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The effectiveness of EU external economic policies

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Stephen Woolcock

Introduction

This paper argues that the effectiveness of European Union in international economic institutions is shaped by four main factors; the allocation of formal competence to the European Union; the existence of an established decision-making regime, which could be called de facto competence; a consensus on framework norms for the policy area; and market power. The existing literature on the EU in international relations has been largely shaped by discussion of foreign policy so this paper aims to tailor the existing approaches to make them more applicable to the EU’s role in international economic relations. The paper elaborates the four key factors before discussing a number of related factors and then illustrates how these key factors have shaped the effectiveness of EU policy in the fields of trade and investment; finance and the environment.

A note of the existing literature

Much of the literature on the EU’s external role and its effectiveness in international relations has focused on foreign policy. Although there have been some important contributions on EU policy in specific international economic policy areas there is much less on the general factors that determine the effectiveness of the EU in these policy areas in which it has an existing role. (Sapir, 2007 is a notable exception). The literature on the EU as an actor has also been extended to look at the EU as an actor in a number of non-classical foreign policy areas, such as the environment (Vogler, 2009) and development (Orbie and Versluys, 2009). The literature on the EU as an actor has also been largely shaped by a concern with foreign policy. This branch of the literature on the EU’s external role has focused on the attributes (identity, recognition, coherence, autonomy, etc.) that any real actor on the international stage should have and then discusses whether the EU possesses these. Whilst it is possible to apply this framework to the EU in external economic relations (see Woolcock, 2010) the focus on actorness tends to result in a rather inward looking analysis. In other words it asks whether the EU possesses the attributes, but does not look at how the EU interacts with other economic powers or negotiators.

There is also an increasingly rich literature on the EU’s role or rather its policies in a number of substantive policy fields such as those considered in the case studies here (Vogler, 2005;
Dür, 2008; Elsig, 2002; Meunier, 2000; Veron 2007; etc.). Most of these contributions look at substance and process, but there is little effort to provide comparisons across policy areas. The literature on the EU as a normative power has also shaped thinking on the role of the EU in international relations in general. Whilst a valuable concept, normative power ideas need to be applied to the realm of international economic policy if they are to help us in understanding the role of the EU in international economic institutions or negotiations.

Not all the literature is focused on factors internal to the EU. There have also been some very valuable contributions on what, for want of a better word, might be called the negotiating power of the EU. This draws on the observation that international economic relations have been and remain largely based on reciprocity (Dür, 2008). The effectiveness of the EU in any given context will be determined by its market power and its ability and willingness to use this power. The EU’s effectiveness in international economic negotiations will be shaped by its relative economic power, something that is generally rather easier to assess than relative power per se. It also helps to ensure that we do not forget the realities of the wider international economy that will shape and perhaps be shaped by EU external economic policy.

This chapter draws on this existing literature on the EU in international relations in order to propose a more general framework for assessing EU external economic policies.

An analytical framework

This section discusses the four key factors shaping EU external economic policies in no particular order of importance. It should be stressed that the degree of integration or cohesion in each case can be seen as the product of the influence of member state and sector interests over an extended period of time. In other words de jure or de facto competence is the result of intergovernmental action or negotiations over decades. Equally, a consensus of framework norms is the product of negotiation and dialogue within the EU over an extended period. The framework therefore tends to focus on the medium to long run factors that shape the EU’s effectiveness in international economic negotiations. In any given negotiation there will also be specific sector interests at stake as the detail of any agreement will determine the allocation of costs and benefits between member states and sectors.

Competence

Competence is seen as central to the effectiveness of EU policies and to its role as an actor. In order to understand the impact of competence on the effectiveness of the EU in international economic policy issues, however it is necessary to look beyond simple de jure competence. EU external trade policy can be said to have been relatively effective compared to other areas of EU external economic policy, but for much of the post 1958 period the Commission was engaged in General Agreement on Tariffs and Trade (GATT) negotiations on agenda items that were largely mixed EC and member state competence. Some issues (tariffs) were clearly EU (or European Community) competence, whilst others (such as the non-tariff and regulatory issues) were either mixed or member state competence. The Treaty of Rome gave the EEC exclusive competence for the Common Commercial Policy (CCP), but the CCP was never defined so neither was the scope of EEC/EC exclusive competence. Therefore it could be said that EU external trade policy has been relatively effective despite the absence of de jure competence.

Today Art 207 of the Treaty on the Functioning of the European Union (TFEU) has extended EU exclusive competence to include services trade and trade related intellectual property rights, issues that were fought over in previous intergovernmental conferences.
TFEU also extended exclusive competence to foreign direct investment (FDI), but as in the case of CCP, there is no exclusive definition of FDI in the treaty, so there remains some uncertainty about the scope of EU exclusive competence in this field just as there was for trade policy in the past. As the EU presses ahead with more and more comprehensive trade and investment agreements, at least at the bilateral or preferential level rather than the multilateral level in the World Trade Organization (WTO), negotiations are very likely to include some element of mixed or member state competence. For example, inclusion of criminal sanctions for non-compliance with intellectual property right protection falls under member state competence. Thus whilst almost all trade and investment issues now fall under exclusive EU competence following the adoption of the treaty of Lisbon, member state ratification is still required in many cases.

In external environmental policy there has also been mixed competence, with the member states retaining the power to engage directly in international environmental negotiations and retaining reserved powers, such as on issues affecting the structure of energy supply or taxation. In the environment however, extensive EU competence for internal policies has enabled the EU and the Commission in particular to shape EU external environmental policies. The Commission now interprets the Treaty of Lisbon as providing for only one (Commission) representative/negotiator in international environmental negotiations. Just as the Treaty of Lisbon has perturbed the existing practice in terms of trade negotiations by adding FDI to exclusive EU competence, so has it in the case of environmental negotiations.

In the field of international finance EU competence is far more limited. There is EU competence for capital movements both within the EU and between the EU and third countries (Art. 64 TFEU), but member states have retained powers in the supervision of financial markets (Art. 65), which has arguably slowed integration in financial markets. Unlike the Single European Market for goods (the domestic source of EU external trade), EU internal policies in the field of financial regulation have been slowly developing. It is necessary to distinguish between different subsidiary fields of finance. In financial market regulation there is EU competence for regulation, but with the carve-out for supervision, in other words how regulations are applied. In fiscal policy, such as any coordination of fiscal policy at an international level in the G20 or the IMF, member states are competent. In the field of monetary policy there is the fully independent supranational European Central Bank (ECB), but also some member state central banks active in setting interest rates and monetary policy.

If de jure competence is important then an extension of exclusive competence will enhance the EU’s ability to influence international economic relations and its effectiveness in international economic institutions. In this sense the Lisbon Treaty, by extending EU exclusive competence could be said to have increased the EU’s ability to influence. Table 23.1 below provides a simplified overview of the formal competence issue.

**Normative power**

It will be argued here that consensus on overall policy objectives is a necessary but not a sufficient prerequisite of effective EU policy. Before the EU can be effective in international economic policy or in international institutions there clearly has to be agreement on the EU’s objectives. Normative power is generally seen as the EU exercising influence by virtue of its own internal policies or in its role as a model for wider international relations (Manners, 2002). In order to be able to apply the concept of normative power to EU external economic policies it is suggested here that a distinction be made between three types of norms: general, framework and specific norms. General norms are those set out in the treaty (Art. 205 with ref. to chapter 1 Title V of

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the TFEU), namely rule of law, democracy, human rights and good governance. These are very
general norms and clearly not distinctive EU norms. When the EU includes such general norms in any agreement it is difficult to determine when it has been the EU that has shaped an outcome. For example, recent EU preferential trade agreements have all included a general human rights clause. But if Colombia moves towards adopting stronger defence of human rights, is this due to the EU–Colombia agreement, to the US–Colombia FTA or some other factor? There are also some rather more specific objectives including ‘sustainable development, social and environmental development, the eradication of poverty’ as well as the ‘integration of all countries into the world economy, including through the progressive abolition of restrictions on international trade’. These are equally not distinctively EU norms so again one faces the difficulty of assessing their impact.

Such general norms should be distinguished from what might be called framework norms. These norms are those that embodied a broad consensus on the aims and approach to market regulation (or to the balance between the market and authority) (Woolcock, 2012). An example of a framework norm would be the consensus reached on the need to liberalise as part of the European Single Market (SEM) initiative in the 1980s and 1990s, but within an agreed regulatory framework ensuring minimum standards, competition and other essential policy objectives including social and environmental aims. Agreement on such framework norms can be said to facilitate both the adoption of the more detailed provisions of the acquis communautaire as well as an active engagement of the EU in international economic policy-making. A rather over simplistic way of illustrating the point is to argue that in the case of the SEM in the 1980s the member states had a choice between relatively dirigiste or liberal approaches to strengthening European competitiveness. In the end the approach adopted was closer to German Ordnungspolitik that is based on competition, but within a regulatory framework designed to ensure other policy objectives are achieved. As the discussion of trade below will show, progress towards a single market was slow before this consensus emerged in the 1980s and the EU tended to adopt a defensive position in international negotiations. After the broad consensus on framework norms had been agreed, progress on the SEM was rapid and the EU adopted a far more active role in the Uruguay Round of trade negotiations. It is also possible to distinguish this framework norm from neo-liberalism, which best characterises US policies and the more interventionist policies of many Asian economies.

<table>
<thead>
<tr>
<th>Policy area</th>
<th>Internal policy</th>
<th>External policy</th>
<th>Negotiator</th>
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<tbody>
<tr>
<td>Trade and investment</td>
<td>Exclusive EU competence (Title IV Chapters I-III TFEU)</td>
<td>EU exclusive competence (Art. 207 TFEU), very limited residual MS competence</td>
<td>European Commission</td>
</tr>
<tr>
<td>Financial market regulation</td>
<td>EU competence for regulation (Art. 64 TFEU), but member states retain competence for supervision (Art. 65 TFEU)</td>
<td>Mostly member state or mixed competence</td>
<td>Member states, but Commission for topics that are EU competence</td>
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<tr>
<td>Environment</td>
<td>Mostly EU competence (Art. 192 (1) TFEU), but with some areas reserved for member states (Art. 192 (2) TFEU)</td>
<td>Mixed competence (Art. 191 (4) and last paragraph TFEU)</td>
<td>Commission or presidency, but behind a single EU ‘flag’</td>
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Specific norms then take the shape of regulatory norms or standards. These are often codified in the *acquis communautaire*. So EU normative power with respect to specific norms could be measured by the degree to which the international regulatory framework for markets reflects the EU *acquis*. In practice, however, many such norms are derived from wider international norms (Woolcock, 2008). The case studies show that in the area of trade and investment, environment and finance, the regulatory standards introduced in the EU are often developed elsewhere. Again to illustrate the point it is helpful to draw on the discussion of trade below. Many norms subsequently applied in the *acquis* were developed in the OECD where US influence has been important. Of course, EU member states participated in discussions on how to deal with technical barriers to trade and government purchasing in the 1970s, or services in the 1980s. But there was no common EU position defined before such discussions, so the norms developed were as much the product of agreement between individual member states and the United States or other OECD countries. In drafting the directives and regulations of the *acquis*, the Commission and member states have drawn heavily on ideas developed in this international forum. The fact that the norms are not EU norms, but general international norms does not of course mean that the EU has no influence. If the EU as one of the major markets in the world applies a specific standard, it can have a profound impact. But if the EU is following international norms and practice, can one say that the EU has normative power?

On the basis of the discussion above the hypothesis with regard to EU normative power in international economic relations is that EU effectiveness is enhanced through the establishment and maintenance of a consensus on EU framework norms.

**Economic or market power**

The ability of the EU to influence outcomes is also dependent on its relative economic or market power and its willingness to use such power. In economic relations relative power is more easily measured than power in the context of foreign policy or international relations in general. In international economic negotiations, market power remains very important. All policy outcomes are shaped by market power, norms and institutional factors and the balance between these factors will vary from issue area to issue area, but reciprocity or a broad balance of costs and benefits has been an underlying principle in almost all international economic relations and negotiations. The EU’s relative market power must therefore be included in any assessment.

In a reciprocity based system, market power is determined by the size of the domestic market and what sort of concessions the EU is able and ready to make in order to get reciprocal concessions from the other parties. The EU remains a major – if not the largest – single market and thus retains significant economic power. Market size is also a factor of the depth of market integration in the EU and thus the degree to which the EU arrives at the table to offer access to the whole EU market. Economic growth prospects must also be factored in. During the early years of European integration the creation of the common market stimulated dynamic economic growth that enhanced the EEC’s leverage. Market power also depends on how open one’s market is. In sectors where the EU is relatively closed, such as agriculture, it could be said that the EU has more market power than in goods for which the EU market is already largely liberalised. In sectors where the EU has liberalised (either in earlier negotiations or unilaterally as a result of EU policies), its market power could be said to be less because it has less to ‘put on the negotiating table’.

In a broadly liberal policy regime, market power can only be enhanced by increasing the size and/or depth of the EU market. The scope to use threats of market closure can of course be
used and perhaps even carried out, but for this to occur, a clear majority of member states favouring such a negative policy would be needed. The EU is also bound by international agreements with regard to access to much of the EU market, such as with regard to tariffs, investment and services. Market power may, however, be enhanced (whether intentionally or not) through the adoption of internal EU regulations that have the effect of limiting access to the EU market or making it more costly.

The decision-making regime

The EU can only wield market or economic power if it has an effective decision-making regime both for deciding on EU agreed preferences in any given issue, as well as in negotiations. In the latter the EU has to respond to the positions and demands of other parties. This means that the principal-agent relationship in any international negotiation or international institution will be critical. The argument put forward here is that the effectiveness of the EU depends on whether there is an established de facto decision-making regime governing the key principal agent relationship in any instance. This will vary depending on who is the agent but the decision-making regime must encompass the various EU institutions, member states and other stakeholders and consist of a common understanding on how decisions are reached, negotiations conducted and agreements ratified. This is not just about the de jure position. With exclusive EU competence, the legal basis for decision-making is a qualified majority vote, but in practice all key decisions are based on consensus. According to the treaty provisions before the Lisbon Treaty, the Commission would negotiate for the EU when there is exclusive EU competence, but as noted above the Commission has negotiated on mixed competence issues for years in some policy areas. There have been various forms of supervised delegation to agents that are sometimes the Commission and sometimes experts from member states. The adoption of the Lisbon Treaty provides for one formal procedure for all external relations in Article 218 TFEU, but how this is to work in practice remains to be established in some policy areas.

If EU effectiveness depends on such an established regime, enhancing effectiveness means ensuring that such a regime exists. The historical evolution of the EU’s role in various policy areas suggests that this type of regime needs time to evolve and cannot be legislated or adopted in a specific code. Such a regime would develop through the historical evolution of institutions or socialisation of decision makers. But again it would be too limiting to consider only internal factors, external factors are also important. One such external factor takes the form of demands on the EU to engage in negotiations. When the EU is challenged to negotiate, the EU institutions and member states must decide whether the costs of a loss of a seat at the table are outweighed by the benefits to be gained from having a single voice represent the EU. The nature and intensity of external drivers may also be important. In the case of trade, there has been more or less constant pressure on the EU to adopt a common external position in consecutive multilateral trade rounds since the early 1960s (Dillon, Kennedy, Tokyo, Uruguay and Doha Development Rounds). While this pressure has been continuous it has seldom been very intense. Only in the final stages of a negotiation does the EU tend to come under intense pressure to reach a common position. This is at odds with the view that progress towards integration comes as a result of crises that force a change in established practice. The hypothesis here with regard to decision-making regimes is that the nature of the EU means that sudden crises are more likely to lead to member state rather than common EU responses and that to be effective in international economic relations, the EU needs time for decision-making regimes to be established.
Member state and sector interests

This framework has not explicitly included member state and sector interests, which clearly shape EU external economic policies. From an analytical point of view there is a difficulty because member state and sector interests will vary from case to case with differences often within a given policy area. An assessment of member state and sector interests therefore requires a detailed analysis of each specific negotiation in order to assess the distribution of the costs and benefits of various EU policy options between member states. Otherwise heterogeneous member state interests will be aggregated in the *acquis communautaire*.

Some generalisation may, however, be possible with regard to core member state interests, such as retaining national competence over key areas of policy. For example, fiscal policy is an area in which member states have sought to retain national sovereignty, so that any linkage between EU external policies and tax or fiscal policy will mean member state resistance to developing common EU positions. In climate change efforts to support EU climate change policy with carbon taxes or spending under the Clean Development Mechanism (CDM) in the United Nations Framework Convention on Climate Change (UNFCCC) negotiations have been impossible or difficult to agree upon for this reason. Stronger EU-level supervision of pan-EU banking and other financial institutions has also been constrained by a lack of agreement on *ex ante* financial burden-sharing between member state governments in the event of a failure of a bank or other financial institution.

Member state interests will also play a role in the sense that the political utility functions of governments may lead them to promote or block decisions at the EU level for reasons unrelated to the specific policy concerned. Governments can block decisions for electoral reasons, as was the case in agricultural trade during the final stages of the Uruguay Round negotiations. More recently, the British government blocked discussion of EU regulation of hedge funds until after the May 2010 UK general election.

An illustration based on the three cases

This section illustrates the use of the analytical framework in the three cases discussed.

Trade and investment

Thanks to exclusive competence granted to the EEC for the CCP in the Treaty of Rome, the EEC was recognised as an actor distinct from the EU member states from the very beginning. It was the European Community (EC), in the shape of the Commissioner responsible for external trade, not the member states that participated in the ‘quad’ during the 1980s. The picture has been different in the bodies such as the OECD, which was important in shaping the norms on which the trade regime was based in the 1970s and 80s. Here the member state governments were recognised alongside the Commission. Today the Commissioner for Trade is recognised as the actor when trade is discussed in the various forums and groupings both inside and out of the WTO. Competence is important for the EU to be recognised, but he EU also has formal, *de jure* recognition as a signatory of the WTO. Member states are also members of the WTO, but it is only the EU that speaks. It is also worth noting that member state representation in the WTO is non-hierarchical, in other words all EU members are of the same status. The nature of member state representation in international institutions has been seen as having effects on the level of cooperation between member states within the EU. The hypothesis is that non-hierarchical representation in international organisations fosters greater cohesion between the member states, as in the case of the WTO, but hierarchical representation hinders cooperation (Reiter, 2009).
As discussed above, the case of trade shows that while recognition of the EU as the negotiating partner in any international negotiation is likely to be associated with formal competence, this is not automatically the case. As the international trade and investment agenda deepened, new issues were added, such as technical standards and government procurement in the 1970s and services, investment and intellectual property in the 1980s, for which the EC did not have exclusive competence. Member state governments argued that these issues remained mixed or member state competence, but they were pragmatic when it came to negotiation and agreed that the Commission should negotiate with a single voice for the EC. The same was the case for services, TRIPs and investment negotiations in the Uruguay Round, even though there was no de jure exclusive EC competence in these policy areas.

In successive intergovernmental conferences (IGCs), the European Commission argued for an extension of exclusive EC competence for trade to cover all topics under negotiation, but the member states resisted, even as de facto competence was shifting to the EC. What resulted was an Echternach procession (Bourgeois, 1995) in which the EU appeared to take two steps forward towards greater EC competence only to then take one back. In the Maastricht IGC (1991) the scope of EC competence was constrained and any prospect of a greater role for the European Parliament checked. In the Amsterdam IGC (1996) there was some forward movement in the shape of the enabling clause in Art. 133(5)(TEC), which provided that the member states (acting unanimously) could extend EC competence to any topic or sector of trade without there having to be a formal treaty change. But the enabling clause was never used. In the Nice IGC (2001) EC competence was extended to services, but some sensitive sectors (health and educational services and those services relating to cultural diversity) were excluded. Interpretations of the treaty provisions by the European Court of Justice have also shaped the evolution of competence. Initially, the ECJ tended to favour the extension of exclusive competence in decisions such as the AETR decision of the ECJ. Subsequently, the ECJ limited the further extension of competence in the 1/94 decision on the legal basis for the adoption of the results of the Uruguay Round (Eeckhout, 2004: 59). A major change came, however, with the draft Constitutional Treaty and the Treaty of Lisbon which has extended formal competence to services and TRIPs, but more importantly also to foreign direct investment.

**Normative power**

As noted above, measuring the EU’s effectiveness in promoting the general norms set out in the General Provisions on the Union’s External Action (TEU Art. 21) such as security, the rule of law, human rights and peace through trade policy is likely to be inconclusive. The EU includes human rights clauses in its preferential trade agreements, but by means of soft, i.e. non-binding laws. Although one test would be how willing the EU is to use powers to withdraw benefits from trade agreements when it finds that human rights are not being protected. Assessing the impact of trade policy on ‘encouraging the integration of all countries into the world economy, including through the progressive abolition of restrictions on international trade’ (Art. 21(2)(e)TEU) is equally difficult. But in these policy areas the provisions are not very extensive and it remains too early to tell.

One general norm where the EU has not been very effective is in promoting regional integration in other regions through the negotiation of region-to-region agreements. The only region-to-region agreements to date (2012) that could be said to have been completed successfully are the EU–Cariforum and perhaps the EU–East African Community Economic Partnership Agreements (EPA) and the EU–Central America agreement. But in these cases there was already strong integration dynamics, which raises doubts that it was the prospect of an agreement with the EU
that promoted regional integration in the EU’s partner region. It seems equally likely that region-to-region agreements are facilitated by previous integration in the region concerned. It is difficult to find much evidence of success in any of the other region-to-region negotiations. The EU–Mercosur negotiations broke down in 2004 (one of the few instances in which the EU has walked away from a negotiation, although talks were restarted in 2010). The EU opted to negotiate with individual members of the Andean Community (Peru and Columbia) rather than with the Andean Community as a whole. It has now moved to do the same with individual members of ASEAN (Thailand, Singapore and Vietnam) rather than with ASEAN. Likewise in the case of most EPAs, the EU has negotiated with individual ACP states rather than wait for the ACP region to make progress towards integration before concluding an agreement.

If general norms do not seem to have a clear impact on EU policy effectiveness, the existence of a consensus on framework norms has been important in trade. As mentioned above, the member states effectively reached such a consensus as part of the SEM process and this broad consensus does seem to have resulted in the EU adopting a stronger, more influential role during the Uruguay Round (Woolcock, 2005). After reacting to US initiatives on trade negotiations for decades, the EU emerged as an equal partner with the US in the Uruguay Round. The EU’s support for a more liberal, rules-based multilateral order meant that advances were possible towards such a policy within the WTO. EU-specific norms are largely codified in the *acquis communautaire* for goods and services, and the EU has had some success in getting these norms adopted internationally. The Uruguay Round agreements on technical barriers to trade, subsidies and countervailing duties, government procurement and services, all reflect elements of the EU *acquis* (Woolcock, 2008).

From the mid–1990s onwards, the EU then aspired to a form of leadership in international trade, by proposing the launch of a new, comprehensive multilateral round that was ultimately to become the Doha Development Agenda (DDA). The EU’s aim here can be seen as one of promoting stronger international rules for trade and investment along the lines of the framework norms developed within the EU during the 1980s and early 1990s. But the EU had little success in promoting this comprehensive agenda. The ambition of the DDA was progressively reduced until it became a conventional market access negotiation (on agriculture and industrial tariffs). Even efforts to get some movement towards the more specific norms of the EU in the so-called Singapore issues (government procurement, competition and investment) failed despite EU efforts. The reason for this failure is probably to be found in shifts in relative market power. Therefore while the EU could be said to have normative power in trade relations, this did not prove to be sufficient.

**Market power**

From the beginning, the European Economic Community (EEC) possessed market power through the creation of a customs union, and the EEC was then able to use this power to bring about reductions in US and other countries’ tariffs during the Kennedy Round of the GATT (Dür, 2008). The 1970s were characterised by stagnation in European integration, a period that coincided with a passive or defensive EU position in international negotiations. Agreement to negotiate as one meant the EU was able to achieve its defensive aims of blocking liberalisation of agriculture and multilateral disciplines on national industrial policies. The Single European Market (SEM) programme in the late 1980s and early 1990s meant that EC trade policy held the key to a wider and deeper market. This leverage enabled the EU along with the United States (and to a lesser degree other members of the ‘quad’), to shape the international trade regime throughout the Uruguay Round of the 1980s and early 1990s. But during the 1990s the EU’s relative market power in the field of trade did not increase. The US economy grew faster
over the decade thanks to productivity gains from the rapid application of information technology and from debt-financed consumer-led growth. In the 2000s relatively fast economic growth in large emerging markets with relatively high bound tariffs, such as China, India and to a lesser degree other emerging markets, has reduced the EU’s relative market power.

Market power in trade negotiations is determined by market size, but also the EU’s ability and willingness to use it. The EU has negotiated away or unilaterally ceded much of the market power in the sense that it can now bring relatively less to the table in terms of an ability to offer concessions. As a full participant in successive multilateral trade rounds, the EU has bound tariffs for industrial goods in the order to 3–4 per cent, but higher rates for agricultural products. The generally liberal nature of the SEM could also be seen as constituting a degree of unilateral liberalisation vis-à-vis third countries (Hanson, 1998). The SEM significantly enhanced transparency and introduced a rules-based system of regulation within the EU that made the EU market more open to competition from suppliers within the EU, but also from those outside. Furthermore, there is no qualified majority among member states, let alone a consensus in support of threatening to close the EU market. Liberal member states see strict definitions of reciprocity as economically counterproductive. The EU’s relative market power is therefore in decline. By itself the EU was never going to be able to determine the outcome of the DDA, but as one of a number of major markets including the emerging powers grouped together in the G20, the EU simply did not have enough to offer (in terms of access to markets) to shape the outcome of the DDA.

The decision-making procedures

In the case of trade, the de facto decision-making regime has emerged over a period of more than fifty years. Within the Art. 113 and then the 133 Committees, senior trade officials appear to have gone through the kind of socialisation process described by constructivists and began to identify with EU aims in trade policy rather than just member state aims. Decision-making in EU trade diplomacy has also become easier because more and more trade policy is based on the domestic acquis. There are few areas where there remains a need to aggregate the various member state positions. When it comes to negotiation, there have been setbacks and periods of difficulty when the Commission did not have the full confidence of the member states, but as time has moved on the regime appears to have worked more smoothly. With time, there has also been a shift towards more decision-making in Brussels, with some member state governments reducing the resources they commit to trade policy, sometimes to the detriment of policy-making in terms of properly holding the Commission to account. This can be seen in the steady growth of the influence of the Commission thanks to the strength of DG Trade and other directorates general in the field of trade policy. The Lisbon Treaty, by granting the EP more powers, also adds to the trend towards more decision-making in Brussels, but poses a challenge for the future in how to integrate the EP into the established decision-making procedures.

The pragmatic response to demands on the EU to negotiate mixed competence trade rounds meant that the Commission assumed role of the agent, but that the member states as principals could veto any Commission position thanks to the shared or mixed competence factor. A system of supervised delegation was therefore developed that satisfied the member states because they had tight control over the Commission, but which nevertheless enabled the EU to speak with one voice. This form of supervised delegation worked well when there was mutual trust between the Council and the Commission, but failed when there was no such trust. The ability of the Commission to negotiate was dependent on member state confidence that the Commission would not ride roughshod over any member state interest during a negotiation. When this confidence was not present, member states intervened to control the negotiations.
Finance

In the field of finance, de jure competence, and to a large extent de facto competence, remains with the member states. This has had the result that it is the member states that are generally recognised as the negotiating partners in many international financial negotiations. This has long been the case in the G7 finance ministers and remains the case for the G20. The only time the Commission is recognised is when there is discussion of a topic that is EU exclusive competence. Member states are also recognised in the IMF where the only recognition for the EU is for the ECB and chair of the Eurogroup when the Euro is being discussed. In the international bodies that shape financial regulatory standards, such as the Basel Committee on Banking Supervision (BCBS) it is the national supervisory authorities or central banks that are recognised.

Representation of the EU member states in the various international organisations is also hierarchical. Some member states have permanent chairs on the IMF Executive Board, others do not, some are members of the G20, others are not, some are on the FSB, and others are not. This hierarchical representation contributes to poor policy coordination within the EU as member states with permanent seats feel free to pursue their own policy preferences and resist common positions that constrain their options.

There is EU competence for financial market regulation within the EU, although even here there is the carve-out that allows national regulatory bodies to continue with the supervisory role. Thus even in the field of financial market regulation it is member state governments or agencies that negotiate, and coordination takes place with third countries in bodies such as the BCBS and other equivalent bodies for insurance and securities activities at the same time or often in advance of that within the EU. This enables member states with a privileged representation to have a direct input into the international debate, rather than having to fight for their position in the EU first. This is important in financial market regulation where the British, for example, have held positions closer to those of the US than many of their EU partners. When member state governments coordinate with third parties, the focus of negotiation clearly becomes the international rather than the EU level. This has been the case in the G7 finance ministers meetings or G8 summits, and is likely to be the case in the G20.

Normative power

EU normative power in financial market regulation is weak because there is no agreement on framework norms. This is in large part due to a divergence between the Anglo-Saxon approach to financial markets favouring a large and open capital market able to compete internationally with other capital markets and thus favouring ‘light touch’ regulation, and the other major EU member states that have placed less emphasis on the competitiveness of financial market and more on the role of finance in funding economic development. It remains to be seen how the experience of the 2008 financial crisis will affect these two views, but without major structural changes in the scale and nature of the various European capital markets, differences are likely to persist. The difference of views has never been fully reconciled within the EU, which for many years during the 1990s opted for a form of competition between the different member state approaches. German initiatives in 2000 and 2007 that tried to include hedge funds in tighter regulation were blocked by the UK and the US, but the recent crisis has strengthened the position of the critics of the Anglo-Saxon shareholder value model.

Despite a lack of agreement on the framework norms governing financial markets, the EU has sought, with the Single Financial Market (SFM) initiative of 1998, to achieve broad equivalence of regulatory standards. But the lack of consensus on framework norms was
accommodated by flexibility in the many of the directives that left scope for a continued variation in national approaches and standards. Member state discretion on implementation of EU provisions is not unusual, but when the crisis struck in 2008, this lack of uniform standards exacerbated the problems as funds flowed to member states that offered, for example, more favourable protection of deposits. One feature of the finance case is that the EU has tended to adopt specific norms or regulatory standards that have been developed at the international level. Efforts to develop specific EU standards or norms in the field of financial market regulation have been blocked by those whose fear weakening the competitive position of EU capital markets (essentially the British) has been greater than their fear of financial instability. As a result, the EU has followed international standards rather than led in shaping them as would perhaps be expected of a body with normative power (Posner and Veron, 2010).

There are numerous examples of the EU following rather than leading in the adoption of international standards. The EU Capital Requirements Directive of 2006 adopted the Basel II rules established in the BCBS in 2004. When Basel II was judged to be inadequate, because its capital requirements worked pro-cyclically, the Commission proposed amendments, but only after these had been agreed in principle in the G20.\(^3\) With regard to guarantees for depositors, the European Commission had for some time sought to introduce uniform rules, but member states watered down Commission proposals and insisted on retaining flexibility on the guarantees they provided. When the crisis struck and depositors threatened to shift funds to banks whose governments offered higher guarantees, the member states agreed to more harmonisation, but again the EU action came only after this policy had been agreed internationally in the G20.

When the EU gets close to leading in the application of specific rules, such as in the case of regulation of hedge and other alternative investment funds or in a somewhat different context, the issue of the Tobin tax on financial transactions, the debate gets heated. When the Commission’s proposed Alternative Investment Fund Directive (AIFD) was tabled to ensure inclusion of such funds in regulatory oversight, there were protests from the US on the grounds that the proposals were protectionist.\(^4\) The British hedge funds sector, which accounts for the bulk of all hedge funds in the EU, mounted a campaign to stop the directive and the British government intervened. The issue was not so much protectionism as the EU getting ahead of the international level in setting regulatory norms. There had even been an international agreement at the Washington G20 summit in 2008 on the need to ensure that all financial institutions were adequately covered by prudential regulation. But there was resistance to the EU leading in shaping specific regulatory norms for fear that these would differ from the international standard.

EU adherence to international norms is not dissimilar to what has happened in other policy areas. For example, as noted above, the EU _aquis_ in the shape of the SEM directives owed a good deal to work conducted in the OECD and similar forums during the 1970s and 1980s. In the field of environmental policy, the EU has also adopted ideas developed elsewhere. The difference between financial regulation and these other policy areas, however, appears to be that in finance the EU has been reluctant or unable to be the first to apply the international standards. In the case of goods markets and the environment, the EU has pressed ahead with the adoption of international standards ahead of its main competitors. In trade and in environment this has been supported by those who wish to see the EU provide leadership, but also by those who saw a competitive advantage in adopting the norms first. In the case of financial regulation, the absence of a consensus on framework norms appears to also mean no support for taking a ‘lead’ in the application of norms in order to shape their use. As a result, EU normative power is weak.
Market power

Perhaps paradoxically, the EU’s potential, relative market power in international finance is arguably greater than in trade or the environment, despite the recent debt crisis in some EU member states and the questions raised about the Euro. The EU market is more important than the United States and Japan and other major financial markets in numerous core areas. In contrast to international trade, there is as yet still only a limited challenge from the major emerging markets, although this can be expected to grow. Asian economies hold the bulk of foreign currency reserves and therefore have considerable influence over exchange rate policies, but neither China nor other Asian countries yet play much of a role in setting financial market regulation. In terms of bank assets, insurance premiums, bond markets, debt insurance and payments, the sum of EU markets is greater than the US, with Japan a distant third. New York and other US markets are more important in equity and above all in derivatives, were at the centre of the recent financial crisis, but it is not a great deal larger than the EU. However, EU market power also depends on the degree of integration of its financial markets and the ability and willingness of the EU to use the leverage such market power provides to shape outcomes and in these two respects the EU is weak.

The future of financial market integration in the EU remains uncertain. The 2008 financial crisis has shown the weakness in the voluntary cooperation approach to supervision. When the crisis came, market integration had outstripped the ability of the nationally based supervisory bodies to cope. In these circumstances, the policy options were broadly to strengthen EU (and international) cooperation in supervision or to consolidate national supervision at the cost of some of the benefits of market integration. The predominant policy response has been to strengthen EU-level regulatory cooperation, but it remains to be seen whether this response will continue once the immediate pressure of the crisis has passed. Potential market power does not by itself mean an ability to shape agendas or outcomes. This depends on whether the EU has competence in and is thus recognised as an actor in financial diplomacy, how developed the domestic acquis is and how cohesive the EU is in decision-making and negotiation.

Member and sector interests

Member state interests are closely associated with sector interests and are, to a very significant extent, the key variables that have determined the pace of progress and scope of the acquis. Sector interests vary from issue to issue and a detailed analysis across all sub-sectors of financial markets is not within the scope of this chapter. However, general issues relating to the member state positions are worth mentioning. First, as noted above, there has been a defence of national fiscal sovereignty. This has limited the scope for EU-level coordination in international financial institutions because of a concern that coordination will spill over into greater EU integration, and is central to the debate on greater fiscal policy coordination as a component of stronger EU economic governance. The effects of this can also be seen in the member state approaches to the supervision of financial markets. By blocking an ex ante agreement on financial burden sharing, the member state insistence on fiscal sovereignty represents a check on effective EU-level supervision of cross-border financial institutions.

The institutional cohesion

EU competence in the field of financial diplomacy varies between the areas of monetary policy (ECB competence in the Eurozone), access and competition in financial markets (exclusive
EU), fiscal policy (member states) and financial regulation (shared competence). This makes for complexity when it comes to policy coordination. The initiative to revamp decision-making on financial market regulation that led to the Lamfalussy proposals illustrated the general weakness of decision-making regimes. The reforms that the Lamfalussy process introduced were of fairly recent vintage and even then cooperation was only voluntary, so that when the financial crisis hit in 2008, there was no established EU decision-making regime. Delays in decision-making during a crisis simply made things worse as markets began to panic in the face of inaction. As a result, member states stepped in, in a more or less coordinated fashion. In other words, the decision-making regimes in the EU for financial diplomacy are either based on voluntary cooperation or, in the case of the European System of Financial Supervision (ESFS), are not well established. Effective responses to international crises also require coordination across monetary, fiscal and regulatory policies for which there are no established decision-making criteria or regimes. The EU response to the crisis of 2008 and what has followed was therefore ad hoc and dominated by the member states.

**Environment**

In EU international environmental policy, the interaction between a desire to provide international leadership and the EU’s internal policy development has been central. Internal EU policy development has in turn been significantly shaped by member state and sector interests. The ability of the EU to project normative power and thus provide ‘directional leadership’, a topic widely discussed in the context of EU environmental diplomacy, also seems to turn on the ability of the member states and various interests to reach agreement on framework norms for which the development of internal policies provides a proxy. The success or otherwise of the EU in international negotiations, what has been described as instrumental leadership, appears to be influenced by institutional questions (whether an effective decision-making regime exists) and market power. Compared to EU trade policy, the institutional arrangements and practice in environmental diplomacy are of more recent origin. But there appears to be evidence that the EU has become more effective in recent years (Vogler and Bretherton, 2006; Oberthür and Kelly, 2008; Ott, 2001).

**Competence**

The EU has progressively gained de facto competence and thus recognition as an actor in international environment negotiations. Starting from a low base in the 1970s, by the end of the 1980s and the beginning of the 1990s, there appears to have been a shift towards greater de facto recognition of the EU. Similar to the position in financial diplomacy, but unlike trade, the member states could still engage in negotiations in their own right and were consequently on occasions recognised as negotiating partners. The British interventions to broker compromises with the US during the Rio negotiations on the UN Framework Convention on Climate Change (UNFCCC) and in Kyoto in the COP 3 are examples of this. Formal recognition has been granted to the EC and the EC/EU is also a signatory of 60 multilateral environment agreements alongside the member states. It is also worth noting that the member states have equal, non-hierarchic status in international environmental organisations. This is similar to the case for trade, but different to the hierarchical representation of member states in international financial institutions. As in the case of trade, the Lisbon Treaty has also brought about changes. Prior to Lisbon, the position was that international environment policy was an area of mixed or
shared competence. Since Lisbon, the balance has shifted towards EU competence, although this is still challenged by some member states.

**Normative power**

The literature on EU environmental diplomacy has tended to stress the role of the EU as a directional leader in shaping international environmental policy. Such directional leadership would then constitute a form of normative power. But has this power been effective in changing other countries’ positions? In the field of environment, general norms would be support for broad concepts such as sustainable development or low carbon growth, something that in terms of sustainable development is anchored in the Lisbon Treaty. Framework norms can be seen as the balance between the competing ‘regulatory’ and ‘market-based’ approaches to environmental policy. Detailed norms would then be the specific provisions set out in EU directives or regulations, such as emission standards for cars or similar provisions.

It can be argued that the EU moved towards the acceptance of common framework norms during the late 1980s and 1990s, when the more skeptical or reluctant member states and interest groups moved to accept sustainable development and ecological growth. More recently, there has been support for low carbon growth or the green economy. This was the result of public opinion, shaped by environmental NGOs, which drew on the work of environmental scientists and epistemic communities such as the Intergovernmental Panel on Climate Change (IPCC). Environmental objectives were also integrated into the political objectives of major parties and thus into the domestic discourse in many EU member states. Business opinion in general shifted towards an acceptance of the need for ecological growth and began to see the benefits to be gained from leading in developing environmental technologies. This is analogous to the compromise between laissez-faire and dirigist approaches to market regulation for goods in the 1980s.

In specific policy areas, there were moves towards a compromise position in which the environmental lobbies accepted more market-based approaches and moved away from a rigid regulatory approach in order to make progress, and opponents of tight environmental regulation accepted the need to act. This was, for example, the case in climate change with the move towards acceptance of carbon emissions trading by both the mainstream environmental NGOs and moderate business interests. Agreement on these framework norms enabled the EU to develop its internal policies and to deepen the EU aquis and thus strengthen the EU’s specific norms. The development of such common norms then provided the EU with its lead in international environmental/climate change policy.

**Relative market power**

There are a number of ways in which the EU could be said to exercise market power in environmental diplomacy. First, there is the importance of the EU as an emitter of greenhouse gases. The EU produced 3,787 million tonnes of CO₂ in 2008. This is significant, but the EU share is declining due to the economic growth of China and other major emerging economies and the success of the EU in checking and slightly reducing its emissions.6 Its position in environmental diplomacy could therefore be compared to that in trade, in the sense that its relative importance is declining. While no international agreement is possible without the EU’s participation, the EU must get the support of other major economies/polluters or emitters of greenhouse gases if it is to address the challenges posed by global warming.

Second, as in trade or finance, is the question of how the EU can make use of this economic or market power to further environmental policies. This it does to a degree by setting high
environmental standards that imported products must meet if they are to gain access to the EU market. Such internal regulatory measures can then increase the costs of foreign suppliers of goods or services. The EU legislation requiring all airlines to contribute to the EU carbon trading regime is a recent controversial example of such measures. But most pollution and carbon emission of course still occurs during the production process and to date existing GATT national treatment rules for ‘like products’ have been interpreted as precluding discrimination between products in terms of how they are produced. The only differentiation possible is between products that have different product characteristics.\(^7\)

Lack of progress in climate change negotiations has led to a debate within the EU on the merits of border measures such as border adjustment measures (BAMs), with some member states supported by environmental interests favouring BAMs if only as a means of providing leverage in negotiations. But there remains insufficient support within the Council for wielding such a big stick. European business has also opposed their use on the grounds that they would undermine the non-discrimination principle of rules-based multilateral trading system the EU supports. There is also a risk of retaliation if other countries seek to extend their regulatory norms extraterritorially. In the debate on coherence, the views of DG Trade have also tended to prevail over those in DG Environment or climate change that might be more supportive of enhancing the EU’s leverage.

By leading in implementing carbon reduction targets and carbon trading, the EU has in effect adopted a policy with strong unilateralist elements, even though it has sought to persuade others to follow its lead. The reluctance to use potential market power by threatening to close the EU market to countries that do not make sufficient effort to reduce GHGs tends to confirm the unilateralist nature of EU policy. This contrasts with the US position, for example, which has been based on fairly strict reciprocity in the sense that it will only participate in international efforts to set targets for reduced GHG emissions if others do the same. As the US and China are the world’s largest emitters of GHGs, this provides them with considerable leverage as an agreement without them makes little sense. The EU is, on the other hand, able and willing to use financial inducements to promote its environmental diplomacy in an effort to buy developing country support.

**Member state and sector interests**

Even when there is an agreement on general and framework norms, specific policies, norms and standards can still be shaped by member state and sector interests. Again the more general member state interests have taken the form of a desire to hold the line on fiscal sovereignty, which has meant member states have blocked any form of EU level energy or carbon tax and argued for a looser coordination of national energy taxes instead. This precluded the use of an energy/carbon tax that would have strengthened the EU’s ability to provide leadership at the time of the Rio conference in 1992. Member state interests also diverge between France, which supplies most of its electricity by nuclear energy and Germany, the Netherlands and Denmark that use fossil fuels and have been reducing their nuclear capacity. France with significant nuclear capacity favours carbon taxes, because its producers would pay less and thus become more competitive vis-à-vis producers in member states that rely on fossil fuels to generate power. Structural differences also posed a considerable, although not insurmountable challenge in the debate over burden-sharing when it came to the member state greenhouse gas emissions as part of the EU ‘bubble’ or target for the Kyoto Protocol. Similarly, sector interests between the major energy consuming sectors and those that stand to gain from reduced emissions also have to be factored into the EU debate.
Specific EU norms and standards are also shaped by member state and sector interests. Indeed, the scope of the *acquis* can be seen as an indicator of the degree to which such differences can be reconciled through debate and dialogue within the EU. During the 1980s and especially during the 1990s, Commission-led initiatives within the context of agreement on framework norms produced a progressively more extensive domestic *acquis* in environmental protection. Interestingly, the Commission was in part motivated by a desire to promote EU leadership in international environmental policy. Thus before Rio conference as well as in the run up to the COP 3 meeting in Kyoto and the COP 15 in Copenhagen, the Commission came forward with proposals on internal policies in order to strengthen the EU’s credibility and ability to lead in the international negotiations.

But what motivated the EU to lead? There are a number of possible explanations. First, there was recognition that leadership was needed if international efforts were to make progress. As US leadership was fading or not forthcoming, progress on global challenges such as climate change required the EU to play a leading role. In order to lead, the EU had to show that it could overcome the challenges of internal policy coordination. This would explain why environmental interests favoured EU leadership. For EU industry and business in general, there was and remains an interest in ensuring that the EU is not alone in carrying the costs of pollution abatement, which meant ensuring that its international competitors faced similar controls. Business interests in environmental technology have also favoured EU leadership because commitment to pollution abatement helps to maintain the incentives for investment in environmental technologies.

For those interested in EU integration, such as the Commission and more integration-minded member states, EU leadership on the environmental also offered a means of legitimising the broader European project, especially during the 1990s when support for European integration was not very strong. By definition, many environmental issues cannot be resolved by national governments due to global externalities. With growing public demand for action on a number of environmental challenges, if the EU could succeed in addressing the issues, it could provide legitimacy – and create public support – for the EU. If the EU could also assume a leadership role in international environmental negotiations this could enhance the standing of the EU in international relations. For those who favoured the EU becoming a stronger actor in international relations, the environment therefore offered a policy area in which it could establish itself more easily than some other fields such as foreign or security policy.

Quite apart from the desire to lead in international negotiations, the challenge to find a common EU position in response to developments in international negotiations also constituted an external driver for EU environmental diplomacy. This pressure has been fairly consistent for the best part of thirty years, making the external drivers of EU environmental policy similar to those driving EU trade diplomacy.

**The decision-making regime**

With no EC competence from the start, EU environmental policy has developed differently to trade. International environmental policy has been an area of shared or mixed competence and one in which the member states have retained their rights to negotiate. The form of delegated supervision has therefore included the member states. The role of the presidencies raised and raises questions of consistency and there are also issues concerning the coordination between technical level negotiations and those at the political level. De facto competence has therefore differed somewhat, but not dramatically from the position in trade. In the field of environmental policy, the internal EU decision-making regimes and procedures are of relatively recent
origin. The EU had difficulties reaching a common position in the 1980s, for example at the beginning of the negotiations on the Montreal Protocol, but things have improved with time. A comparison of the Rio negotiations in 1992 with those in Kyoto on climate change also suggests that EU decision-making cohesion has improved with time. This would seem to be related to the progressive acceptance of a de facto EU competence for external environmental negotiation, even if de jure competence remained shared. This is in line with the hypothesis that cohesion in EU policy is more likely the more established the decision-making regimes and procedures become.

Conclusions

This chapter has provided a schematic assessment of some of the key factors that shape the EU’s role in international economic negotiations and thus in international institutions. In the interests of space the focus has been on a limited number of factors, but others could be added, policy coherence, for example. Within the field of finance, a lack of coherence between sub-policy areas has greatly encumbered EU policy coordination. There are also questions of coherence across trade and environment. A lack of coherence within or across different policy areas would undermine EU effectiveness. Table 23.2 summarises the general findings from the three policy areas.

In terms of the key policy areas covered by the main conclusions are the following. Formal (de jure) competence has an important bearing on effectiveness, but it is not always necessary. If the EU can develop an agreed decision-making regime in a given policy field, it can still be recognised (rather than the member states) and function effectively, as in the cases of trade negotiations in the GATT and other forums during much of the period between the 1970s and 1990s. The EU has also been recognised as the actor in environment policy, although this has been a rather more recent development and member states still intervened directly in high profile negotiations, such as important COP of the UNFCCC. Member state politicians and even heads of state and government have not wished to miss such high visibility events and have therefore pressed to be involved. It remains to be seen whether this will continue after the adoption of the Lisbon Treaty.

EU effectiveness in international economic negotiations requires a consensus on what have here been called framework norms. This is not surprising as a common (internal) approach is clearly a necessary condition for effective international policy. However, it is important nevertheless and the existence of a consensus on framework norms would seem to be a condition for

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<tr>
<th></th>
<th>Trade</th>
<th>Finance</th>
<th>Environment</th>
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<tbody>
<tr>
<td><strong>Formal competence</strong></td>
<td>High and long-standing</td>
<td>Limited as MS have major role</td>
<td>High, established in last decade or so</td>
</tr>
<tr>
<td><strong>Normative power</strong></td>
<td>Fairly significant, based on acquis, but only partially distinctive</td>
<td>Limited, EC has generally followed international norms</td>
<td>Relatively significant, given absence of US leadership, based on domestic policy</td>
</tr>
<tr>
<td><strong>Market power</strong></td>
<td>Significant, but in relative decline</td>
<td>Potential, but not fully realised</td>
<td>Relatively limited</td>
</tr>
<tr>
<td><strong>The decision-making regime</strong></td>
<td>Well established, tried and tested</td>
<td>Weak until very recently</td>
<td>Established over last 15 years</td>
</tr>
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</table>
the EU possessing normative power. The existence of a genuine consensus on framework norms in trade and environmental policy has clearly facilitated proactive EU policies in contrast to finance, where the EU remains reactive and member states dominate. The distinction between framework and specific norms may also be helpful, since the existence of some elements of an acquis, as in financial markets, does not seem to ensure a coherent external policy position.

The third broad conclusion is that normative power that comes from a consensus on framework norms may be necessary for a proactive EU approach to international economic policy and negotiations, but it is not sufficient. In neither trade (the negotiations in the DDA), nor environment (the climate change negotiations) has the EU been able to influence outcomes in multilateral negotiations. The qualification of ‘multilateral’ is important here because the EU has been more effective in shaping bilateral or preferential trade agreements.

Effectiveness in any multilateral negotiation or any other negotiation for that matter clearly depends on factors specific to the particular issue, but also the market power of the EU. This would, for example, explain the greater effectiveness in shaping outcomes in the FTAs and the relative lack of success in the multilateral trade and environment negotiations. The EU’s market power derived from the size of its market is in relative decline due to the growth of other major economic powers and the slowing of market deepening in the EU. The EU is also relatively open, or in the case of the environment has taken actions unilaterally to reduce greenhouse gases or other forms of pollution. It therefore has less to put on the table. The nature of the EU consensus is also such that the EU is constrained from threatening to take anything off the table.

In other words, there would be a blocking minority against any use of market closure as a means of enhancing the EU’s market power.

Notes

1 For a more detailed analysis and discussion, see Woolcock, 2012.
2 The 2010 revised Commission strategy for trade hints at a somewhat more aggressive approach to trade with emerging markets such as China, but the suggestion of withholding access to the EU market is limited to specific policy areas, such as public procurement. The strategy does not imply anything like a consensus in favour of using the threat of market closure to enhance negotiating leverage. See European Commission, 2010(a).
3 The revised Commission proposals followed international norms by limiting bank exposure to any one party, establishing of colleges of supervisors, including clear definitions of quality of capital and included rules on securitised debt (one of the instruments that had been at the centre of the financial crisis) that required the originators of securitised debt to retain a proportion (5 per cent) of the risk.
4 The proposed regulation included a provision requiring fund managers to meet regulatory standards equivalent to those applicable in the EU if they are to have access to investors in the EU.
5 For the case for some national consolidation, see, for example, Prof. Charles Goodhart in evidence to the House of Lords Select Committee. For the alternative argument see the evidence of the British Bankers Association. More generally on the transatlantic debate on this point, see Posner 2009.
6 In 1999 the EU produced 3,809 million tonnes of CO₂ compared to 5,506 for the USA and 3,091 for China. By 2008, EU CO₂ emissions had dropped slightly to the 3,787 million tonnes while US emissions had increased to 5,596 and Chinese to 6,550 million tonnes. epp.eurostat.ec.europa.eu/cache/ITY_OFFICE/WPS/EUR9_2009001E.pdf.
7 For some time, environmental interests have argued that there is scope under the GATT rules to apply environmental regulations to production processes and methods. In the context of carbon emissions this debate is likely to become more important. See WTO and UNEP, 2009.

References

EU external economic policies


