With the support of the Erasmus+ Programme of the European Union

THE UNIVERSITY of ADELAIDE

ETS Workshop on Economics of the EU and EU-Australia Relations

Institute for International Trade
The University of Adelaide
Level 7 | Rooms 7.04 – 7.05 | 10 Pulteney Street

Tuesday 5th March 2019

1.30 – 1.45 Registration

1.45 - 2.00 Welcome by Dr Virginie Masson, Teaching and Learning Coordinator, School of Economics, The University of Adelaide

2.00 – 3.00 The Evolving Economics of the EU, Professor Richard Pomfret Professor of Economics & Jean Monnet Chair on the Economics of European Union, Institute for International Trade, The University of Adelaide

The origins of the EU lie in decisions taken by six European countries leading to the 1957 Treaty of Rome. Today the economic union has 28 members and far deeper integration. We will examine the economics of this evolution and current issues facing the EU (macroeconomic coordination, migration, Brexit).

3.00 – 3:15 Afternoon tea

3:15 – 4:15 The Australia-EU Trade Agreement Currently Under Negotiation, Professor Richard Pomfret

In 2018 the EU and Australia began negotiations for a deep trade agreement. This session places the negotiations in the context of current challenges to the global economy, recent EU agreements with Canada and Japan, and Australia's megaregional trade agreements (the CPTPP entered into force in December 2018 and the RCEP is under negotiation).

4:15 – 4.30 Relocate to Level 5 | Seminar Room 5.01

4.30 – 5.30 General Discussion | Informal Drinks

The Workshop is an activity of the Jean Monnet Centre of Excellence in International Trade and Global Affairs with support from the Erasmus+ programme of the European Union

THE UNIVERSITY of ADELAIDE

With the support of the Erasmus+ Programme of the European Union

THE AUSTRALIA-EU TRADE AGREEMENT

Tuesday 5 March 2019, 3.15 – 4.15 pm

Jean Monnet Centre of Excellence in International Trade & Global Affairs


EUROPEAN
COMMON
MARKET
GERMANY
LUXEMBOURG
NETHERLANDS
ITALY
BELGIUM
McCRAE


EEAS
European External Actio
SEA
Service Européen pour l'Action ex

The High Representative of the European Union for Foreign Affairs and Security Policy/Vice-President of the European Commission, Federica Mogherini, and Australian Minister for Foreign Affairs, Julie Bishop, sign the EU-Australia Framework Agreement on 7 August 2017 – negotiations began June 2018.

Australia and the EU

A troubled relationship, traditionally about agriculture, esp CAP & UK accession → very poor relations in 1970s and early 1980s

- The 1960s CAP had little impact because Australia traded mainly with the UK, little with the EC6
- In 1973 Australia lost the UK market to EC farmers
- and as surpluses faced subsidized EC exports in third-country markets

CAP Reforms after 1992:

- failure of 1990 Ministerial Conference to end the Uruguay Round - EU had to terminate the trade-distorting elements of CAP or face the breakdown of the Uruguay Round.
- MacSharry reform in 1992 began the **decoupling of prices** from output (the variable levy on imports)
    - Intervention prices for cereals were cut by 1/3, and farmers were compensated by a subsidy related to their land area, not output.
    - Subsidies were switched to environmental targets rather than output

THE UNIVERSITY of ADELAIDE

The 21st Century CAP

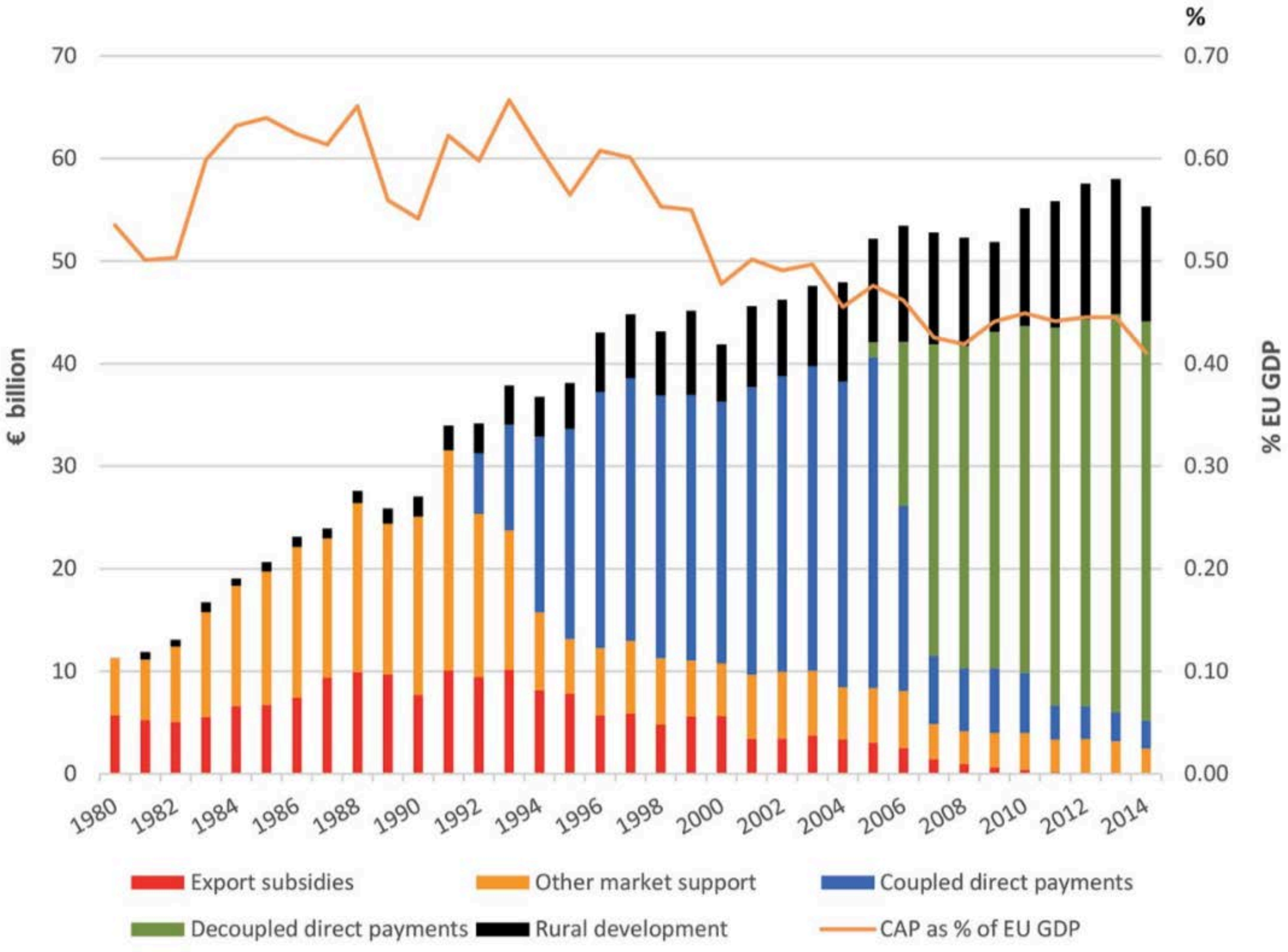
Since 1995 the EU has aimed at pre-emptive reforms to make the CAP WTO-compatible.

- European agricultural policy aims for a competitive ag sector, that is "greener, more trade-friendly, and more consumer-oriented"
- The CAP link with production has been largely broken since 2004.
  - CAP spending in euros continued to ↑
  - but as a share of EU GDP it has fallen since 1993
- Export subsidies have been abolished

Despite the goal of simplification, the CAP has become more complex since 2004

- Largely because EU agriculture is more complex following the 2004 and later enlargements

CAP Spending 1980 - 2014

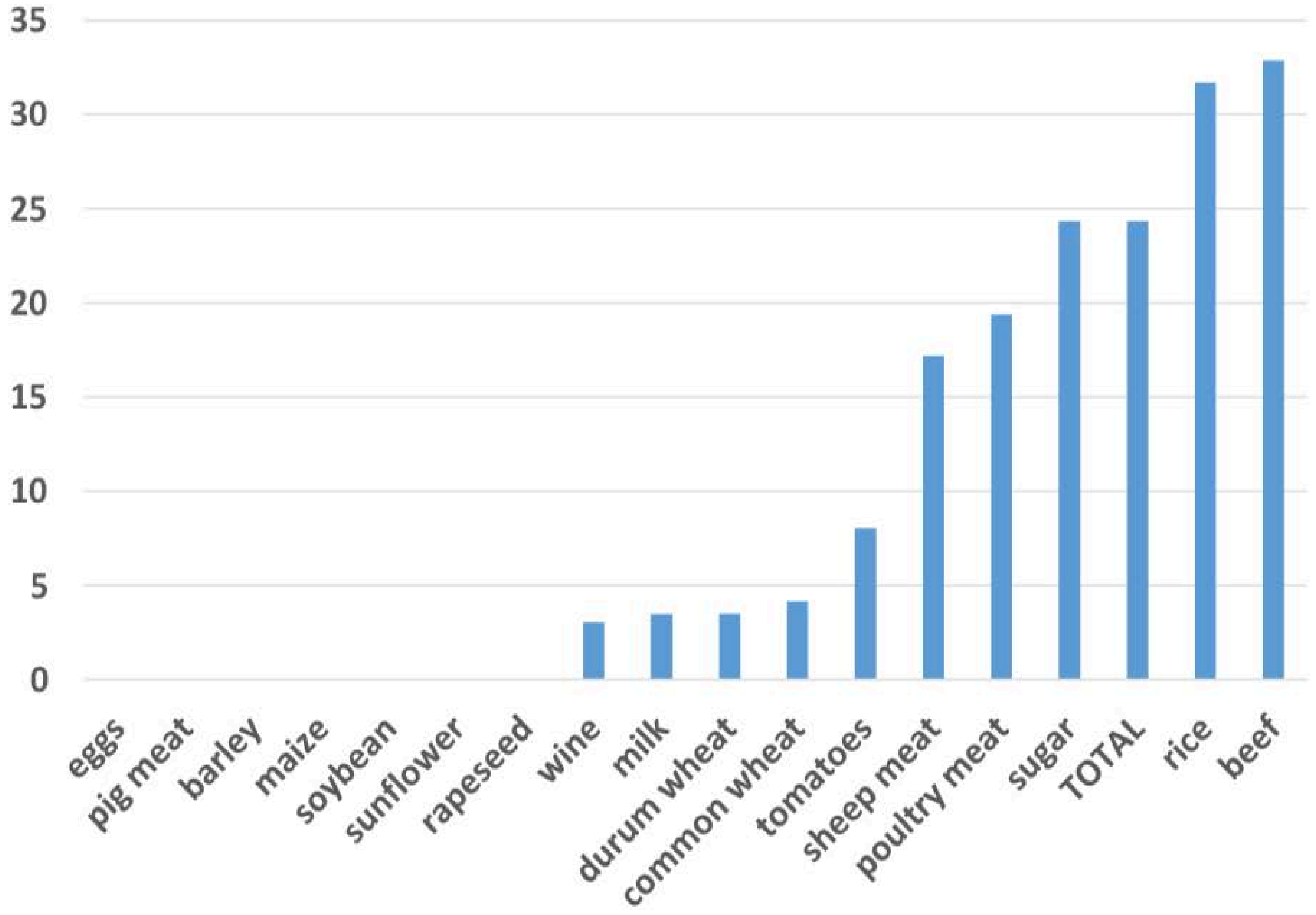


CAP - Issues for Australia

How the EU uses CAP funds is much less important today than in 1973

- High tariffs on products such as beef or sugar limit Aus exports
  - Concessions in the EU-Canada trade agreement often involved tariff rate quotas, that are s.t. bargaining
- NTBs may limit market access, or competition in third countries
  - early focus re Aus-EU agreement = geographical indicators

Nominal rate of assistance to EU28 farmers, 2014-16 (%)



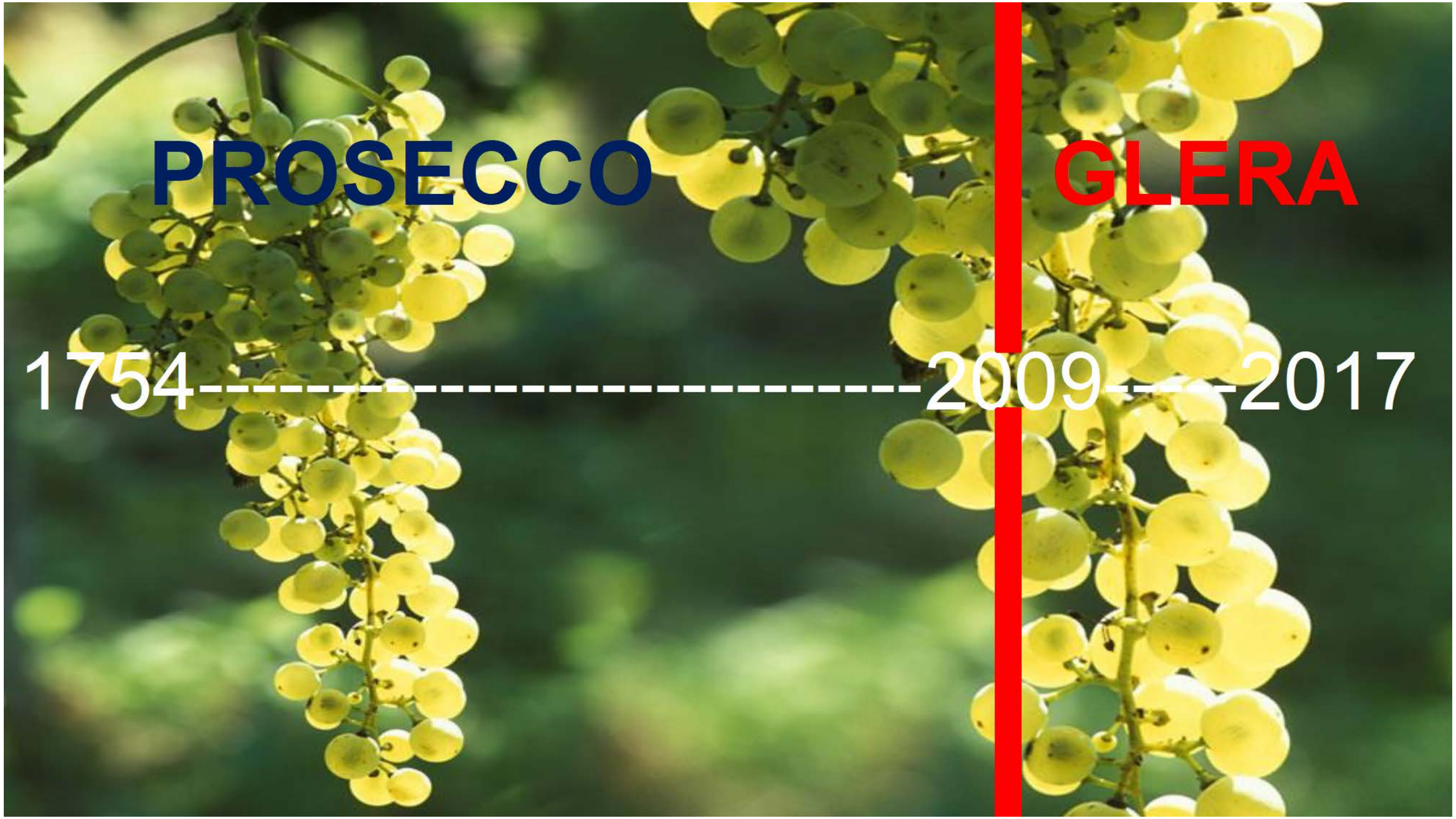
THE UNIVERSITY of ADELAIDE

TRIPS, Prosecco & Italy

WTO Agreement went into force on 1 January 1995 - Art. 24(6)

- Nothing in this Section shall require a Member to apply its provisions in respect of a geographical indication of any other Member with respect to products of the vine for which the relevant indication is identical with the customary name of a grape variety existing in the territory of that Member as of the date of entry into force of the WTO Agreement.

- In Italy Prosecco grape name changed (unilaterally) into Glera in 2009, claiming Prosecco as a GI rather than a grape name.


PROSECCO
GLERA
1754-----------------------------------2009-----2017

The Prosecco Hills of Conegliano and Valdobbiadene Submission in 2010

“The Prosecco vine has been cultivated on these hills for over two hundred years.”

THE UNIVERSITY of ADELAIDE

Does this matter?

The Italian position has been adopted by the EU in trade negotiations, e.g. with China a protected GI is:

- Conegliano-Valdobbiadene-Prosecco **科内利**亚诺瓦尔多比亚德尼 – **普**罗塞克

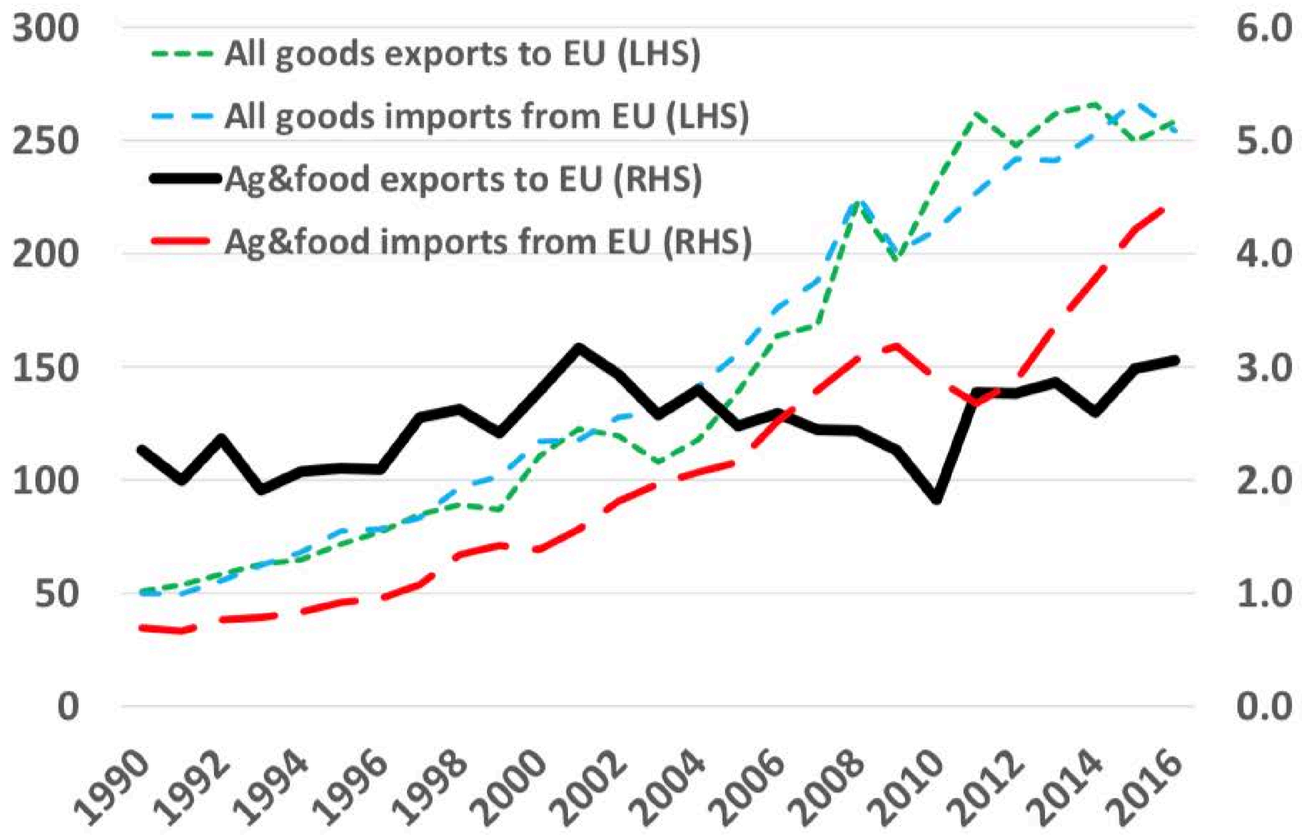
- Can this limit Australian prosecco exports to China?

Will the EU prohibit the use of prosecco on the label of Australian wine exports to the EU?

Have Australian sparkling wine producers suffered from recognition of champagne as a GI?

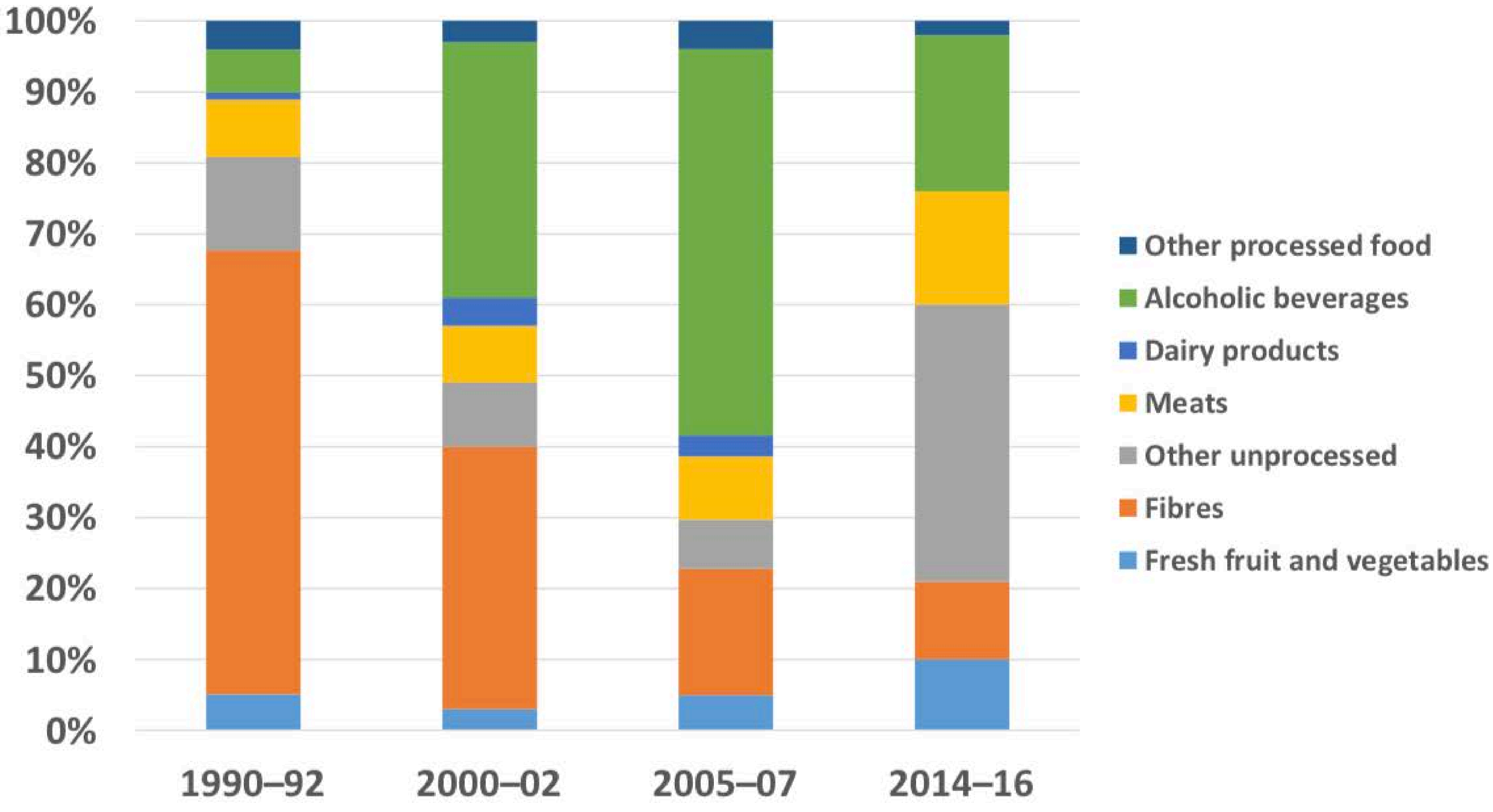
- originally with French contribution, Jansz made Tasmania's first sparkling wine using the traditional Méthode, now called Méthode Tasmanoise.
- Similar success of Deutz from New Zealand and Maison Mumm Petit Cordon Prestige Brut NV

Value of Aust trade with EU28: ag&food exports not growing (AUD billion)



Australia's ag&food exports to EU28:

wine replaced wool, before it too shrank



EU's External Trade Policy

Initial strategy: liberalize CET + use preferential treatment as foreign policy

- Inconsistent because lower MFN tariffs left less scope for preferential treatment
- Unsuccessful because trade partners worried about their relative treatment

- 1980s – some ↑protection for sensitive products (cars steel, t&c)
- 1990-4 completion of Uruguay Round, establishment of WTO 1/1/95
  - EU commits to open multilateralism
  - Abandonment of new protectionism, reform of CAP, & renunciation of one-way preferences
- 2015 ***Trade for All: Towards a more responsible trade and investment policy***
  - New trade priorities for an era of GVCs
  - Note lack of mention of WTO – world trade law is the baseline but policy will focus on *beyond-WTO* largely through bilaterally negotiated trade agreements

Trade for All: Towards a more responsible trade and investment policy - adopted by the Commission on 14 October 2015

Box 2.1 Objectives of the updated trade and investment policy strategy

The EU will focus attention on, *inter alia,* achieving the following:

(i) A more effective policy that tackles new economic realities and lives up to its promises by:

- Updating trade policy to take account of the new economic realities such as global value chains, the digital economy and the importance of services.
- Supporting mobility of technicians, experts and service providers.
- Setting up an enhanced partnership with the member States, the European Parliament and stakeholders to better implement trade and investment agreements.
- Including effective SME provisions in future trade agreements.

(ii) A more transparent trade and investment policy by extending the TTIP transparency initiative to all the EU's trade negotiations.

(iii) A trade and investment policy based on values by:

- Responding to the public's expectations on regulations and investment: a clear pledge on safeguarding EU regulatory protection and a strategy to lead the reform of investment policy globally.
- Expanding measures to support sustainable development, fair and ethical trade, and human rights, including by ensuring effective implementation of related FTA provisions and the Generalised Scheme of Preferences.
- Including anti-corruption rules in future trade agreements.

(iv) Progress in negotiations to shape globalization by:

- Re-energizing multilateral negotiations and designing an open approach to bilateral and regional agreements.
- Strengthening EU presence in Asia and setting ambitious objectives with China.
- Requesting a mandate for FTA negotiations with Australia and New Zealand.
- Exploring launching new investment negotiations with Hong Kong, China; the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei); and the Republic of Korea.
- Starting new ASEAN FTA negotiations with the Philippines and Indonesia, as and when appropriate.

EU Trade Agreements

New generation trade agreements cover goods, services, IP, investment, govt procurement, access to energy, trade facilitation, competition and regulatory cooperation

Difficult to keep track, even on updated EU website, because of differences between date negotiations completed, date agreement signed, date ratified, and dates implemented.

Agreements include:

- Korea – signed 2010, in force 2015
- Canada – signed 2014, applied since Sept 2017
- Japan - concluded Dec 2017, signed July 2018
- Mexico – agreement in principle, April 2018
- Singapore – "awaiting signature"
- Australia and NZ – both launched June 2018
- USA (TTIP) – negotiations since July 2013, paused
- Mercosur – relaunched May 2010

For Australia the Canada agreement is important as a possible blueprint. Globally the EU-Japan agreement is important because the EU & Japan account for 1/3 of world GDP

Is this familiar?

Australian trade policy has been transformed since the 1980s

Unilateral tariff elimination and reduction of main non-tariff barriers

- Most SPS complaints at WTO have been against the Australia and the EU

Many bilateral trade agreements signed in the 21st century – mostly focused on trade facilitation and other WTO+ issues.

- CPTPP came into force in December 2018 – RCEP under negotiation
  - Similar coverage to EU-Canada and EU-Japan

Recognition of "like-mindedness" since 2015 and especially in response to US positions since 2017

Why do New Generation FTAs take so long?

- Because they cover many things (EU-Aus framework has 64 Articles).
- Because not all partners are willing to include all issues – whaling was controversial in the EU-Japan agreement and ISDS largely sidestepped
- Because domestic interests can be obstructive
  - Cheese is included in the Japan-EU agreement but special arrangements for Camembert
- Agreement on SPS and TBT is difficult because of different ideas of food safety, desirable technical requirements, etc.

Nevertheless:

The EU is keen to show that it is committed to a global economy open to trade in goods and services (a desire shared by Japan and Canada as major partners, i.e. six of the G7 countries)

Prospects for the EU-Australia Agreement

Plenty of negotiating but articles related to services trade and GVCs should not be difficult – shared values & Canadian or Japanese blueprints

- Agriculture still has potential sticking points
  - Composition of Aus ag X to EU has been volatile
  - Wool dominant in early 1990s, wine in mid 2000s, nothing today
  - But some potential exports (e.g. meat) are held back by EU policies (TRQs)
  - SPS and TBT are major non-tariff barriers on both sides – but may reflect strongly held preferences
  - GIs = very specific negotiating points
- But shared commitment to not let this hinder the outcome

THE UNIVERSITY of ADELAIDE

Impact of Brexit

Brexit may delay negotiations (it may have been a reason to hurry and sign EU-Japan agreement)

- Complicates re-allocation of TRQs on beef etc – probably not to be tackled until after March 2019
- Impact on wine exports is likely to be mixed
  - In UK market less competition from favoured EU wine producers (France, Italy, Spain, etc) but more competition from other EU non-members (USA, Chile, Argentina, South Africa, etc)
  - Elimination of 5% CET on wine is less important than the UK excise tax (and effect of changes in income on demand for wine

Reading

Potential Benefits of an Australia-EU Free Trade Agreement:

Key Issues and Options

edited by Jane Drake-Brockman and Patrick Messerlin

$55.00 | 2018 | Paperback | 978-1-925261-59-2 | 350 pp

FREE | 2018 | Ebook (PDF) | 978-1-925261-60-8 | 350 pp

DOI: https://doi.org/10.20851/eu-trade

THE UNIVERSITY of ADELAIDE

THE EVOLVING ECONOMICS OF THE EU

Richard Pomfret

Presentation at the ETS Workshop on

The EU and EU Australia Relations

Tuesday 5 March 2019, 2 – 3 pm

Jean Monnet Centre of Excellence in International Trade & Global Affairs

With the support of the Erasmus+ Programme of the European Union

Europe Year Zero

- Widespread destruction & economic worries
  - fears of how long reconstruction would take
  - concerns that depression of 1930s would return without wartime spending
- Political issue
  - How to prevent another war between France and Germany after 1870, 1914 and 1939?

Marshall Plan & OEEC

- June 1947 Marshall Plan announced; Organization for European Economic Cooperation (OEEC) established April 1948
  - Purpose = administer the Marshall Plan
  - Promoting economic cooperation and trade liberalization
    - mainly through removal of payments restrictions in Europe
      - institutions were temporary – European Payments Union dissolved 1958 – OEEC became OECD in 1960

European Coal and Steel Community

- Proposed by France in 1950 to ensure German recovery would not be a prelude to another war
  - which would be "not merely unthinkable, but materially impossible" Robert Schuman, French Foreign Minister - the ECSC would be "the first step in the federation of Europe"

Joined by Belgium, Germany, Italy, Luxemburg and Netherlands

– open to other European countries, but they opposed the supranational power vested to the High Authority in the ECSC Treaty (signed 1951)

Differing Perspectives

- UK and Scandinavian countries and others preferred the trade liberalization model of the OEEC and disliked the supranationality of the ECSC.
- Federalists pushed for closer European integration
  - but in 1954 the French Assembly rejected a proposal for European Defence Cooperation – military and political unification postponed,
  - 1955 Messina meeting - move forward on a common market and cooperation in transport and energy: the European Communities.

Treaty of Rome, 1957

Established a customs union among the six signatories

- GATT consistent (Article XXIV) as long as it covered almost all trade and did not raise external trade barriers
- supported by USA and facilitated by EC participation in Kennedy Round of multilateral trade negotiations (with substantial cuts to the common external tariff)

- Major exclusions = agriculture, textiles and clothing, steel, cars. . .
- Secondary problem for the global system = treatment of former colonies

Bloc Competition

Seven countries* formed the European Free Trade Association (EFTA) in 1959

- vision = a FTA without supranational institutions or a common external trade policy

- EC signed association agreements with Greece (1961) and Turkey (1963)
- Finland became an associate member of EFTA in 1961

* Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the UK

The Customs Union

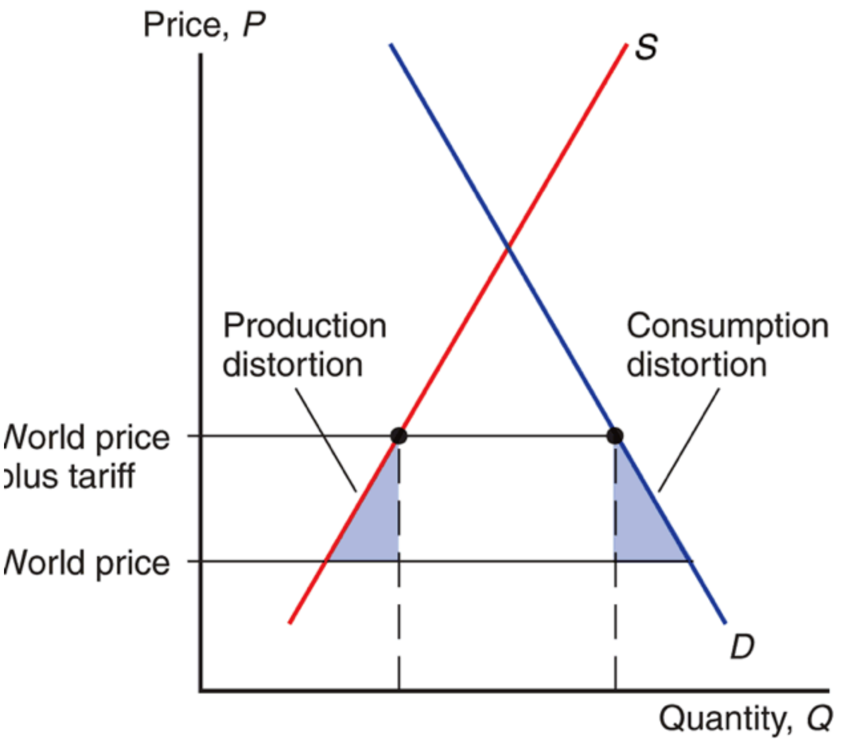
EC customs union completed in 1968

CU = FTA + CET

Required agreement on CET and common negotiating position in GATT

Required agreement on EC budget

Partial equilibrium analysis of a tariff



Two distortions:

- Some units produced domestically could be imported at lower cost
- some units that would be consumed at P_w are not consumed

Thus, gains from trade are reduced by a tariff

But there are distributional effects:

Consumers lose and producers gain

↓ consumer surplus > ↑ producer surplus

More precisely:

↓ CS > ↑ PS + tariff revenue

Difference = the two triangles

Economic Consequences of RTAs

- P_w = world price of a good
- P_d = domestic price = P_w + tariff
- P_p = price of partner's good

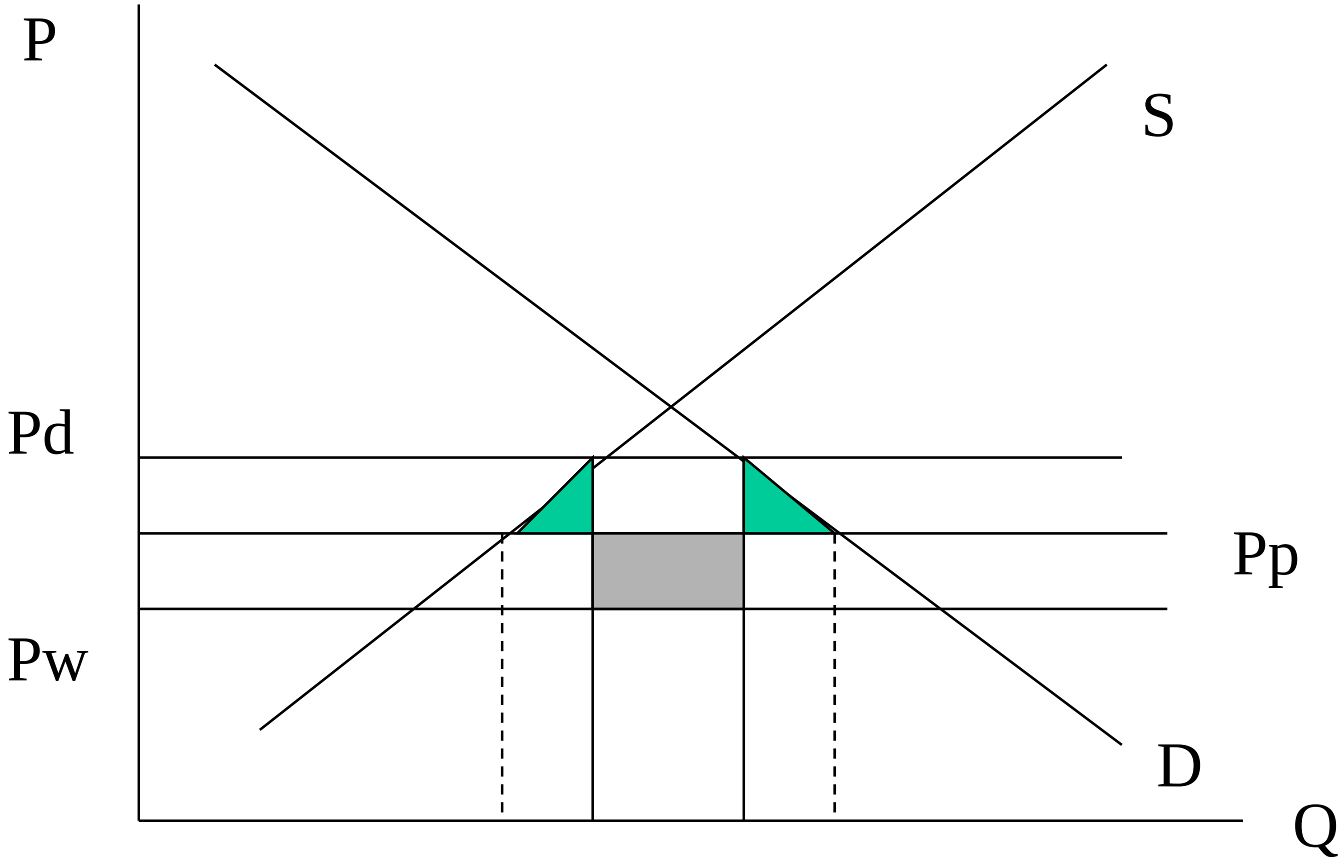
In the relevant case of $P_w < P_p < P_d$

domestic D↑, domestic S↓ and imports↑

- ↑ consumer surplus > ↓ producer surplus (2 triangles)
- tariff revenue ↓ because imports are now duty-free

Net effect = 2 green triangles – grey rectangle

Trade Creation and Diversion



Trade Creation and Diversion

Removal of internal TBs → ↑ trade among members

- **Trade creation** if this displaces inefficient domestic producers or increases demand
- **Trade diversion** if it displaces external suppliers (which were presumably more efficient)

TC raises global welfare;

TD lowers global welfare and perhaps that of the importing country.

The net welfare effect for the importing country is ambiguous and depends upon:

- the balance between the gains from trade creation and the costs of trade diversion
    - Jacob Viner, *The Customs Union Issue* (1950)
- ↑ internal trade may also improve terms of trade
    - which is zero-sum for the global economy

TC and TD in the Customs Union

For the CU in Manufactures among the 6 original members

Expect TC>TD because P_p is close to P_w

In practice complicated by

- Long boom in the global economy in 1950s and 1960s
- Reduction of common external tariff

Both reinforced the positive effect on economic growth

The Common Agricultural Policy

The Common Agricultural Policy created in the 1960s and early 1970s aimed to maintain:

- farmers' incomes by manipulating farmgate prices
- the principle of free trade within the common market

- The CAP took longer to complete than the CU in manufactures (established by 1968)
- Required annual bargaining on the common prices for every product

The Mechanism of Price Support

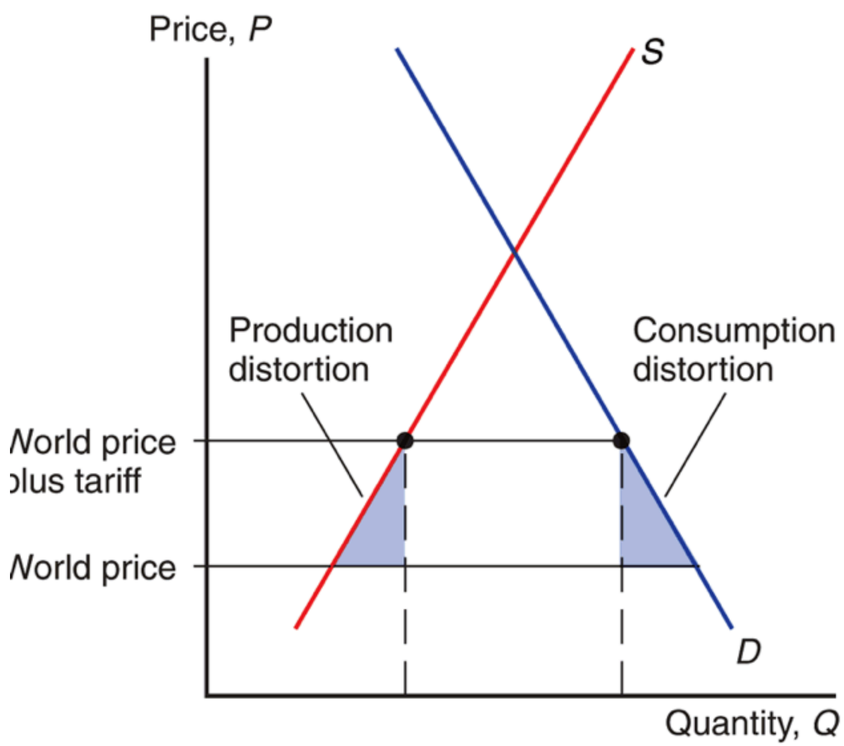
Varied from product to product (e.g. because of different degrees of perishability)

- EC Ministers would agree on the intervention price at which the product would be purchased from farmers.
- Imports were subject to a variable levy to cover the gap between the world price and the intervention price.
- The intervention price was often associated with excess supply ➔ ↑ stocks
- In order to dispose of the surplus the EC offered export subsidies

Analysis

Essentially the PE diagram, but

- Upper line = domestic price
- Gap between world price and domestic price is variable



CAP Problems

- When world ag prices were high (as in early-mid 1970s) the policy was relatively inexpensive
- When world prices fell but CAP intervention prices did not, the cost of subsidies stock maintenance etc ↑
- The end of the fixed ERs in 1973 caused complications as national prices changed:
  - common prices were maintained by using green ERs and compensating for the difference between support at green ERs and at market ERs - ↑complexity and smuggling.

By the late 1970s the CAP ate up c3/4 of the EU budget, but farmer' opposition stymied effective reform.

- Stop-gap measures included introduction of milk quotas in 1984
- Serious reforms after 1990

The First Enlargement

Economic success of EC put pressure on UK to join in order to have a say in the European integration process.

UK, Ireland and Denmark joined EC 1/1/73 – free trade agreements in non-agricultural goods signed with EFTA countries: Austria, Finland, Norway, Sweden, Switzerland and Iceland (joined EFTA in 1970).

TC and TD for the UK in 1973

Tariffs on manufactures were already low. The dominant immediate trade effect was adjusting to the CAP in which $P_p > P_w$

Expect TD>TC because P_p is well above P_w

- reinforced by 1973-82 – recession/stagflation

Problems in the 1970s & early 1980s

1973-82 – recession/stagflation – exacerbated by problems of:

- the budget –
  - revenue = tariffs +part of value-added tax
  - Expenditure dominated by CAP

  UK demanded a rebate because it was paying in less than it was receiving
- external relations
- monetary integration

The Pyramid of Preferences

- EC had no common foreign policy – used trade policy to strengthen external ties:
  - EC-EFTA free trade in manufactures
  - Global Mediterranean Policy (1972)
  - Yaoundé (Lomé) Conventions provided special treatment to ex-colonies in Africa, the Caribbean and the Pacific
  - Generalized System of Preferences (1971)

MFN tariff only applied to seven trading partners in 1970s.

  - non-market economies had worse than MFN treatment

Second and Third Enlargement

Mediterranean especially challenging because of promise to Greece (and Turkey) in their 1961 (and 1963) association agreements – Greece's envisaged a 22-year transition to full membership.

After the end of military dictatorships in 1974-5, Greece, Portugal and Spain applied for membership – joined in 1981 and 1986 – EC12.

- The "global" Med Policy now just Turkey, North Africa and the islands (Malta + Cyprus)

Monetary Integration - I

- Not mentioned in Rome Treaty
- 1970 Werner Report (1970) – monetary union in 10 yrs
  - Background = large change in 1969 in the exchange rate between the French franc and the German mark
  - 1971-3 collapse of the Bretton Woods fixed ER system
- First step towards monetary integration was more limited ER fluctuations (the Snake)
  - collapsed in 1972-3 because national governments would not give up their control over monetary policy – the **Impossible Trinity (**monetary policy + fixed ER+ capital mobility**)**.

Monetary Integration - II

- Yet . . .
  – establishment of European Monetary System follows quickly (operational in 1979) and is very similar to the Snake

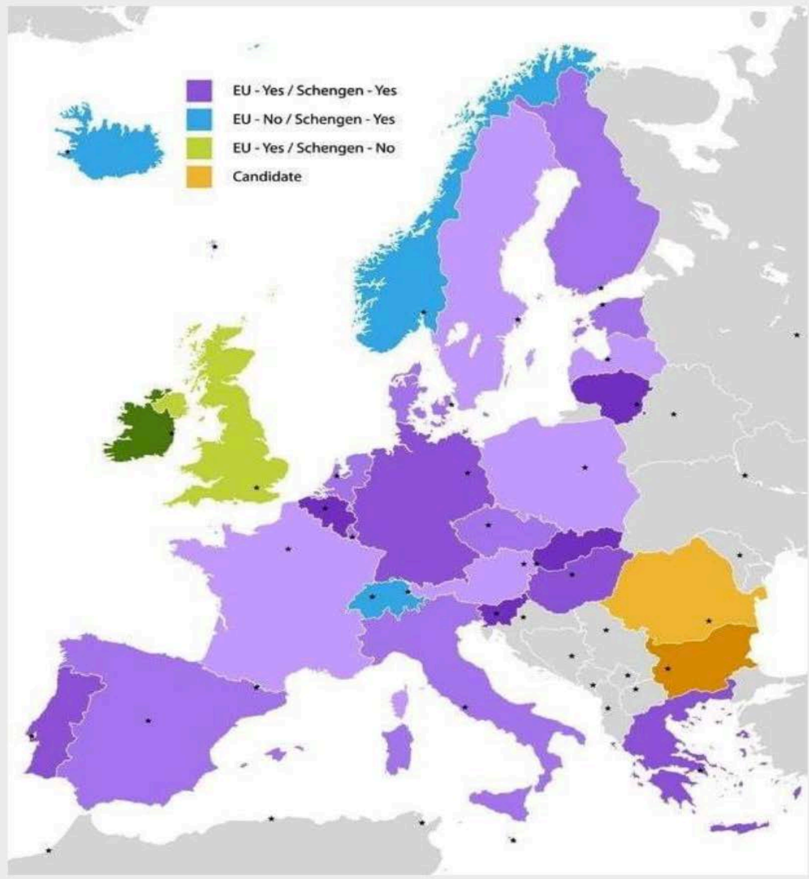
- Why the urgency to try again?
  – Common policies and a common budget are difficult to run with national currencies whose value changes
    - monetary policy independence must be weighed against the transactions costs benefits of a common currency

Deeper Integration

- Removal of tariffs highlighted importance of NTBs:
  - mutual recognition (Cassis de Dijon case 1979)
  - harmonization
- EC92 program to complete the internal market
  - renamed European Union
- Trade facilitation – 1985 Schengen Agreement = border-free area
  - not all EU members are in Schengen (UK, Ireland opted out; Bulgaria, Cyprus, Romania and Croatia still to accede)

Schengenland 2019

- Austria
- Belgium
- Czech Republic
- Denmark
- Estonia
- Finland
- France
- Germany
- Greece
- Hungary
- Iceland
- Italy
- Latvia
- Lithuania
- Luxembourg
- Malta
- Netherlands
- Norway
- Poland
- Portugal
- Slovakia
- Slovenia
- Spain
- Sweden
- Switzerland
- Liechtenstein



Map of Schengen Area Countries and Europe

Completing the Internal Market

- Despite enlargement to 12, the 1970s and early 1980s were a disappointing period
  - recession and stagflation
  - failure of economic and monetary union (EMU)
  - budget crises
  - segmentation of European market by national protection (e.g. cars)
- Single European Act 1986
  - institutional reform (qualified majority voting in more areas)
  - the Single Market program (EC92) = free movement of goods, people, capital & services. -- reduce non-tariff barriers to trade through mutual recognition and harmonization.

1992-4 Renewed Integration

- EC92 was successful (integrated market, end to national trade policies) – capital mobility – incomplete labour mobility
- Uruguay Round successful (1994), with commitment to shift CAP from price support to direct payments (MacSharry Reforms, 1992).
- Collapse of USSR (Dec 1991) opened prospect of neutrals (Austria, Sweden, Finland) joining EC – 1995 – and of further eastern expansion.

Treaties, Treaties, Treaties

- 1992 Maastricht Treaty on European Union
  - stronger Parliament,
  - subsidiarity,
  - EMU
- 1997 Amsterdam – institutional reform
- 2001 Nice
- 2007 Lisbon

German Reunification in 1990

- Political fears about German weight in EU – slow ratification of Maastricht Treaty
- Pressure on ER stability

Interconnected –

- Germany wanted to correct the ‘democratic deficit’ via a stronger European Parliament
- other countries wanted to limit German (Bundesbank) control over macro policy

The Euro

- EMU stage one began in 1990 with ending of controls on capital movement
- 1992 ER crisis – options
  1. Abandon commitment to fixed ER (UK, Sweden, Denmark)
  2. Move on to currency union – other 12 EU members adopt the euro (accounting unit, transfers, 1999: banknotes 2002)

Note: capital mobility highlighted the choice because a government could no longer control ER and mp (the Impossible Trinity)

From the EMS to the euro

Maastricht Treaty (agreed 1991, signed 1992)

– Euro established over next decade – since 1998 the ECB runs monetary policy for all eurozone members
– in 2002 euro banknotes introduced in 12 EU members
– today 17 EU members (+ Kosovo and Montenegro) use euros, and 7 EU members are preparing to join the eurozone

Benefits of a common currency

• lower transactions costs

• easier to make price comparisons, harder for monopolists to segment markets, etc

Pressures for Enlargement: Widening and Deepening

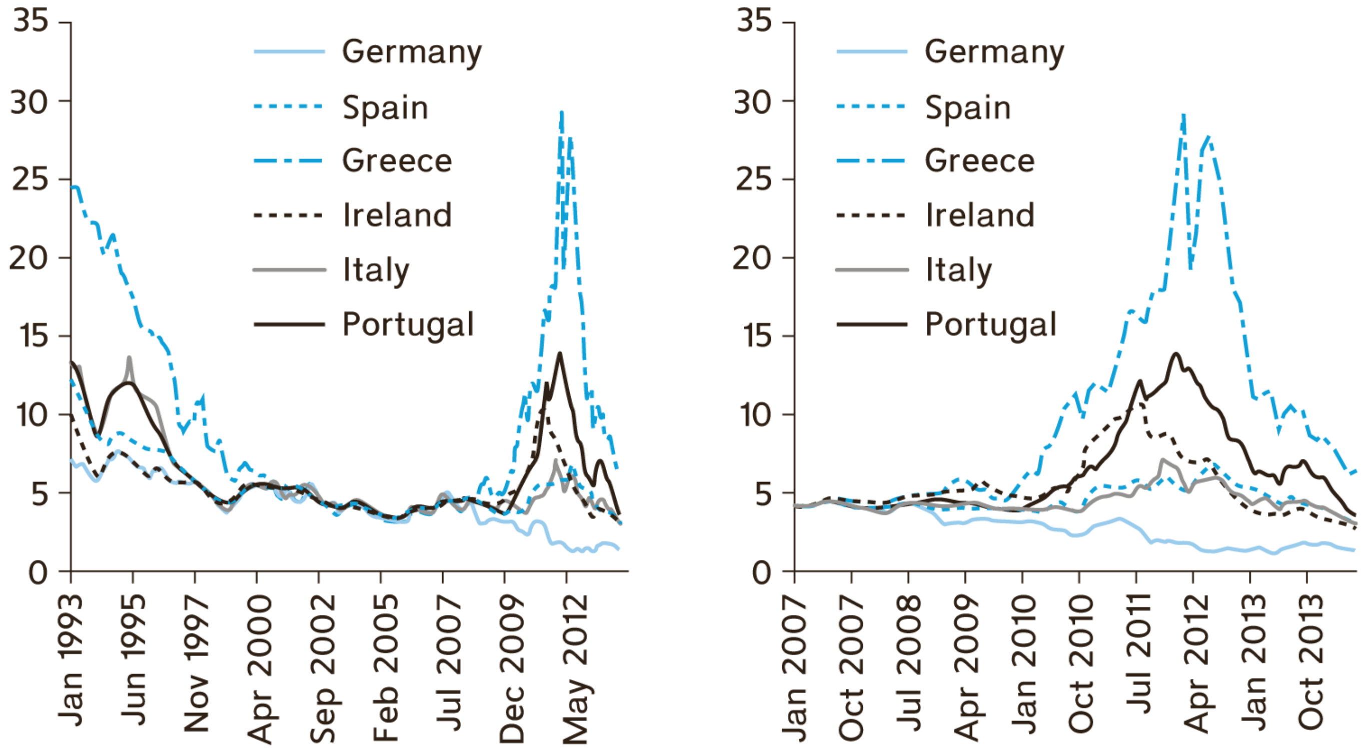
1995 EU15; 2004 EU25; 2007 EU27; 2013 EU28

- Politically driven with the end of the Cold War, but also wish for a voice in decision-making
  - EFTA = Iceland, Liechtenstein, Norway & Switzerland
- Deep integration
  - borderless trade (Schengen) + L and K mobility
  - monetary union (euro) – common monetary policy (and fiscal policy?)
  - common migration policy? – who controls the borders?
  - common foreign policy?

These are divisive, with different EU members opting out on different issues (and UK opting for Brexit in 2016 – 2019)

Eurozone Crisis

Figure 1.11 Eurozone long-run interest rates, 1993–2014



Source: Authors' elaboration on ECB data

Source: Authors' elaboration on ECB data

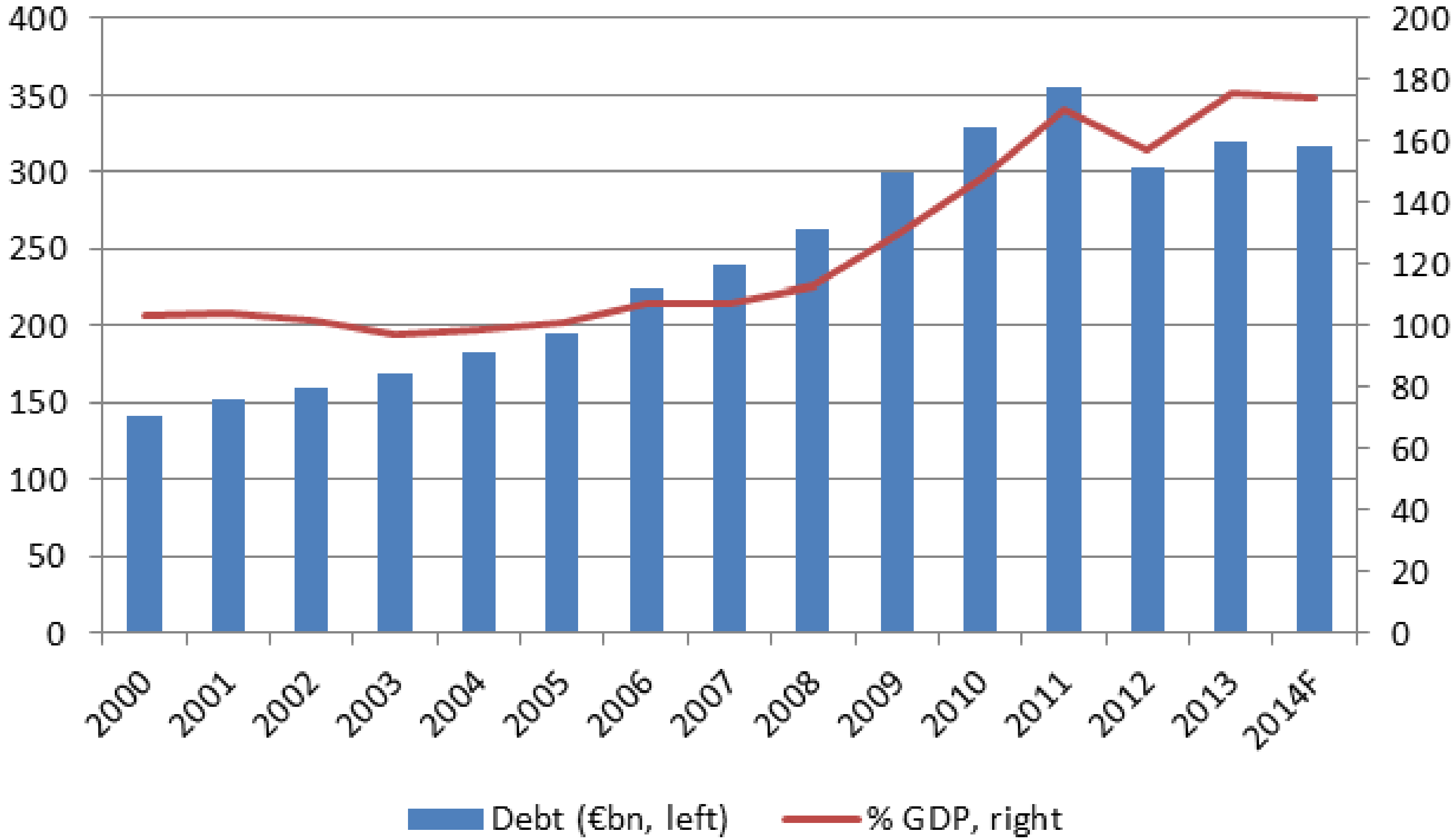
Jean Monnet Centre of Excellence in International Trade & Global Affairs

Eurozone Crisis: Causes & Outcomes

Lenders assumed that, with no ER risk, all Eurozone government bonds were equally risky → interest rate convergence, & excessive borrowing by some countries.

- By 2010 with default imminent, emergency loans and packages were offered to:
    - Greece (May 2010),
    - Ireland (February 2012),
    - Portugal (May 2011),
    - Spanish banks (July 2012)
    - Cyprus (May 2013).
- Conditional on institutional reforms and EU-wide rules, such as
    - Balanced budget rules,
    - European Stability Mechanism,
    - European banking Union.

Greece: General Government Debt



Jean Monnet Centre of Excellence in International Trade & Global Affairs

Migration & Refugees

- By the start of the 21st century the Schengen Agreement had (apart from the opt-outs by the UK and Ireland) become part of the EU's *acquis communautaire*, and hence required of new members
- An unforeseen consequence since 2011 has been a refugee crisis

Migration & Refugees

European countries signed the UN Convention Relating to the Status of Refugees in 1951 but with little expectation that numbers might be large.

- to apply for political asylum refugees need to present themselves to authorities in the signatory state – but Schengen country embassies do not grant visas for this purpose, and airlines do not accept passengers without visas → refugees arrive by foot across a land border (e.g. Turkey/Greece) or by sea.
- to prevent shopping for the country providing best conditions for refugees, asylum seekers must apply at their point of entry into the Schengen zone

Following the 2011 Arab Spring and subsequent repression or state breakdown, irregular migration across the Mediterranean ↑

  – irregular migrants also include refugees from areas such as Eritrea, and economic migrants from poor countries seeking entry to EU labour markets

Costs of monitoring and number of arrivals are unevenly distributed across EU members → pressure for an EU approach, but disagreement about burden-sharing.

If implementing and funding asylum system were communitized, this would be a sizable budget item but < CAP or structural/regional policies

  – although national authorities may still be involved in, e.g., provision of housing

Brexit

Strong Eurosceptic movement in the UK since the Maastricht Treaty (1993), when the EC became the EU with a commitment to ever-closer union - including UK Independence Party.

- 2014 European Parliament elections UKIP won most votes in UK

Referendum June 2016 – *leave* or *remain?* – leave won by 52-48.

Leave implemented in March 2017, when UK triggered exit negotiations, with two-year deadline → Brexit in March 2019

Support for "Leave" in the referendum came primarily from older, more rural, less educated and less economically successful voters, who felt left behind by economic integration/globalization.

Brexit: The Negotiations

Withdrawal agreement covers:

1. UK's outstanding financial liabilities to the EU
2. Future status of EU citizens in UK and UK citizens in EU
3. Ireland

The framework for future UK-EU relations may be finalized after March 2019. Three main options for the framework:

- Join Norway, Iceland & Liechtenstein in the European Economic Area
  - EEA members are part of the Single Market, accepting free movement of goods, services, capital and labour, and associated EU legislation. They also contribute to the EU budget. EEA countries set their own external tariffs → border barriers with the EU.

  This option is unacceptable to Brexit supporters because it implies the costs of being in the EU without a seat at the decision-making table – and remaining subject to EU Court decisions.
- Sign a UK-EU trade agreement
- Trade under MFN terms as independent WTO members.

Brexit: The WTO option

A clean break – the default under no deal ("hard Brexit")

- take EU commitments at WTO, and replace "EU" by "UK" and then amend

But not so clean because the UK is already party to

- EU agreements with third countries, which may no longer apply
- EU tariff-rate quotas (>100 products, e.g. on beef)
  - how to reallocate, including EU-UK trade

Outside the EU, the UK would have border posts →

disruption of value chains crossing the EU-UK border

Specific sectoral problems, especially inservices, e.g. finance

Brexit: The Economic Effects

Lack of Precedents

- Algeria left the EU in 1962 and Greenland in 1985, but not relevant

Average EU tariff = 4% - so price wedges will be small.

- Will Brexit →↓ attractiveness of UK as a destination for foreign investment – or as a GVC participant?
  - Some studies predict large loss of car assembly operations
  - Hard to predict because such decisions are multi-causal
- Some studies point to costs of limiting labour migration
- Pro-Brexit studies focus on benefits of deregulation
  - Note that EU regulations were agreed by UK – most economically costly are limits on working hours, which are unlikely to be abolished

The Irish Question

Although the UK and Ireland are not in Schengen, dismantling the border between Ireland and Northern Ireland was an important, and popular, part of the agreement that ended the “Troubles”

If the UK exits the customs union, the current arrangement is untenable. Three options:

1. UK stays in the customs union
   - unacceptable to Brexiteers
2. UK exits the customs union and re-erects border controls in Ireland
   - unacceptable to Ireland and most UK leaders
3. Northern Ireland remains in the customs union → controls on trade between Northern Ireland and the rest of the UK
   - unacceptable to the Democratic Unionist Party (minority supporter of the UK government)

What is the Role of the EU in the Global Economy?

A single voice in the WTO – major player in multilateral trade negotiations

On non-trade issues the situation is less clear

- Within Europe
  - a threat to the nation state?
  - ***Subsidiarity*** – devolution → ↓ role for national governments (but not their elimination), and perhaps ↑ autonomy of regions (e.g. Catalonia, Scotland)

Reading

- Best textbook is Baldwin & Wyplosz *The Economics of European Integration*, 5th. ed. (McGraw-Hill, 2015)
- A good general history is Mark Gilbert: *European Integration: A concise history* (Rowman & Littlefield, 2012)
- On Brexit: Kevin O'Rourke: *A Short History of Brexit: From Brentry to Backstop* (Pelican, 2019)


EEAS
SEA


EEAS
SEA