

Committee: European Union (European Council)
Topic: A European Position on World Trade

Welcome to the 2019 Heidelberg European Council!

Dear Delegates,

We would like to welcome you to the 2019 Heidelberg European Council in the framework of the 2019 Heidelberg National Model United Nations.

Since the signing of the treaty of Rome in 1957 the process of European integration has been steadily progressing. Despite some setbacks, unprecedented achievements have been accomplished: The establishment of the Single Market, the introduction of the Euro, as well as the Schengen agreement are just a few highlights. Then came, however, Brexit. For the first time ever, a member state decides to leave the EU. The UK's role in the EU has never been an easy one. Yet, shock was still the primary reaction amongst EU leaders and the public when a (narrow) majority of the British people voted to leave the EU. Up until today the Brexit aftermath remains unclear as no final framework has been established – actually it is not even clear if Brexit will eventually take effect at all. One fallout is clear, however: Brexit forces the EU to redefine its goals and strategy for European integration.

During this most severe internal crisis, the EU is faced with external challenges that no one saw coming. The relations between the EU and the US are shaken by trade disputes under the Trump presidency while China continues to emerge as the most important player in global trade. The process of redefining European integration is directly affected by the global developments. After Brexit, the EU cannot redefine its concept for Economic integration without considering a strategy for global world trade. Particularly, the role of the WTO will change when future reforms will be passed – as will be discussed in the other committee at the Heidelberg National Model United Nations 2019.

This study guide should serve as an overview and an introduction to our debate. It is important that you have a good understanding of your country's general position, to ensure the debate flows smoothly. The debate will focus on a multitude of issues, thus be sure to research the position of your country on each of them. Ideally, you will prepare your assigned country's vision on future Economic integration and the EU's role in global trade.

Please also keep in mind, that there will be certain live developments during the committee. Finally, although this is the European Council, the debate will be held according to the MUN rules of procedure.

We are very much looking forward to the conference. We are sure this weekend will be an exceptional experience for all of you, with interesting debates, great speeches, and of course meeting delegates from different backgrounds.

We are looking forward to meeting you all!

Best regards

Your chairs

I. The European Council as the Steering Committee of the European Union

The European Council (EC) can be considered the Steering Committee of the European Union (EU). Until the Brexit is formally completed, it consists of the 28 EU member states' Heads of State and Government, the EC's President, the President of the Commission as well as the High Representative of the Union for Foreign Affairs and Security Policy. The EC was formally established under the Treaty of Lisbon in 2009. According to Article 15 (2) of the Treaty of the European Union (TEU), the EC serves to provide the necessary impetus for the EU's development and to define the EU's general political directions and priorities. It does not serve as a legislative body of the EU. Rather, the EC's role is to provide a forum in which the member states' Heads of State and Governments can discuss topics of relevance and agree on strategic frameworks in order to take the measures that are necessary for the EU's future. Its decisions – so called conclusions – are adopted unanimously, except when provided differently in the EU Treaties.

At the Heidelberg National Model United Nations 2019, we will simulate the EC as a single-delegate committee with crisis elements. Delegates will both have to prepare an agenda on the future EU position on world trade and be ready to deal with urgent trade-related matters. As could be overserved during the last months, the current dynamics of international trade policy are often shaped by sudden developments - the term '*trade wars*' has been used more and more frequently.¹ Hence, EC delegates should also expect that they might have to head to the trenches of international trade wars.

II. Economic integration under the EU

The EU is a supranational organization *sui generis* and constitutes one of the biggest economies in the world. Its roots trace back to the aftermath of the second World War in Western Europe: The purpose of the treaty of Rome in 1957, the historic foundation of the modern-day EU, was to put the European Steel and Coal industry, the backbone of national defense industries, under the joint control of a European Authority.² Since then, the continuing European integration has been based on a spirit of furthering economic cooperation and intensifying trade between member states. The focus of cooperation has shifted more and more from security aspects to general economic cooperation.

After decades of mixed progress in the process of European Integration, the establishment of the Common Market in 1993 can be viewed as the biggest success of European Economic Cooperation. Despite political disputes in other policy areas, there was an underlying economic consensus that free movement of workers and goods benefits all participating member states. Consequently, the EU (and its predecessor the European Communities) has always been a strong advocate for free trade on a global level and played an important role in the establishment of the World Trade Organization (WTO) in the 1990s.

¹ Just one example can be found here: <https://www.theatlantic.com/international/archive/2018/06/trade-war-us-europe/563504/> (04.12.18).

² A comprehensive overview of EU history can be found here: https://europa.eu/european-union/about-eu/history_en (06.12.18).

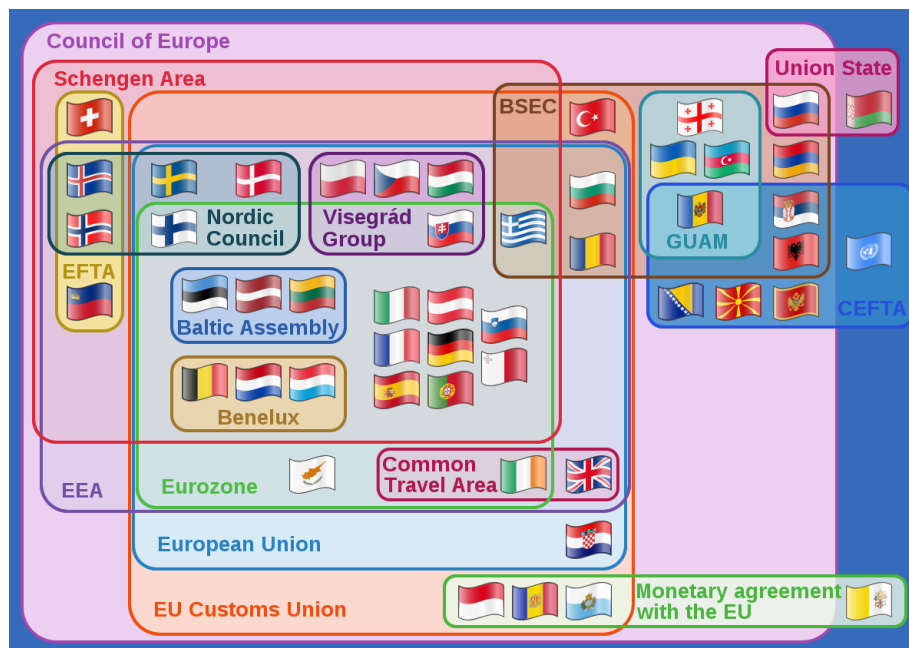


Figure 1: The various forms of European integration
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The trade-related consequences of increased European integration under the umbrella of the EU can best be understood by examining two instruments of EU economic integration:

1. The EU's *single market* refers to the concept that the same regulations for good and services applied across national borders.³ Different national laws are consequently replaced by harmonized EU regulations. Obviously, such a model of cooperation reduces trade barriers and makes the international trade of goods and services much easier. As this model is quite attractive, other countries⁴ have joined the EU's single market without becoming EU members – this is the European Economic Area (EEA).
2. The single market does, though, not constitute a *customs union*. The EU customs union refers to a different form of trade cooperation: A uniform system of customs duties is being used on imports from outside the EU and there are no customs duties at the borders between the EU countries.⁵ Turkey is the most prominent country which is not a EU member but participates in the customs union.⁶

³ https://ec.europa.eu/growth/single-market_en (04.12.2018).

⁴ The EEA members which are not EU members are Iceland, Liechtenstein and Norway. More information about the EEA can be found here: <http://www.efta.int/eea> (04.12.2018). The government of Switzerland wanted to join the EEA in the early 1990s. This initiative failed, however, due to a negative public vote, <https://www.eda.admin.ch/dea/en/home/europapolitik/abstimmungen/ewr.html> (04.12.2018).

⁵ https://ec.europa.eu/taxation_customs/facts-figures/eu-customs-union-unique-world_en (04.12.18).

⁶ <http://ec.europa.eu/trade/policy/countries-and-regions/countries/turkey/> (04.12.18).

III. The EU as a player in world trade

In its relations with the wider world, the Union shall uphold and promote its values and interests and contribute to the protection of its citizens. It shall contribute to peace, security, the sustainable development of the Earth, solidarity and mutual respect among peoples, free and fair trade, eradication of poverty and the protection of human rights, in particular the rights of the child, as well as to the strict observance and the development of international law, including respect for the principles of the United Nations Charter.

Article 3 of the Lisbon Treaty

As the EU both constitutes a single market and a customs union, it becomes apparent that individual member states do not have a great deal of national authority left when it comes to trade policies such as tariffs. In respect to the WTO, the EU is even a (founding) member – together with the 28 member states of the EU.⁷ Consequently, when it comes to international trade, the EU – and not Germany, France or Italy – is the major player: This became apparent, for example, when it was European Commission President Jean-Claude Juncker who has met U.S. President Donald Trump in the Summer of 2018 to negotiate tariffs.⁸



Figure 2: (C) Jim Lo Scalzo/ EPA-EFE/ REX/ Shutterstock

While the EU (or more precisely in practical terms: the European Commission) has been imposed with the formal authority in international trade policies, the general policy guidelines are still laid out by the member states. Here, the European Council plays one its most important roles when it puts forward its conclusions and steers the Commission's in its policy-making process. An illustrative example of the mechanisms of cooperation between the EU and the members states can again be found in the 2018 Juncker-Trump tariff negotiations: Before Juncker headed to Washington, he had consulted with several heads of European governments.⁹ The advantage of the EU representing member states in international trade is clear: A united European voice, which represents the EU economy as a whole, has much stronger bargaining power compared to each of the member states acting on their own.

⁷ https://www.wto.org/english/thewto_e/countries_e/european_communities_e.htm (04.12.18).

⁸ <http://www.spiegel.de/international/world/how-the-jean-claude-juncker-won-over-donald-trump-a-1220466.html> (05.12.18).

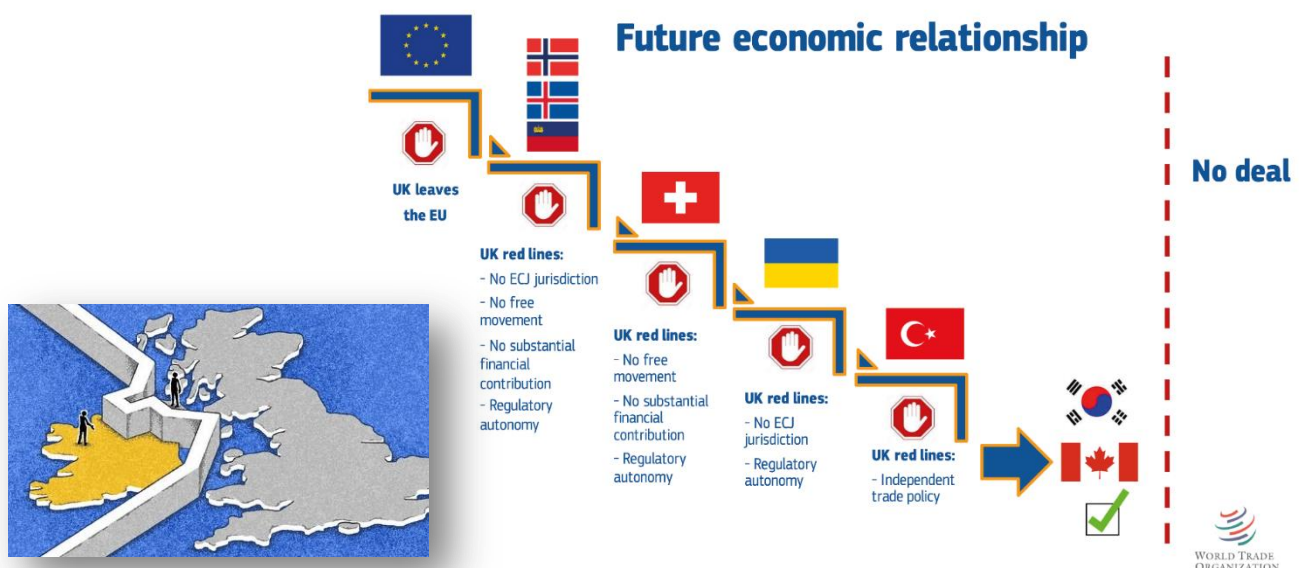
⁹ <https://www.politico.eu/article/juncker-consulted-merkel-macron-ahead-of-trump-trip/> (05.12.18).

IV. Internal Challenges – From Brexit to Italexit?

Even though today trade is just one out of many policy areas of the EU, collaboration in trade constitutes both the historic and current foundation of the EU's existence. As long as economic growth and prosperity have come along with the process of European integration, critics of the EU have been in a weak position. Recently, however, the economic consensus between member states has more and more fallen apart. The European financial crisis in the 2010s has created strong tensions within the Union causing the project of European integration to almost fall apart just within a few years. In the same context, rising nationalist tendencies in all member states have given momentum to attempts to dismantle the European economic integration. Brexit can be viewed as the dramatic climax of these developments.

The dramatic impact of the Brexit on the UK is due to the high degree of economic integration within the EU, as illustrated above. With its EU membership, the UK will lose its access to the single market. To remain in the single market the UK would have to join the EEA (like Norway, Iceland and Lichtenstein), which however seems politically impossible as there several red lines for the UK. But the UK won't just lose its access to the single market, but will also leave the European tariff union. Thus, without a new tariff agreement (comparable to the agreements between the EU and South Korea and Canada) in place, the UK would have less access to the EU market than Turkey. The legal framework for trade between the EU and the UK would then be the regulations of the WTO.¹⁰ Regardless of the specifics, it can already be foreseen that the UK's stance in global trade policies will be weakened.¹¹

Beyond all legal questions, Brexit will have its most apparent impact on the island of Ireland: whatever the future relation between the EU and UK will look like, it will have direct consequences on the border between Northern Ireland and the Republic of Ireland.¹²



While the EU is still amid dealing with Brexit, controversies such as the migration crisis¹³ and the Italy budget plans dispute¹⁴ already forecast future tensions in the process of European integration.

¹⁰ <https://www.bbc.com/news/uk-45112872> (05.12.18).

¹¹ Just one example can be found here: <https://www.bloomberg.com/news/articles/2018-11-25/u-k-s-other-brexit-fight-may-bar-it-from-1-7-trillion-wto-deal> (05.12.18).

¹² <https://foreignpolicyblogs.com/2017/05/23/brexit-and-the-irish-border/> (05.12.18); also c.f. the Irish reaction to the current Brexit agreement <https://www.theguardian.com/world/2018/nov/14/ireland-hardening-irish-sea-border-brexit> (05.12.18);

¹³ <https://www.theguardian.com/world/2018/jun/27/eu-migration-crisis-what-are-the-issues> (04.12.18).

Brexit, however, forces the European Council, nevertheless, to come up with a plan for the EU's future. During the upcoming negotiations about the future relation with the UK, the EU must take a clear stance: How much economic access should the EU give to the UK and for which contribution? Should the internal response to the Brexit be even more European integration when increasing integration efforts might lead to even more member states leaving? And practically speaking: Are there even policy areas in which the EU could make a bold move forward? While Italy, Germany and Austria might be able to agree on a joint approach to migration, the stance of Hungary and Poland might be completely opposed. Italy and France might want to reach a European s to social security while being criticized for excessive deficits by economically stronger member states.

V. External Challenges – The EU between Trump, China and the rest of the world

Just as the EU is facing its toughest internal crisis, there are unprecedented external challenges. President Trump openly accuses the European Union of unfair trade practices and threatens to engage in a full-on trade war. At the same time, China begins to play a more active role in the international trade system. Thus, the future of the rule-based world trade system under the umbrella of the WTO is more than uncertain. Moreover, as developing countries on the African continent continue to suffer from poverty, food shortages, and war migrants seek both refuge and economic opportunities in Europe.

1. The EU-US trade dispute: The Trump aftermath

"Well, I think we have a lot of foes. I think the European Union is a foe, what they do to us in trade. Now, you wouldn't think of the European Union, but they're a foe. Russia is foe in certain respects. China is a foe economically, certainly they are a foe. But that doesn't mean they are bad. It doesn't mean anything. It means that they are competitive"

Donald Trump, President of the United States¹⁵

"If attacked, we will respond without weakness. Everyone needs to understand this, and I think I can say that the American strategy is a bad strategy. ... We talk about everything, in principle, with a friendly country that respects the rules of the W.T.O. We talk about nothing, in principle, when it is with a gun to our head."

Emmanuel Macron, President of France¹⁶

The election of Donald Trump as the 45th President of the United States marked a turning point in the relations between the EU and the US. Trump's bold "*America first*" approach in international politics resulted in unprecedented confrontations between the US president and European leaders, particularly in the area of trade. Trade accuses the EU of unfair trade practices and refers to the big trade deficits. His aim is to reduce the deficits by increasing domestic production and exports from the US to the EU and the rest of the world. His instrument of choice to achieve this aim are tariffs. Trump has threatened to implement high punitive tariffs on main EU imports in order to

¹⁴ <https://money.usnews.com/investing/news/articles/2018-12-05/italy-cabinet-official-expects-new-budget-numbers-by-next-week> (04.12.18).

¹⁵ <https://www.euronews.com/2018/07/15/trump-calls-european-union-a-foe-of-the-usa-on-trade> (04.12.18)

¹⁶ <https://www.nytimes.com/2018/03/24/business/trade-tariffs-quotes-reactions.html> (04.12.18).

pressure the EU into giving in to his demands.¹⁷ While the full results of his approach remain to be seen, he remains confident stating that “trade wars are good, and easy to win”.¹⁸

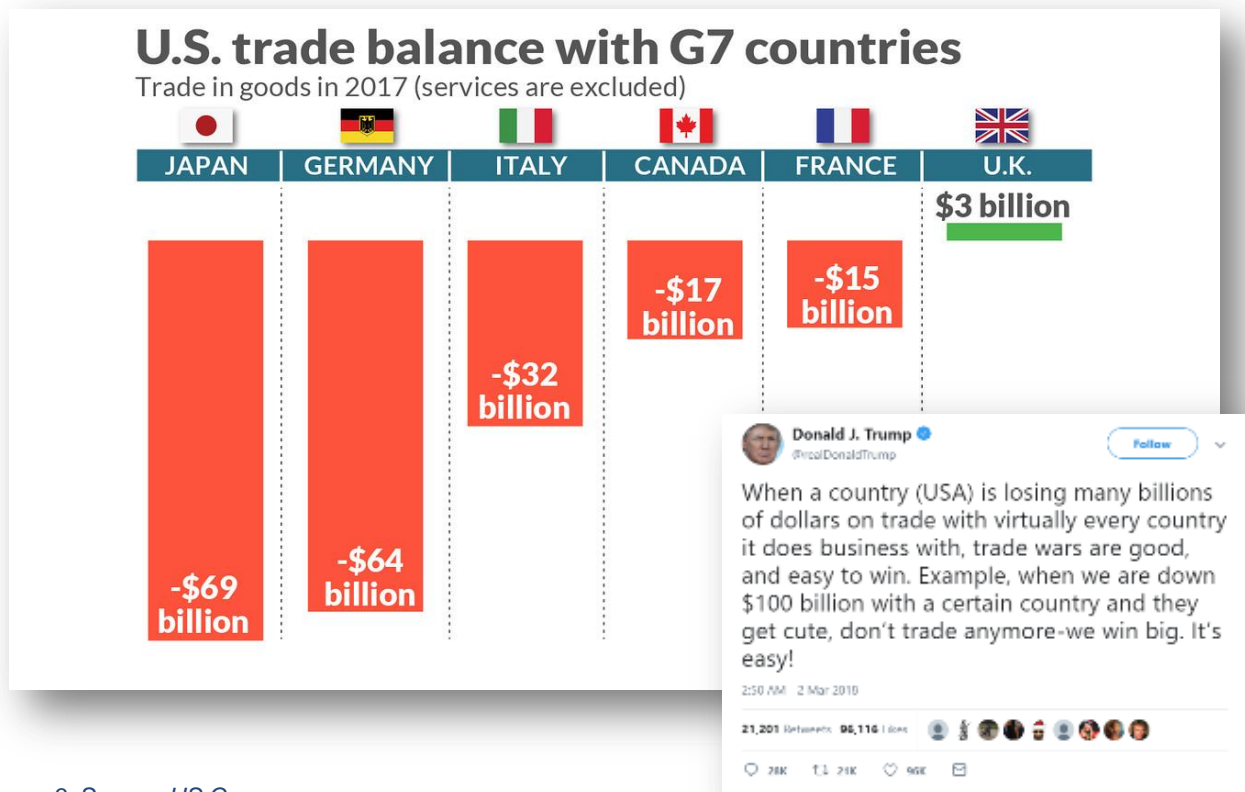


Figure 3: Source: US Census

While it is easy to dismiss Trump’s approach as boastful and unreasonable, there are figures that support at least some skepticism about the balance of trade between the EU and the US. For example, it is true that there is a multi-billion trade deficit (in regards to the trade of goods) – in particular between the US and Germany, the economically strongest EU member state.¹⁹ Also, the EU is dependent on the US as an export market, and cannot risk jeopardizing export opportunities to the US, regardless of the political style of the political leadership in the US. Consequently, the European Council is faced with tough decisions: The EU cannot just cut its trade ties with the US and thus cannot just ignore Trump’s demands. Neither, though, can the EU just give in to his demands and undermine the global order on trade relations. Should the EU give in to Trump’s demands, it is just a question of time until other trade partners also raise similar demands.

The European Council must agree on a strategy to find a long-term solution regarding EU-US trade relations. Just a few years ago, the negation of a bilateral trade agreement between the EU and the US (Transatlantic Trade and Investment Partnership - TTIP²⁰) failed, particularly due to an

¹⁷ An overview of the various „Trump tariffs“ can be found here: https://en.wikipedia.org/wiki/Trump_tariffs (05.12.18).

¹⁸ <https://www.washingtonpost.com/news/business/wp/2018/03/02/trump-insists-trade-wars-are-good-and-easy-to-win-after-vowing-new-tariffs> (05.12.18).

¹⁹ Detailed statistics can be found here: https://ec.europa.eu/eurostat/statistics-explained/index.php/USA-EU_-_international_trade_in_goods_statistics and here <https://ec.europa.eu/eurostat/en/web/products-eurostat-news/-/DDN-20180419-1> (05.12.18).

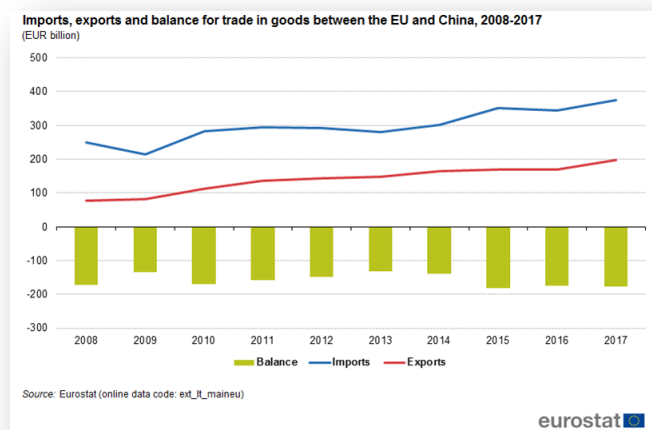
²⁰ More information by the EU on TTIP can be found here: <http://ec.europa.eu/trade/policy/in-focus/ttip/> (17.12.18)

overwhelmingly negative public reaction against the envisaged dispute settlement mechanisms.²¹ Have circumstances changed since the failure of TTIP? Should the EU approach the US and try to negotiate an agreement from which both sides would profit?²²

An alternative to bilateral negotiations would be a multi-lateral approach, e.g. an EU initiative to reform the WTO. Just recently, the European Commission has put forward that the EU is willing to pursue such a reform and even has released a concept paper.²³ It remains to be decided if a consensus can be agreed upon within the European Council, as changes in the WTO regime can directly affect domestic affairs of each member state. If the EU, for example, pushes for broader export opportunities within the WTO framework, the consequence is that member states will be subject to more imports from other WTO members. While this is clearly favorable for export oriented economies such as the Netherlands or Germany, member states with a less competitive economy might not be too eager to follow such an approach.

2. EU-China trade relations: The enemy of my enemy is my friend?

Behind the US, China is now the EU's second-biggest trading partner, and the EU is China's biggest trading partner. Despite the big volume of trade between the EU and China, their trade relation is mostly shaped by controversial issues such as steel dumping²⁴ or protection of intellectual property²⁵. However, the continuing appearance of China as global power has consequences on global economic relations, and thus also the trade relation between the EU and China is transforming. As a result of Trump's confrontational style in trade policy, the EU and China find themselves almost in the same boat.²⁶ Consequently, it is not a great surprise that both China and the EU have recently agreed to cooperate on the WTO reform and to help it meet new challenges.²⁷



²¹ <https://www.politico.eu/article/isds-the-most-toxic-acronym-in-europe/> (17.12.18); ironically, it was Trump who openly supported the public outrage about TTIP: <https://www.theguardian.com/commentisfree/2016/nov/14/ttip-defeated-activists-donald-trump> (05.12.18)

²² Some input in this regards is provided in these articles: <https://www.politico.eu/article/opinion-how-to-revive-ttip/> and <https://www.politico.eu/article/donald-trump-eu-eye-trade-low-hanging-fruit/> (05.12.18)

²³ http://europa.eu/rapid/press-release_IP-18-5786_en.htm (17.12.18).

²⁴ <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1706> (05.12.18).

²⁵ <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1813> (05.12.18).

²⁶ <https://www.dw.com/en/eu-china-seek-closer-ties-as-us-turns-against-trade/a-44668306> (05.12.18).

²⁷ <https://www.consilium.europa.eu/en/meetings/international-summit/2018/07/16/> (05.12.18)



Figure 4: (C) European Union

Regarding EU-China trade relations, the EU is once more faced with two options: A bilateral EU-China agreement or increased efforts in multilateral approaches such as the WTO. The European Council must figure out if and how the disputes between the US and China can be used in the EU's advantage. Should the EU side with China, or use its role as mediator? Seeing how just one tweet²⁸ can affect the dynamics of global relations, the European Council should stay aware of the on-going developments between the US and China.

3. Africa: Can trade policies cause poverty and starvation?

Thirdly, the trade relations with (Sub-Saharan) Africa pose a challenge to the EU. For quite some time, the EU has been subject to harsh criticism in regard to its trade policy towards African countries.²⁹ Critics argue that cheap, heavily subsidized European exports, especially in the agri-food sector, flood African markets and hinder the economic development in these markets by making domestic production of goods unprofitable.³⁰ The EU, on the other hand, emphasizes its importance as the main export market for Africa.³¹ Scholars come to different conclusions when examining the effects of EU trade policies on the African continent.³² In any case, it can be asserted that the African economies are still weak compared to Western world, and particularly

²⁸ <https://www.bbc.com/news/world-asia-china-38167022> (17.12.18)

²⁹ C.f. <https://www.dw.com/en/how-europes-agricultural-policy-hurts-africa/av-42947602> and <https://www.dw.com/de/afrikapolitik-made-in-germany-fair-geht-anders/a-45084675> (06.12.18).

³⁰ The most recent example is the aggrivise export of milk: <https://www.politico.eu/article/eus-milk-scramble-for-africa/> (06.12.18).

³¹ C.f. https://eeas.europa.eu/sites/eeas/files/eu_-_africa_trade_2017.pdf (06.12.18).

³² Two studies of the issue are <https://www.bundestag.de/blob/532154/2109aeb63eaa7217c4274f7e4ee3cbf9/wd-5-075-17-pdf-data.pdf> [German] and [http://www.europarl.europa.eu/RegData/etudes/STUD/2018/603862/EXPO_STU\(2018\)603862_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2018/603862/EXPO_STU(2018)603862_EN.pdf) (06.12.18).

compared to the EU.³³ A very recent initiative to boost African economies by means of fostering (private) investment is the G20 Compact with Africa, which was initiated under the German G20 Presidency.³⁴ Since the migration crisis in 2015, stabilizing the African economies has become an important objective of the EU, as the increasing number of migrants is assumed to be a result of lacking economic opportunities in their home countries.³⁵

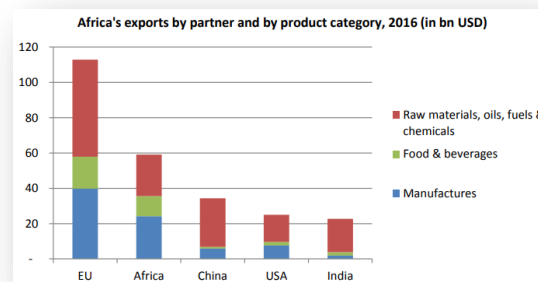


Figure 5: <http://capreform.eu/wp-content/uploads/2015/11/Export-subsidies.jpg>

The European Council must critically assess its economic ties with the African continent. If the EU accuses China of dumping practices in the Steel market, must it not also put an end to heavy subsidies on agricultural exports? How can African agricultural efforts be supported without hurting European farmers? At the same time, providing economic support to African countries is not necessarily the 'right' choice when such support stabilizes governments which violate democratic principles and human rights. At the same time, the EU must cooperate if it wants to tackle the roots for migration movements from Africa to Europe. In this broad context, how should future relations between Africa and the EU be shaped?

VI. What now?

All issues illustrated above show that the EU finds itself in a time of turmoil. Delegates of the European Council will decide if the EU, despite its internal disputes, can once again find a consensus on Economic integration – both within the European Union and on a global level. Maybe the establishment of the Single Market has been the final peak of European integration. While the Single Market provides both a legal and institutional framework for policy alignment within the EU, it cannot absorb the various political tensions between member states.

The EU itself is not responsible for its destiny as neither the European Commission nor the parliament possess the legal competence to alter the fundamental treaties that have established the EU.³⁶ This power, the competence-competence in legal terms, remains at the level of the member states. Consequently, it is the member states' responsibility to outline the future foundation for the European integration process and to define the EU's strategy in global trade

³³ This can be illustrated by example of a GDP comparison: [https://ec.europa.eu/eurostat/statistics-explained/index.php/Africa-EU - key statistical indicators#Gross domestic product .28GDP.29](https://ec.europa.eu/eurostat/statistics-explained/index.php/Africa-EU_-_key_statistical_indicators#Gross_domestic_product_.28GDP.29) (06.12.18).

³⁴ More information about the initiative can be found here: <https://www.compactwithafrica.org/content/compactwithafrica/home.html> (06.12.18).

³⁵ C.f. <https://www.politico.eu/article/europe-can-stop-african-migration-symposium-experts/> (06.12.18).

³⁶ This is due to the principle of conferral as laid out in Articles 4 and 5 of the Treaty on European Union.

relations – with the European Council serving as their main platform. The delegates of the European Council will thus be faced primarily with the task of drafting a concept for the future economic integration of the EU that allows the EU to remain a strong player in global trade.

While drafting such abstract document will be their primary task, delegates should keep in mind that European Council will also have to deal with urgent subject matters that require the attention of the heads of states and governments of member states. This is particularly true regarding the on-going Brexit developments in Brexit and EU-US-China trade affairs. As economic and trade-related issues are closely connected to other policy areas, delegates must also expect to be confronted with a variety of issue areas such as migration or finance.