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Free Trade Agreements & Customs Unions are radically different

In configuring their international trading relations, countries can choose between two basic models: the Free Trade Agreement ("FTA") or the Customs Union ("CU").

An FTA allows a country's electorate, parliament and government to exercise national sovereignty when choosing arrangements for trade with the rest of the world.

A CU deliberately removes from its member-states the power to exercise national sovereignty in choosing arrangements for trade with the rest of the world. The exercise of power in a CU is by its very nature supranational.

FTAs & CUs are known collectively as Preferential (or "Regional" when appropriate) Trade Agreements ("PTAs"). Worldwide, FTAs account for the vast majority of the over five hundred existing PTAs. Most PTAs operate under the umbrella of the World Trade Organisation ("WTO"), which has 159 member-countries.

- In an FTA, each participating country agrees on free (or free-ish) trade with the other countries in the FTA. A participating country is at liberty to make its own trading arrangements with countries ***outside*** the FTA.

- In a CU, each participating country agrees on free (or free-ish) trade with the other countries in the CU. Each participating country cedes control to the supranational body which operates the CU of not just its trading arrangements ***inside*** the CU, but (unlike in FTAs) with all countries ***outside*** the CU. The participating country adopts the Common External Tariff set by the CU's supranational operating body and accepts and implements whatever supranational trade policy the CU decides.

Examples of FTAs

NAFTA[1], the North American Free Trade Agreement, comprises Canada, the USA & Mexico. Canada (not NAFTA) already has an FTA with the European Free Trade Agreement ("EFTA")[2] countries (Switzerland, Norway & Iceland) & is currently negotiating an FTA with the EU CU.

The USA, the largest NAFTA member, has no FTA with the EU CU, nor with any EFTA country.

The third NAFTA member, Mexico, has had a separate FTA[3] with the EU CU since 2000. Under this FTA, Mexico has practically the same market access to countries inside the EU CU as EU countries themselves, with none of the EU regulations, and none of the costs, borne by EU countries.

Mexico (unlike the UK and its fellow members of the EU) retains the right to negotiate whatever trade arrangements it likes with all countries ***outside*** both NAFTA & the EU CU.

Examples of CUs

The EU CU is the developed world's only CU. Fewer than 10% of the world's PTAs are CUs.

Outside Europe, no significant industrial trading nation – not the USA, not China, not Japan, not South Korea, not Australia, not Chile – has chosen to conduct its international trade via a CU.

The UK, in 1944 a founder-member of the WTO's predecessor, gave up its seat & vote at the WTO on joining the then EEC in 1974. Since then, an EU Commissioner has voted at the WTO on behalf of the EEC/EU as a bloc. For the last 40 years, the UK, one of the biggest trading nations in the world, has had no direct influence or voting power at the WTO. Inside the EU CU, the UK, with 12%[4] of the votes in the EU Council of Ministers, can influence, but not determine, or block, EU trade policy. British policy has consisted in knowingly "offshoring" decisions on British trade to Brussels. Indeed, for the last 40 years, in law, constitution and practice, British trade policy has been ***not to have a British trade policy.***

One example of the consequence of this policy can be seen in the current (2014) negotiations between the EU and the USA on a future "Transatlantic Trade & Investment Partnership" ("TTIP"). On the European side, individual EU countries are excluded from these negotiations: the European Commission negotiates on behalf of all EU countries as a bloc. Whatever representations individual EU members (such as the UK) may make to the Commission, the decision to adopt or reject them is taken by the Commission alone.

Preferential Trade Agreements (Free Trade Agreements & Customs Unions): Information Sources & Data-Bases

Preferential Trade Agreements – PTAs – comprise bi-lateral and multi-lateral trade agreements between countries or groups of countries. Regional Trade Agreements – RTAs – comprise bi-lateral and multi-lateral trade agreements at the regional rather than global level. There is significant overlap between PTAs & RTAs, which, broadly-speaking, can be Free Trade Agreements (the vast majority) or Customs Unions (a shrinking minority).

Global Databases of all PTAs and RTAs

The Geneva-based WTO – World Trade Organisation (www.wto.org) – of which 159 countries are members, regulates world trade and maintains a register of PTAs/RTAs, of which there are currently (2014) over 500.

The World Bank (http://wits.worldbank.org/gptad.html/) and the Tuck Center for Global Business & Government (www.info.com.Tuck) at Dartmouth College in Hanover, New Hampshire, jointly maintain a comprehensive global database of PTAs/RTAs, the *Global Preferential Trade Agreements Database* or GPTAD.

The Faculty of Law at Montreal's McGill University, at www.ptas.mcgill.ca., maintains a separate global database of PTAs & RTAs.

European Union PTAs

As of July 2014 the EU had PTAs in place with 48 countries, and PTAs in negotiation or "awaiting official conclusion" with another 84 countries, plus another 7 countries with which the EU is considering opening "preferential negotiations".

If all these PTAs come off, the EU will have PTAs with 139 countries[5], representing 87% of the WTO's total membership of 159 countries.

References

1. NAFTA: www.ustr.gov

2. EFTA: www.efta.int

3. www.globalbritain.co.uk > Briefing Notes > Archive > Global Britain Briefing Note No 19, *The Mexico-EU Free Trade Agreement Points the Way*, 1.3.02,

4. The UK's percentage share of votes in the EU Council of Ministers increased to 12% in October 2014, from 8% previously, following changes agreed earlier in the Lisbon Treaty

5. http://trade.ec.europe.eu/doclib/docs/2006/December/trade_118238pdf

Global Britain

Ewen Stewart

Director

David Stewart

Treasurer

Ian Milne

Chairman

www.globalbritain.co.uk

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