Transatlantic Trade Issues
Sophie Meunier

In the good old days of pre-Iraq transatlantic unison, it was trade disputes between the European Union and the United States over issues such as beef and bananas which made headlines. Fast-forward a few years later: Most of these disputes still exist, and new ones have emerged, but they may now seem minute in the broader framework of bilateral discord. Indeed, transatlantic commercial relations are revealing two regions deeply intertwined. The EU and the U.S., the world’s largest players in global trade, are each other’s main trading partners, accounting for around one-fifth of each other’s bilateral trade (about euros 1 billion a day). These extremely significant trade flows are supplemented by an even bigger investment relationship, as each region holds major stakes in the other’s market. The EU is the host for 53% (726 billion) of all U.S. direct investment abroad and contributes 72% ($947 billion) of all foreign direct investment in the U.S. As a result, about one third of transatlantic trade is conducted between U.S. or European parent firms and their subsidiaries. Yet new challenges are now facing the transatlantic trade relationship. From bilateral disputes with increasingly higher stakes, to the collapse of the Cancun meeting of the World Trade Organization (WTO), the enlargement of the European Union, and the EU institutional reform, let alone a divergence of visions on how the international system should be managed and the negative pull of domestic politics, the EU and the U.S. have many problematic issues with which to deal simultaneously.

Bilateral EU-U.S. Trade Disputes

Ask any American or European official about the state of the Transatlantic trade relationship, and they will always start with a reassuring claim that 98% of the trade that occur between them is absolutely fine. As Pascal Lamy, the EU Trade commissioner, puts it: “If you look from the moon, things don’t look so bad.” And it is true that even in a tensed geopolitical environment, for European and American traders and investors, it is business as usual. During the first half of 2003, in spite of the Transatlantic rift over Iraq, U.S. corporations invested $40 billion into Europe, a 15% increase from 2002, and European companies invested $36 billion into the U.S. Moreover, when frictions arise, they can now be mediated and solved within the framework of the World Trade Organization dispute settlement procedure. Indeed, of the fifty-four completed WTO cases that went to dispute settlement panels from 1995 to 2001, sixteen were EU-U.S. disputes. Several of the famous bilateral disputes have been settled recently—such as bananas, beef hormones, and even steel. Other ongoing EU-U.S. disputes are far from being resolved, however, especially when they result not from sheer protectionism but from regulatory differences.

Tax breaks: In 2000 the EU asked the WTO to adjudicate on the so-called Foreign Sales Corporation (FSC) dispute—an American law taxing exports more favorably than production abroad. In subsequent rulings, the WTO confirmed that the FSC indeed constituted an illegal export subsidy and authorized the EU to impose $4 billion in retaliatory sanctions if the U.S. law was not brought in compliance with WTO obligations. In March 2004, the Europeans decided to phase in the retaliatory measures, which will hit a wide range of goods, including textiles, jewelry and toys, until Congress repeals the trade-distorting regulations.
Anti-Dumping: In 2000 the WTO condemned the U.S. 1916 Anti-Dumping Act for allowing sanctions against dumping not permitted under WTO agreements and gave the U.S. one year to repeal the Act. Since the matter was originally brought to the WTO in 1998, the U.S. brought four new complaints against EU companies on anti-dumping grounds. In February 2004, given the non-compliance of the U.S., the WTO allowed the EU to retaliate by implementing a mirror regulation that would be applicable to American products.

Genetically modified organisms: Since 1998, the EU has observed a moratorium on the approval of GMO products, and some member states banned the import and cultivation of some crops that had been approved prior to that date. The EU made this decision in response to popular concern about the long-term impact of GMOs on human health and the environment, although there was little scientific evidence to support these concerns, but no evidence either that GMOs are harmless. In May 2003, the Bush administration decided to finally file the suit against the EU at the WTO.

The Doha Round

Transatlantic trade relations are also being challenged by the current state of the WTO multilateral negotiating process. The “Doha development agenda”, as the current round of trade talks is formally called, is about negotiating away trade barriers with the goal of improving general economic welfare, in particular for the developing countries. Agriculture is the key variable in this round, with developed countries being asked to reduce (if not eliminate) their trade-distorting subsidies for farmers and the tariffs, quotas, and non-tariff barriers that they use to protect their domestic agriculture. Among the other central issues are the so-called “Singapore issues” pushed by the EU—investment, competition policy, government procurement, and trade facilitation. By August 2003, the EU and the U.S. had reached a common proposal on reform of the protection of their agriculture. This was not enough, however. The collapse of the WTO Cancun meeting in September 2003 was due mainly to differences over agricultural reform, especially over the issue of cotton, between the U.S., the EU and a group of developing countries led by Brazil and India (called the G-22). The abrupt end of the meeting left great uncertainty concerning how to proceed with talks on agriculture, industrial goods, and the Singapore issues, especially during an electoral year in the U.S.

EU Enlargement

The EU will enlarge to ten new countries in May 2004. They will increase the size of the single market, augment the geographical size of the EU by 34%, and boost the total population by 105 million to a total of $450 million. Structurally, enlargement will make the EU stronger in relation to its trade negotiating partners, because a larger single market is both more attractive to outside economic players and the threat of being cut out more costly. By joining the EU, however, the new entrants are bringing in a wealth of different histories and cultures, which also means different interests and sensibilities. These will have to be included and amalgamated in the definition of a common European position on trade. Diversity could incapacitate the EU’s ability to make decisions and bog down multilateral trade liberalization. It could also lead to common positions which are invariably the lowest common denominator and, therefore, to a protectionist bias of the EU in international trade negotiations. The EU enlargement also poses legal issues for the Transatlantic trade relationship. For instance, the U.S. and the new entrants have bilateral agreements on investment protection that do include provisions contrary to Community law (for instance with respect to investments in the audiovisual sector). Another problem results from the extension of the customs union to ten currently autonomous territories. In most cases, third countries will benefit from a drop in custom duties. In some highly visible cases, however, such as banana imports, the current custom duties of the new entrants are lower than those of the EU—which presumably will lead to trade frictions, in particular with the United States.

The EU Constitution

During the European Convention, many voices demanded a greater role for the European Parliament in trade policy, since trade now covers politically sensitive issues that used to be the exclusive domain of domestic regulation, such as food safety and culture. In response, the Convention introduced many important institutional changes with respect to trade policy. First, the Constitution project opens up great avenues for parliamentary control. Trade-related legislation, such as antidumping rules, will now be adopted according to the co-decision procedure—that is, jointly by the Council and the Parliament. The second institutional problem currently faced by the EU is how to keep an efficient decision-making system in an enlarged Europe of 25 or even 30 member states. The proposed Constitution simplifies the complex policy-making apparatus in trade, clarifies that trade policy is an exclusive Community competence, and broadens the use of qualified majority voting.

Overall, the transatlantic trade relationship is based on mutual commercial interests that serve as an anchor of stability in the world. For a long time, the EU and the U.S. were almost the only players in the multilateral negotiating system—or at least they were the ones who called all the shots. The Doha round shows that they now share the leadership, but that they cannot ignore the other players. On most trade issues, the U.S. and the EU have interests closer to each other than they do with the rest of the world. The escalation of transatlantic trade disputes, and in particular the imposition of retaliation measures, should therefore be undertaken with extreme political caution. Still, the U.S. and the EU should also play according to the rules of the game, whether in steel or in agriculture. Europe and America realize that they are benefiting immensely from globalization, yet there is a need for rules to manage this globalization.

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Transatlantic Relations and European Security and Defense
John T. S. Keeler

Implausible though it would have seemed when the EU’s two leading military powers—the United Kingdom and France—were bitterly divided over the issue of launching war against Iraq, it is now possible that 2003 will eventually be viewed mainly as a year of pivotal progress in the development of the common European Security and Defense Policy (ESDP). Indeed, it has been argued that “2003 may yet go down in the annals as the year when the European Union finally came of age as an international actor.” Grudging validation of this assessment may be found in the comments of officials across the Atlantic. “There are few topics that unsettle the Pentagon more,” one journalist recently wrote in early 2004, “than the creeping advance of the separate defense and security identity of the European Union countries.”

In what ways has ESDP advanced over the last year? How has progress been possible in the wake of the Franco-British confrontation over Iraq? And why has the United States grown concerned about the evolution of ESDP? The rest of this essay will briefly answer each of these key questions.

The Progress of ESDP: From Institution-Building to Action

The recent rapid succession of ESDP developments began on December 16, 2002, when the EU and NATO issued an important joint Declaration on the European Security and Defense Policy. The culmination of more than six years of negotiation, this agreement provided a framework for EU-NATO cooperation and, most importantly, provided the EU with “assured access” to NATO’s planning facilities for the conduct of EU-led crisis management operations.

Two weeks later, on January 1, 2003, commenced the first EU-led civilian crisis management mission, the European Union Police Mission (EUPM) in Bosnia and Herzegovina. The EUPM followed on from a UN International Police Task Force and consists of approximately 500 police officers from all 15 EU member states and 18 other countries. The EUPM functions with a 3-year mandate and is supervised by an EU Special Representative who reports to the Council through the High Representative for CFSP.

In March 2003 the EU initiated the first Union-led military operation, Operation Concordia in the former Yugoslav Republic of Macedonia. Following on a NATO Operation, Concordia involved 400 military personnel (from 13 EU member states and 14 non-EU countries) and lasted for 8.5 months. In line with the EU-NATO agreement of 2002, this operation was the first to make use of SHAPE planning and command capabilities and was commanded by Admiral Rainer Feist (Germany), NATO’s Deputy Supreme Allied Commander Europe (DSACEUR).

In June 2003, responding to a call from the UN Secretary General for an interim emergency multinational force to bring stability to Bunia in the Congo, the EU launched Operation Artemis, its first autonomous military operation and the first ESDP operation to be deployed outside of Europe. Artemis lasted less than three months, but it accomplished its goal—paving the way for a UN mission in Bunia—and served as a successful test of the EU Framework Nation concept adopted in July 2002. France served as the framework nation in this case, providing the command and control capabilities for the mission as well as the majority of the 1400 personnel; a total of five EU member states and four non-member states contributed personnel to the operation.

In December 2003, with the completion of Operation Concordia, the EU made the transition to a Police Mission—code-named PROXIMA—in the former Yugoslav Republic of Macedonia. This mission was slated to last for a year and to involve 200 personnel from EU member states and other countries.

Modest though the four ESDP operations of 2003 were in some respects, together they represented a major step toward establishing the EU as a military actor on the world stage. The EU’s seriousness of purpose in this realm was underscored by the publication in June 2003 of the Union’s first security strategy report, A Secure Europe in a Better World, which portrayed the EU as a “global actor…ready to share in the responsibility for global security.” A similar signal was sent by the completion, in November 2003, of the first ever joint EU-NATO crisis management exercise, CME/CMX 03.

Despite the many advances noted above, the Achilles heel of ESDP remains the limited resources at its disposal. While progress was noted at the May 2003 Capabilities Conference, some analysts argue that EU member states have failed to meet the targets of the Helsinki Headline Goal and few expect that the EU will have the capacity to engage on high-end military operations before 2010.

Intra-European and Transatlantic Tensions over ESDP

Skeptics have long argued that the fundamental political vulnerability of ESDP is the fact that, even after St. Malo, the British vision remains far more Atlanticist or less autonomous than the French vision. A vivid illustration of this problem was provided on April 29, 2003 when the prime ministers of France, Germany, Belgium and Luxemburg announced an agreement to enhance their collaboration on defense and jointly proposed the establishment of an EU operational planning cell (as an alternative to the NATO facility) in the Brussels suburb of Tervuren. The idea made considerable sense in technical terms and had been discussed as a possibility for several years, but as Charles Grant has argued, “given the context in which the initiative was launched—with Europe split into two hostile camps—the timing was unbelievably foolish.” Given that the four governments involved were the leaders of the anti-war camp and had also blocked NATO aid for Turkey before the war, it was inevitable that the proposal would appear to be an effort to undermine NATO. The British and American reactions were both understandably hostile.

On this issue as on others before, however, ESDP proved more resilient than the skeptics lead one to expect. With the passage of time came a growing recognition of the need for compromise by all concerned. The Tervuren plan was abandoned by its proponents, while the Blair government accepted the notion that the EU needed to enhance its operational planning capacity. In December 2003, Britain, France and Germany
The U.S.-EU agreement on the transfer of PNR data by air carriers to U.S. authorities is a case in point. Several points stand in contradistinction with the 1995 EU data protection directive: (1) the number and type of data that U.S. authorities have direct access to, (2) the purposes for which the data might be used, (3) the type and number of agencies that can access the data, and (4) the lack of redress mechanism for people denied entry to the U.S. In February 2003, the Director General for External Relations and the Deputy U.S. Customs Commissioner met in

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**Transatlantic Cooperation in the Area of Border Control**

Virginie Guiraudon

**AFTER THE BOMBINGS** of the World Trade Center, bureaucrats responsible for “Justice and Home Affairs” in the EU and “homeland security” in the US soon met. On 26 October 2001, at a closed meeting of the EU Strategic Committee on Immigration, Frontiers and Asylum, the head of the US delegation informed EU member state officials that “since the events of 11 September 2001, the whole system of visas, border control, management of legal migration, etc. had come under close scrutiny and there was a consensus in the US on the need for a more effective system across the board, not targeted specifically at terrorism but taking the events of 11 September as the trigger for developing a new approach.”

The U.S. policy changes in the area of border controls directly concerned EU-based companies, EU citizens and EU laws. Following the November 2001 US Transportation Security Act, airline companies have been asked to provide US authorities with extensive information on passengers flying to the U.S., personal data known as PNR (passenger name record). Moreover, to allow EU citizens to travel to the U.S. under the visa waiver program, a reform is under way, since all EU passports must be machine-readable and integrate biometric identifiers such as fingerprints and iris scans. The 26 October 2003 deadline has been postponed for a year.

Both the Council of Ministers and the European Commission have tried to cooperate in a diligent manner with U.S. authorities. U.S. tactics have been heavy-handed at times. Given the state of the transport industry after 9/11 and the beginning of the economic slump, EU leaders could not ignore U.S. threats to refuse landing rights to airlines. Whereas transatlantic trade disputes continued and tensions grew over the build-up to the war in Iraq, there was a clear political will of the EU Commission and Council to comply with US demands that affected the movement of people between the EU and the US.

Antiterrorism justified the fact that measures be adopted quickly without taking into account the opinion of the relevant interest groups, non-governmental associations, and experts, respectively airlines, civil liberties groups, and computer security analysts. More importantly, the sense of urgency after 9/11 and the rapid passing of new US legislation that included “exceptional” measures led the EU officials in charge of responding to U.S. pressures to ignore “normal” procedures and the EU legal framework.

The U.S.-EU agreement on the transfer of PNR data by air carriers to U.S. authorities is a case in point. Several points stand in contradistinction with the 1995 EU data protection directive: (1) the number and type of data that U.S. authorities have direct access to, (2) the purposes for which the data might be used, (3) the type and number of agencies that can access the data, and (4) the lack of redress mechanism for people denied entry to the U.S. In February 2003, the Director General for External Relations and the Deputy U.S. Customs Commissioner met in

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Brussels and issued a joint statement on reconciling the new PNR transmission requirements of the 2001 U.S. Transportation Security Act with the requirements of EU data protection law. The statement ignored the October 2002 opinion of the Article 29 data protection Working Party, the independent advisory body that gives opinions *inter alia* on EU data transfer to third parties, whose chair alerted the European Parliament Committee on Citizens' Freedoms and Rights. The European Commission agreed to cooperate with U.S. customs and told airlines to meet the March 2003 deadline fixed by U.S. authorities whereby they have had direct access to EU airline reservation databases to download personal data on all passengers and crew.

Since then, the EP has acted as a watchdog and no less than three resolutions have been adopted in plenary to invite the Commission to take action so as to ensure adequate protection for personal data. The Commission negotiators tried to convince their U.S. counterparts to take into account privacy issues and obtained some minor compromises. Yet, they also agreed that EU passenger data could be used to test a new security profiling system known as CAPPS II, whereby each passenger is associated with a color-coded tag indicating his risk level. Members of the EP have also criticized the Commission’s legal solution: a Commission Decision “accompanied by a ‘light’ international bilateral agreement.”

U.S. Customs and the Department of Homeland Security have written out “undertakings” spelling out their intentions regarding PNR data yet this is very different from a Treaty approved by the U.S. Senate, if only in terms of legal redress for individuals. The tension in the area of transport security has been between the Commission and the Parliament – an inter-institutional rather than a transatlantic battle.

The Commission and the Council have expressed divergence in only one instance, which regards goods rather than persons. The European Commission has launched infringement procedures against Germany, France, the Netherlands and Belgium because they have signed individual bilateral agreements giving U.S. Customs agents powers to search all containers leaving EU ports for the USA under its January 2002 Container Security Initiative (CSI). The goal of the CSI is to prevent terrorists from using global containerized cargo. The U.S. has concluded bilateral arrangements with eight EU Member States without taking notice of Community competence. The Commission has argued that this bilateral approach is likely to create competitive distortions between EU ports. There has been no dissensions on the content of this cooperation, only on its form. In July 2003, the Commission adopted a Communication on the role of customs calling for reinforced security checks, including for goods leaving the European Union. On 18 November 2003, the Commission Director General for Taxation and Customs Union and the U.S. Ambassador to the EU initialled an agreement to include transport security co-operation within the scope of the 1997 EU/U.S. customs agreement so as to equalize EU and U.S. levels and standards of control.

What can we learn from the study of post 9/11 transatlantic relations in the area of homeland security? First, they tell us about the U.S. diplomatic strategy to gain leverage in negotiations with the EU. U.S. diplomats used “divide and conquer” tactics by seeking bilateral agreements with member states. Confronted with the *fait accompli* EU negotiators started talks at a severe disadvantage. U.S. diplomats also knew exactly how to exploit the EU inter-institutional dynamics. Commission officials eager to find a EU-level agreement with the U.S. so as not to let member states act bilaterally sought to bypass legal procedures and parliamentary control. In March 2004, the EP Citizens’ Rights Committee met with Stewart Verdery, assistant secretary at the U.S. Department of Homeland Security and lead negotiator for the U.S.-EU agreement on passenger data. He said that “air carriers were already transferring personal data . . . [and] Parliament would be well advised to prefer the draft agreement the U.S. and the Commission had reached to no agreement at all.”

U.S. post 9/11 demands have justified and accelerated measures to reinforce EU border controls. U.S. laws have also served as a model for EU legislative proposals. In January 2004, Spain put forward a proposal for an EC Council directive requiring carriers to collect and communicate data on passengers travelling to the EU at the time of boarding to the law enforcement authorities of the destination country. The directive to be accepted before June 2004 resembles U.S. regulations, except that Spain stated that the measures were aimed at fighting illegal immigration not terrorism.

This does not mean that terrorist attacks cannot accelerate the adoption of decisions affecting border control. After March 11 and the attacks on suburban trains in Madrid, the special European Council that met in Brussels issued a Declaration on Combating Terrorism. The statement urged the prompt adoption of the Spanish initiative regarding passenger data and the Commission proposal to upgrade EU passports and visas. There is also now a commitment to early approval of the EU-U.S. agreement on airline passenger data. The Council declaration pledges to “further strengthen cooperation with the U.S. and other partners” and a key objective is to “develop further EU transport security standards in coordination with relevant third countries.” After September 11, 2001, U.S. demands have justified EU reforms. March 11, 2004 in turn will hasten the adoption of the measures that the U.S. executive has been asking for.

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NOTES

3. For a variety of perspectives on the development of ESDP, see Jolyon Howorth and John T.S. Keeler, eds., Defending Europe (Palgrave, 2003).
11. Howorth, op. cit.
13. See Howorth, op. cit.
15. Charles Grant, “Resolving the Rows over ESDP,” Centre for European Reform, October 2003.
17. Survey sponsored by the Pew Research Centre for the People and the Press and released March 18, 2003; summary available on the Pew website.
20. The EP has expressed its intention to start legal action before the European Court of Justice against the Commission for failure to act.