Bilateral Trade Relations and Preferences

Multi-lateral trade agreements are agreed under the auspices of the WTO. However despite rules within the WTO to limit possible bilateral agreements because of their potential to undermine the benefits of one agreement for all, key players have been increasingly signing and agreeing bilateral and ever more regional trade agreements. These agreements have several distinct effects on the global trading regime as a whole. Essentially the rise in the number of bilateral trade agreements creates different sets of rules that govern trade between different actors, and so sometimes divides what might be natural allies in negotiating trade agreements. It encourages developing countries to compete so that they can receive preferences from large markets such as the EU and the US. This competition significantly weakens negotiating strength and so makes it more likely that larger concessions will be made in the new trade agreements. In negotiating a bilateral negotiation, the EU normally has a better negotiating power because of the size of its market, [Whilst a small country might send a significant proportion of its exports to the EU, the EU's interest is likely to be only a small percentage of its overall exports, therefore the third country has much greater interest in signing the agreement [for many countries around the world the EU is the largest market for their goods) and so the EU is likely to be able to shape the agreement more towards its own interests.

Linking trade with politics:

- Under the WTO rules, the Most Favoured Nation (MFN) rule means that every country has to treat every other WTO member the same regardless of its political relations
- A country's decision to enter into negotiations on a bilateral trade agreement is likely to be based at least in part on political grounds and could be affected by things such as the war on terror, the war on drugs, support at the UN Security Council etc etc
- With increasingly complex webs of trade agreements, the kind of international rules that would help lift people out of poverty are harder and harder to realise.

Bait for Multilateral Negotiations

- Preferences that countries receive from bilateral or regional trade agreements can be diminished if multilateral negotiations significantly liberalise. [If country A receives a 5% tariff from country B whereas the multilateral rule lays a tariff of 20% then country A loses out if the multilateral rule is reduced to 10%.]
- The granting or non-granting of trade agreements also allows the grantees [US and the EU] to influence the multilateral negotiations at the WTO with a threat to not renew or not to offer to start a bilateral trade agreement.

Trade Diversion

- Trade Diversion is the process by which because of differing tariffs that can apply to products or services from different countries, the product or service that is provided in any given market is likely to be inefficient and to skew the development of industrial sectors away from where the most competitive producer or service provider is present. This can only apply if differing rules apply to different countries and no multilateral rule applies to all.

Quaker Council for European Affairs (QCEA), Square Ambiorix 50, B-1000 Brussels
Tel: +32 2 230 4935 Fax: +32 2 230 6370 email: info@qcea.org web: http://qcea.quaker.org
aisbl moniteur belge no. 11 732/80•CCP: 000-1499848-34•Bank: SGB 210-0559814-79

Some of the EU's non WTO Trade Agreements:

ACP:	This is the agreement that the EU has with the ACP countries [see EU and International Trade Briefing Paper 3]
GSP:	This is the Generalised System of Preferences that the EU operates, under a clear exception granted in the WTO system, which grants non-reciprocal tariff preferences to developing countries. Also under this scheme there are special arrangements for the encouragement of the respect of labour rights, the fight against drugs, and the protection of the environment. The EU also has an arrangement called the **Everything but Arms Agreement** that grants duty free access to all goods, except for fresh bananas, sugar and rice, which are to be phased in.
Chile:	Signed in 2003, this bilateral agreement includes many aspects that go beyond what is required by WTO rules.
Mexico:	Agreement signed in 2000.
South Africa:	A trade development and cooperation agreement signed in 2000. Creates a free trade area between the EU and South Africa. Whilst South Africa is an ACP country, its trade relationship is different: not all of the provisions of the Cotonou Agreement apply.

Bilateralism v Multilateralism

The increasing number of bilateral trade agreements has worried some trade experts. Bilateral agreements undermine the MFN principle of the WTO by giving preferences to those who have signed agreements. Often these agreements are not based upon the needs for development and poverty reduction, but upon political considerations. They do, however, erode the preferences that have been granted to developing countries. Every time a new bilateral trade agreement is signed the margin of their preference is reduced. For example, the ACP countries receive a relatively reduced margin of preference each time the EU signs a bilateral Trade Agreement. This can reduce the benefit that is granted to the developing countries under WTO rules or through other agreements.

Other Countries where the EU has Trade Agreements:

Algeria, Andorra, Bulgaria, Certain Overseas Countries and Territories (Mostly Protectoratesor Principalities of EU Member States), Croatia, Cyprus, Czech Republic, Denmark (Faroe Islands), Egypt, Estonia, Former Yugoslav Republic of Macedonia, Hungary, Iceland, Israel, Jordan, Latvia, Lebanon, Liechtenstein, Lithuania, Malta, Mexico, Morocco, Norway, Palestinian Authority, Poland, Romania, San Marino, Saudi Arabia, Slovak Republic, Slovenia, South Africa, Switzerland, Syria, Tunisia, Turkey.

Under Negotiation: Mercosur (Argentina, Brazil, Paraguay, Uruguay), Chile, Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, UAE), Syria, Turkey.