



Business and Industry Advisory Committee to the **OECD**

Comité Consultatif Economique et Industriel Auprès de l' **OCDE**

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BIAC Statement

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« EU Enlargement and International Trade – New Challenges for Business »

Introduction

BIAC was very pleased to be invited by our Polish member, the PKPP, to co-organise this conference on “EU Expansion and International Trade”. At a historical time, one month before the accession of ten new countries to the EU, we congratulate the PKPP for gathering together such an array of high-ranking participants from the business community, governments and international organisations to discuss the consequences of enlargement for the 10 newly acceding states, for the EU as a whole and particularly for non-EU countries (third countries).

BIAC represents business from all EU member states to the OECD, but also companies from the US, Japan, Canada, South-Korea, Turkey and other non-EU countries. We share the view of many that for business, from all these countries, the enlargement of the EU will provide new market opportunities. At the same time, however, enlargement will involve some challenges in the form of structural adjustments for companies.

Indeed, after May 1 the ten new acceding countries will be bound to apply the EU's common Commercial Policy, including the Common External Tariff, the EU preferential trade agreements, the EU bilateral trade agreements, the WTO commitments of the EU as well as the EU's trade defence measures (anti-dumping, anti-subsidies and safeguard measures). Furthermore, the acceding countries will have to renounce their own bilateral free trade and investment agreements with non-EU countries.

The likely effects of changes of trade patterns will vary from sector to sector and country to country. However, the overall effect will be positive for both EU25 and third countries. Companies from third countries will benefit from an increased single market and simplified and enhanced access to current accession countries' markets with a single set of trade rules, a single tariff and a single set of administrative procedures.

A smooth transition is more likely than the “big bang” scenario, and as a matter of fact many trade related aspects of enlargement have already taken place earlier in the accession process.

However, some adjustment and flexibility will be needed in order to ensure adjustment of existing trade patterns to the new rules. BIAC would like to take the opportunity to encourage participants in this conference to discuss this issue.

Enlarging an economic integration area such as the EU always serves a multitude of purposes. For BIAC the most important purpose is the effect of lowering trade and investment barriers through increased economic integration. Regional as well as multilateral trade and investment liberalisation has always been a core aim of BIAC and its membership. Business thrives on predictable rules and common rules. The enlargement addresses both these issues. Companies perceive the enlargement process as the steady evaporation of uncertainty. Thus, we expect the potential trade and investment ramifications resulting from EU enlargement to be supportive of the fundamental interests of all of BIAC's and OECD's members.

- **BIAC and the OECD have an interest in helping governments and international organisations to ensure that the benefits stemming from successful regional economic integration will be spread to all OECD business.**
- **WTO rules providing that free trade areas or regional integration shall not raise the levels of trade restriction should be observed.**

1. EU enlargement will benefit business in the acceding countries but also business in non-EU OECD countries

The accession of 10 new member countries to the EU in May this year will create a large market with 450 million potential consumers and will increase opportunities for investors and traders not only in the EU but throughout the OECD membership. There will be potential benefits to investors and *producers* in all OECD countries from an enlarged EU Single Market with greater number of customers. Further benefits will arise from the expected rise of production volume, an expected increase in FDI inflow into the enlarged Union and the overall increase of economical credibility stemming from the application of the EU's stability pact.

Among the most important accession benefits for the countries concerned and also for non-EU traders and investors:

- **Being part of the single market of more than 450 million potential consumers is beneficial in itself**

Companies from the EU but also investors and producers from non-EU countries can benefit from a larger market producing a GDP of around Euro 9613 billion, accounting for some 19 % of world trade. The enlarged EU will be the source of 46 % of world outward FDI and host to 24 % of inward FDI. A product entering the EU market, an investment made, or a service provider established in one members state of the EU will henceforth be able to move freely throughout the single EU market.

- **Free movement of goods, services, capital and persons is guaranteed**

Benefits will derive from a single market with no internal borders, the full implementation of the “four freedoms” by the new member states, i.e. the almost free circulation of goods, capital, services and persons. Service providers, once established in the EU, will benefit from the single market and its non-discrimination rules in all 25 EU countries. The same is true for investors from non-EU countries which will benefit from the right to establishment and free movement of capital as laid down in the basic EU treaties.

- **A single set of external rules simplifies trade and investment**

Instead of having different external trade regimes, enlargement will extend the EU's external trade policy to acceding countries. This implies the adoption of the Community Common Customs Tariff, bringing down external industrial tariffs to the EU average of 3.6 %. Acceding countries will have to apply the EU's unified and transparent customs procedures as well as the EU's trade remedy and safeguard instruments.

Furthermore, business will benefit from the harmonisation of regulations and standards affecting its operations. For example, new members states will automatically participate in the EU's Mutual Recognition Agreements and business will benefit from obligations to establish a suitable mechanism for the designation of Conformity Assessment Bodies.

- **Further advantages will be:**

- Enhanced trade facilitation through a single set of technical standards
- Enhanced level of intellectual property rights protection following adoption of EU directives
- Major benefits for non-EU investors from extending the EU public procurement rules to the acceding countries
- Application of the strict subsidies and anti-trust regime of the EU to acceding countries, will enhance the level playing field also for foreign investors.

2. However, change implies pressure for adjustment on companies

Any change requires adjustment. As a result of accession to the single market of the EU, there are implications not only for trade regimes and trade flows but for companies themselves, both for EU or non-EU companies. The following changes for international trade must be considered:

- First, there will be domestic adjustment pressures on companies arising from joining the single market and dismantling tariff and non-tariff barriers to goods from all the other 25 European countries. This might result in increased competitive pressure on individual companies stemming from a larger number of EU internal competitors, an effect on EU and non-EU companies alike.
- Second, and as a result of accepting the EU external trade regime, there will be an impact on third country trading partners. There will be a shift in preferential trading arrangements and, in some sectors, possible higher post-enlargement tariffs on both the export and import side. In some sectors acceding countries could lose export markets as well as some sources of cheap raw materials.
- Third, there may be impacts on imports from non-EU countries stemming from higher import tariff rates as a result of the adoption to the external EU trade and tariff regime. Such tariff rate increases would be even greater for countries with whom accession countries had preferential trade agreements.

These changes will require a period for markets to adjust and some dislocations will be unavoidable. BIAC and its members are committed to making these changes manageable and call on international organisations like the OECD to use their analytical skills to study the effects of regional economic integration on trade and investment flows. In this context, BIAC notes with satisfaction the planned horizontal project of the OECD on trade and structural adjustment.

In this regard, BIAC continues to ask governments to remain focused on the multilateral trading system. Regional economic integration can only complement, but not substitute, for a strong rule-based multilateral trading system.

It remains most important for business that the provisions for regional economic integration have the least discriminatory effect on non-members of the agreement. Transparency of, for example, the "rules of origin" and extension of benefits on an MFN basis, can be crucial elements here. OECD has done some work on these aspects already. It is important to foster the knowledge on how to negotiate provisions of regional economic integration agreements in a way that their overall liberalising effect is enhanced and the discriminatory effect on non-members is lessened. In this regard, the Doha decision to review WTO provisions for regional trade agreements are timely, and the work of the WTO Committee assessing regional trade agreements should be strengthened.

3. The OECD was helpful in preparing acceding countries for EU accession and establishing a free market based economy

Regulatory reform and restructuring of the economy were preconditions acceding countries had to undertake prior to accession. What is less well known is the role the OECD has played in facilitating the accession process and has worked intensely with most of these countries on reforming their economic policy: implementing the OECD standards on issues such as market liberalization, enhancing competition law, implementing OECD recommendations on tax, regulatory reform, national treatment, corporate governance and sound economic policy. All of this work also helped countries to cope with the requirements of the EU “acquis communautaire” and it was instrumental in creating a more open market which will not discriminate against foreign investments.

This effort will have to continue. After the accession of the 10 countries to the EU, of which all - except for the Baltic States, Slovenia and Cyprus – are also OECD member countries, the OECD and BIAC will have a role to play in helping that the benefits of EU enlargement are shared widely with the whole OECD membership. The OECD’s work is instrumental in fostering regional economic integration not only in the EU but also with NAFTA, ASEAN or in the future even in a NEPAD or Middle-East context. The adjustment experience of the 10 accession countries, both before and after enlargement, will be useful in the OECD outreach work to non-OECD members.

BIAC suggests that there are some substantive qualifiers taken from this process, and the parallel process of accession to the OECD of many of the 10 EU accession countries, that should be the litmus test for any countries to join a regional economic integration area such as the EU or the OECD itself:

- sound macroeconomic and fiscal policies with a clear commitment to open markets for trade and investment;
- commitment to fostering competitive business environments in areas like regulatory reform, investment, competition, tax, intellectual property protection and corporate governance;
- an innovation-led policy approach to sustainable growth and development;
- an institutional political setting conducive to the goals mentioned, including strong law enforcement institutions, protection of basic rights (including property rights), and democratic and transparent rule-making.

4. A new role for emerging OECD economies in international organisations

Countries with emerging economies and their business communities joining international organisations like the EU, the WTO or the OECD often have to struggle in order to find their new role in a new environment. With regard to the OECD, the focal point for BIAC, it seems to be necessary to work toward raising the profile of newly acceding countries. Bringing together a group of countries in the OECD which share common issues relating to emerging economies, BIAC would like to help businesses from these countries formulate their interests more vocally in the OECD.

For this purpose, BIAC would like to announce the creation of a new “Working Group on Emerging OECD Economies Issues”, that will be chaired by Mr. Ryszard Pospieszynski of the PKPP. Under his leadership the group will bring, to BIAC Committees, special perspectives and focus on those issues of particular interest and sensitivity to these countries. This will not only enhance two-way flow of new ideas that will originate from emerging economy representatives, but will strengthen their voice through BIAC representations to the OECD and other international organizations such as the WTO.

Annex: Overview Effect of Enlargement

Key Figures (2002)

	EU 15	EU 25
Population – million (% of world)	379 (6.1%)	455 (7.3%)
GDP – billion € (% of world)	8,827 (26.7%)	9,576 (28%)
GDP per capita, €	24.100	21.100
Total trade with the world* – billion €	1,977	1,799
Of which with the 10 new MS – billion €	232	
Share in world trade in goods	19.4%	17.7%
Share in world trade in services	24.7%	
Share in world FDI:		
Inflows	20.5%	na
Outflows	45.2%	na
Share of world trade (goods + services)	20.1%	19.8%
Degree of opening to international trade (total trade/GDP)	28.6%	26.9%

Source: COMEXT, FMI

*(World – EU 15 countries) and (World – EU 25 countries) for EU 15 and EU 25 respectively.

Trade with main partners (2002): change in trade with the EU's major trading partners

	EU 15		EU 25	
	Mio €	% of total EU-15 trade	Mio €	% of total EU-25 trade
1. USA	416,132	21.0%	429,944	23.3%
2. Switzerland	129,515	6.5%	136,378	7.4%
3. China	116,067	5.8%	119,154	6.5%
4. Japan	110,951	5.6%	119,055	6.4%
5. Russia	78,170	3.9%	97,126	5.3%

Source: COMEXT, FMI

Breakdown of EU trade with each acceding country (2002)

	Ranking in EU - 15 trade partners	EU 15		EU 25	
		Mio €	% of total EU-15 trade	Mio €	% of total EU-15 trade
Cyprus	60	714	0.1%	2,892	0.3%
Czech Republic	8	27,524	2.8%	29,230	3.0%
Estonia	44	2,979	0.3%	3,530	0.4%
Hungary	9	25,294	2.6%	25,018	2.5%
Latvia	52	1,949	0.2%	2,587	0.26%
Lithuania	43	2,714	0.3%	4,011	0.4%
Malta	58	1,120	0.1%	2,691	0.3%
Poland	7	28,114	2.8%	37,339	3.8%
Slovenia	29	6,838	0.7%	8,650	0.9%
Slovakia	26	9,710	1.0%	8,743	0.9%

Source: EU Commission