011	07/2011-06/2014	% change	07/2008-06/2011	07/2011-06/2014	% change
Food and live animals	347.5	373.2	7.37%	2327.7	3,734.1	60.42%
Beverages and tobacco	37.2	52.8	41.81%	834.7	1,070.5	28.26%
Crude materials, inedible, except fuels	1,228.6	1,800.2	46.53%	2,493.3	3,172.2	27.23%
Mineral fuels, lubricants and related materials	4,179.9	5,671.5	35.69%	601.7	8,068.4	1,240.86%
Animal and vegetable oils, fats and waxes	3.6	8.5	133.28%	211.4	233.5	10.43%
Chemicals and related products, n.e.s.	5,320.7	8,599.4	61.62%	13,152.1	17,094.0	29.97%
Manufactured goods classified chiefly by material	11,237.7	13,778.7	22.61%	8,765.0	11,238.3	28.22%
Machinery and transport equipment	78,032.5	69,948.5	-10.36%	38,667.3	55,443.2	43.39%
Miscellaneous manufactured articles	8,823.4	10,788.4	22.27%	8,002.5	11,824.9	47.76%
Commodities and transactions not classified elsewhere in the SITC	613.0	459.2	-25.08%	1,116.3	1,977.3	77.12%
Suma	109,824.2	111,480.3	1.51%	76,172.0	113,856.3	49.47%

Sources: Author's compilation based on data from Traditional international trade database access (ComExt), EUROSTAT: [http://epp.eurostat.ec.europa.eu/portal/page/portal/international\\_trade/data/database](http://epp.eurostat.ec.europa.eu/portal/page/portal/international_trade/data/database) (accessed 22/11/2014).

Table 2 presents data concerning trade between the European Union and South Korea. Two sub-periods were distinguished: the first covers the three years before the EU-Korea PTA came into force, the second covers the three years after. A simple comparison of both periods enables the assessment of changes in the size of imports and exports related to the signing of the PTA. The overall change in the volume of EU exports to Korea is quite large because it increased by almost 50% between the two periods. At the same time, imports from Korea increased slightly by only about 1.5%. This indicates a significant impact of the signed agreement on the European Union's exports.

A second example of the completed negotiations is the European Union-Peru trade agreement. Talks with Peru began as region-region negotiations (the EU-Andean Community). Due to large divergences between participants of the negotiations, talks were divided into individual countries. In June 2012, the European Union and Peru signed a comprehensive trade agreement which came into force on 1<sup>st</sup> March 2013.



Although for the Union Peru is a minor partner<sup>6</sup>, the EU is Peru's third largest source of imports and one of the main destinations for its exports (European Commission, 2013a).

**Table 3.** Imports and exports between European Union and Peru between 09/2011-08/2014 by SITC sections in €m

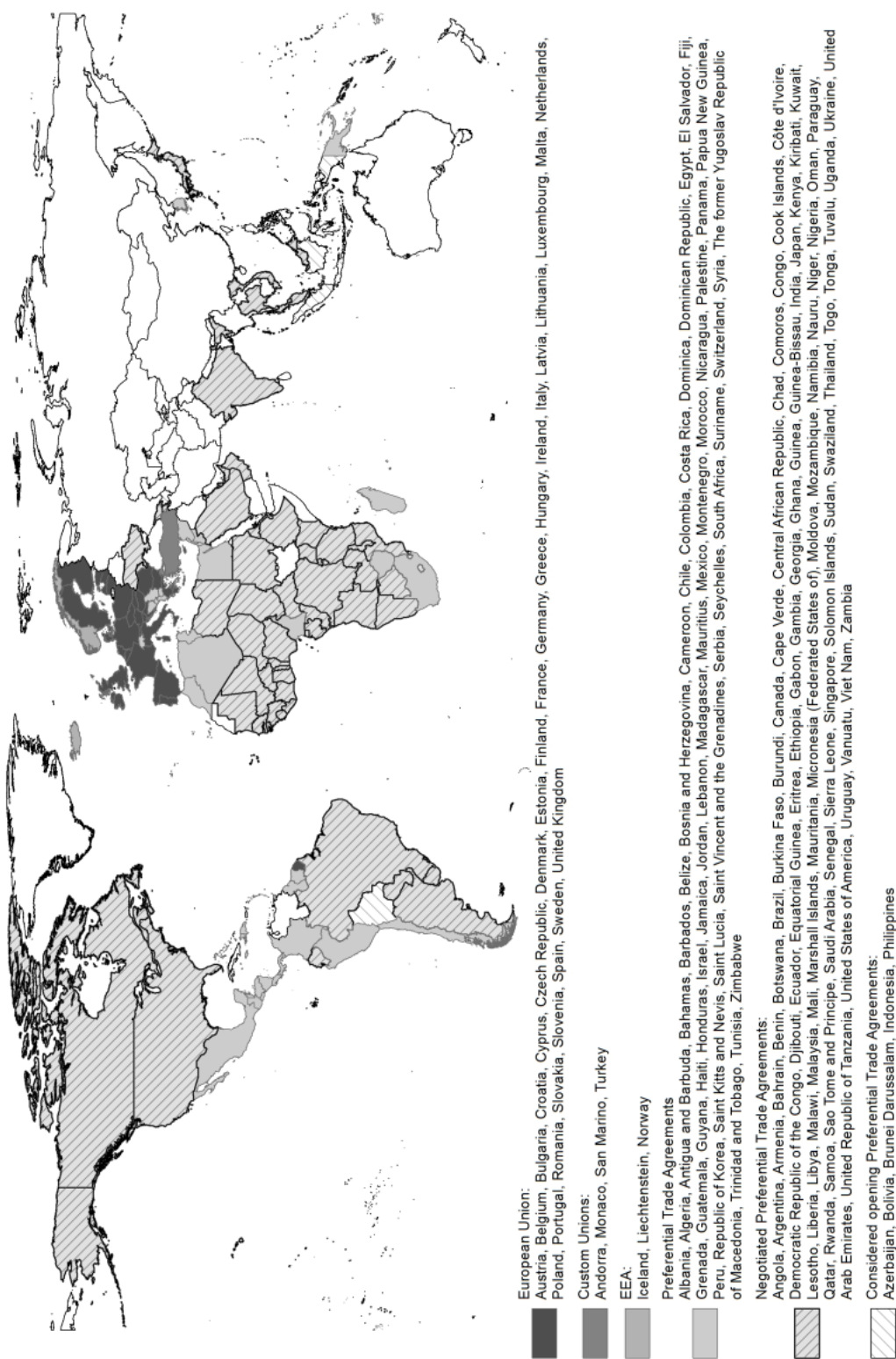
	Import			Export		
	09/2011-02/2013	02/2013-08/2014	% change	09/2011-02/2013	02/2013-08/2014	% change
Food and live animals	6,780.5	4,294.2	-36.67%	250.6	297.1	18.56%
Beverages and tobacco	10.6	8.2	-22.23%	146.0	120.2	-17.69%
Crude materials, inedible, except fuels	7,779.5	4,046.1	-47.99%	126.3	80.7	-36.15%
Mineral fuels, lubricants and related materials	2,112.1	861.2	-59.22%	142.8	84.3	-40.98%
Animal and vegetable oils, fats and waxes	470.7	214.5	-54.43%	5.6	7.7	37.09%
Chemicals and related products, n.e.s.	498.6	335.1	-32.79%	1,590.3	1,226.6	-22.87%
Manufactured goods classified chiefly by material	2,902.7	1,546.2	-46.73%	1,617.5	1,102.3	-31.85%
Machinery and transport equipment	61.9	30.8	-50.20%	6,283.7	4,649.7	-26.00%
Miscellaneous manufactured articles	378.9	218.7	-42.28%	833.4	720.8	-13.51%
Commodities and transactions not classified elsewhere in the SITC	863.4	655.3	-24.10%	132.7	122.3	-7.80%
Suma	21,858.8	12,210.4	-44.14%	11,128.8	8,411.6	-24.42%

Sources: Author's compilation based on data from Traditional international trade database access (ComExt), EUROSTAT: [http://epp.eurostat.ec.europa.eu/portal/page/portal/international\\_trade/data/database](http://epp.eurostat.ec.europa.eu/portal/page/portal/international_trade/data/database) (accessed 22/11/2014).

In Table 3, two periods covering the 18 months before and after entering into force of the EU-Peru agreement liberalizing trade have been distinguished. In this case, it is difficult to see any increased impact on the volume of trade of the new PTA. In fact, both imports and exports decreased respectively by about 44% and 24%. This shows that not every PTA contributes to a growth of the trade in goods.

<sup>6</sup> The average share of imports and exports in the exchange of goods and EU28-Peru in the years 2005-2013 in% was 0.3% in imports and 0.2% in exports (author's compilation based on data from Traditional international trade database access (ComExt), EUROSTAT: [http://epp.eurostat.ec.europa.eu/portal/page/portal/international\\_trade/data/database](http://epp.eurostat.ec.europa.eu/portal/page/portal/international_trade/data/database) (accessed 18/09/2014)).

**Map 2.** Overview of European Union trade negotiations (01/10/2014)



Sources: Author's compilation based on data from European Union web site: <http://ec.europa.eu/trade/policy/countries-and-regions/> (accessed 20/11/2014).

The second map presents the situation of European Union trade policy in September 2014 – more than seven years after the launch of the new EU commercial strategy. As a result of the announced changes in trade, the Union not only increased the number of new agreements (Table 1), but it also significantly increased the scope of countries with which negotiations are ongoing. In many cases, negotiations were completed or are nearing completion and now require only ratification (e.g. Singapore, Canada).

Negotiations on the transatlantic free trade agreement, which combines the European Union and the United States, should also be mentioned. The EU Council's decision on 14<sup>th</sup> June 2013 gave the European Commission permission to start trade and investment talks with the US. The main elements of the mandate include matters related to market access, regulatory issues and non-tariff barriers and also areas that go beyond bilateral trade – strengthening the multilateral trading system (European Commission, 2013b). It is expected that the agreement will help in creating new jobs and growth. But the discussions are still ongoing and there are, as before, many areas where it is difficult to find a compromise (European Commission, 2014). Although estimates assume huge profits for both contracting parties, the term of reaching an agreement is still not known.

## Conclusion

Recent years have not led to progress in WTO multilateral negotiations. The Doha Round is far from a success, while more and more countries and regions, including the EU or USA, successfully use PTAs to conduct their own trade policy. What does this mean for the further development of Preferential Trade Agreements and the multilateral trade system in the context of European Union?

The EU is currently a member of about 50 PTAs<sup>7</sup>. The solutions introduced in the European Union's trade policy have created a kind of 'spaghetti bowl'. This has resulted in the Union's trade policy being complicated and, further, it is still subject to change. From the economic development point of view, participation in many PTAs might help EU exporters entering other markets (as in the case of the EU-Korea agreement). However, it is not always possible, as in the case of the EU-Peru PTA. This shows that it is necessary to choose the appropriate partners for trade negotiations.

Due to the fact that in the past few years the European Union has succeeded or nearly completed several important trade agreements, and moreover the EU's competitors follow the same path, PTAs seems to be more and more popular. One of the most important new agreements that are likely to arise in the coming years is the already mentioned Transatlantic PTA. The EU and USA are for each other major trading partners and, consequently, the new agreement will cover a large part of world trade.

To conclude, nowadays an essential tool of economic development and export promotion are PTAs, and multilateral solutions offered by the WTO are rather supplementary. Preferential trade agreements have become one of the primary means of creating modern foreign trade policy of the European Union. Therefore, the EU should continue

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<sup>7</sup> Information from the WTO Web site: [www.wto.org/english/tratop\\_e/region\\_e/rta\\_pta\\_e.htm](http://www.wto.org/english/tratop_e/region_e/rta_pta_e.htm) (accessed 23/11/2014).

to seek beneficial trading solutions based on Regional Trade Agreements. Increased efforts should be directed to successful and quick completion of negotiations, especially with important trading partners.

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## Summary

Changes which have taken place in recent years in the foreign trade policy of the European Union are quite important and in particular include its attitude towards preferential trade agreements (PTAs). Although the EU's trade policy history shows that PTAs have been used in the past, only in recent years has their importance increased. The Union is now linked to about 50 different trade liberalizing agreements. With the change of motives for undertaking bilateral negotiations, the spatial extent has also changed. Preferential trade agreements have become one of the primary means of creating the modern foreign trade policy of the European Union.

## Streszczenie

Zmiany w preferencyjnych umowach handlowych Unii Europejskiej

Istotne zmiany, które zaszły w ostatnich latach w polityce handlowej Unii Europejskiej, w szczególności obejmują nastawienie do preferencyjnych umów handlowych. Choć unijna historia polityki handlowej pokazuje, że były one już wykorzystywane w przeszłości, to dopiero w ostatnich latach ich znaczenie wzrosło. Obecnie Unia jest związana około 50 różnymi umowami liberalizującymi handel. Wraz ze zmianą motywów podejmowania negocjacji dwustronnych, zmieniał się także ich zakres przestrzenny. Preferencyjne umowy handlowe stały się jednym z podstawowych środków kreowania współczesnej polityki handlowej.

**Słowa kluczowe:** handel międzynarodowy, polityka handlowa Unii Europejskiej, porozumienia handlowe

**Key words:** international trade, trade policy of the European Union, trade agreements

**JEL:** F13, F15