

ZUZANA KITTOVÁ, et al.

THE EU'S FOREIGN TRADE POLICY IN THE CONTEXT OF GEOPOLITICAL AND GEOECONOMIC CHANGES



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Zuzana Kittová, Kristína Drieniková, Henrich Juhás, Ľubica Zubaľová

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The College of European and Regional Studies

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Preface

Since the end of World War II, global trade has gradually liberalised, which, alongside other factors, has led to its unprecedented growth. However, the onset of various crises, such as the global financial crisis in 2008, the European debt crisis in 2009, the COVID-19 pandemic crisis, and the energy crisis caused by Russia's invasion in Ukraine, has led to the adoption of measures that disrupt the global economic order that has been in place for several decades. In a period when protectionist tendencies are asserting themselves on a global scale (most recently, for example, tariff protection of the European and American automotive industries against rapidly advancing competition from Chinese electric vehicles), it is essential for the EU to secure stable trade, economic, and political relations with reliable partners that will allow it to benefit from access to sufficiently large and promising markets. The EU's foreign trade policy plays a crucial role in this endeavour.

In response to these developments, the university textbook *The EU's Foreign Trade Policy in the Context of Geopolitical and Geoeconomic Changes* represents the first publication issued as part of the Ministry of Education, Research, Development, and Youth of the Slovak Republic's project KEGA no. 025EU-4/2024, titled: *Textbooks on EU's Foreign Trade Policy for a Fundamentally Innovated Study Programme in International Trade Management*. The ambition of this project is to publish two university textbooks, primarily intended for the core subject EU Foreign Trade Policy within the updated International Trade Management study programme. The programme's innovation includes a new definition of graduate profiles, educational objectives, and learning outcomes, as well as an updated curriculum to meet current economic and societal demands. It also encompasses the modernisation of teaching methods, with a focus on problem-based learning, active learning, collaborative and engaged learning, and critical thinking.

The presented university textbook, in four main chapters, first offers the historical foundations for the development of the EU's foreign trade policy. It then provides a detailed overview of the EU's foreign trade policy and its relations with countries with which it has the closest trade ties due to a high degree of liberalisation and cooperation. Primarily, these are the countries of the European Free Trade Association – Norway, Iceland, Liechtenstein, and Switzerland. The next section focuses on Turkey, a long-standing customs union partner and EU membership candidate. Finally, the authors turn their attention to the issue of trade defence measures that the EU can apply in response to protectionist trade practices, such as subsidies for electric vehicle production in China.

In addition to addressing the individual topics, the textbook includes other essential components aimed at mastering the subject matter, verifying comprehension and the ability to apply the explained material, as well as developing critical and creative thinking skills, along with other soft skills for students. Therefore, each of the four chapters contains tasks for independent or group work. These tasks serve as tools for active or so-called problem-based learning, guiding students to investigate, discover, and compare certain aspects themselves, thus enriching the subject matter with their own perspectives. Group tasks are designed to foster collaborative learning, where students' acquisition of knowledge and skills is based on mutual dialogue within the team, shared understanding of the task, and cooperation towards its successful completion without competition. In this way, the individual's activity is supported by the entire group, and conversely, the group benefits from each member's contribution. These tasks also help develop students' communication and presentation skills.

The textbook also includes a case study that applies the discussed topics to a specific issue from economic practice. Connecting theory with practice serves as an important motivational factor for learning, thereby supporting engaged learning. The case study is designed to lead

students to critically assess the situation, creatively explore solutions, and select and justify the optimal resolution for the problem at hand.

Each chapter includes a Glossary section that provides explanations of technical terms appearing in the text, making the subject matter more accessible to a wider range of readers, even without prior study of the topic.

Finally, each chapter includes references to relevant literature for those interested in a deeper exploration of the subject matter.

On behalf of the team, I express the belief that this textbook will be a useful and engaging guide for studying EU foreign trade policy. I also extend my sincere thanks for the valuable advice and feedback from the reviewers, as well as from Ing. Zuzana Silná, PhD., for her consultation on the topic of trade defence measures.

Zuzana Kittová

1 Historical Foundations of the European Union's Foreign Trade Policy

Learning outcomes

Students will gain an overview of the historical context and foundations on which the current form of the EU's foreign trade policy is based. They will become familiar with the role of trading powers that played a significant part in the development of foreign trade activities and economic growth on the European continent. They will understand the essence of applying the main principles of trade policy during the colonial and post-colonial periods. The tasks at the end of the chapter aim to develop and support teamwork, including communication. They lead to the ability to work with sources, identify connections, draw conclusions, encourage creative thinking, and enhance the skill of forming and presenting one's own opinions or the results of their work.

Keywords

Trading Powers, Colonialism, Trade Policy, East India Companies, Principles of Trade Policy

Abbreviations

BSN - British Commonwealth of Nations, MFN – Most Favoured Nation clause, EIC – East India Company, EU – European Union, GATT – General Agreement on Tariffs and Trade, GWC – Geotroyeerde Westindische Compagnie (Dutch West India Company), RTAA – Reciprocal Trade Agreements Act, VOC – Vereenigde OostIndische Compagnie (Dutch East India Company), FTP – foreign trade policy

Introduction

Trade has been a concomitant phenomenon of economic activities essentially since their inception. It is not only a result but also a driver of economic development for individuals, associations, companies, states, and integration groups. Foreign trade became a key phenomenon in the development of the European continent. New discoveries, advancements in transportation, trading techniques, the industrial revolution at the end of the 18th century, and many other innovations or improvements accompanied the growth of trade as well as the overall economic uplift of European countries, forming the foundation for their foreign trade policies.

The current form of the European Union's foreign trade policy (FTP) has evolved from the trade policies of its member countries, which once set the tone for the development of the European continent. It therefore encompasses many interconnections, with its roots going back several centuries.

1.1 Development of Trade and Trade Policy of European Countries within Colonial Ties

The European continent, or rather the individual European countries, significantly contributed to the development of international and global trade. European countries became active conquerors of territories outside the European continent and creators of vast colonial empires,

primarily in Asia, Africa, and the Americas. Their trade and economic expansion was supported by military expansion as well. During the agrarian era of civilization, when agriculture was the foundation of society, the Republic of Venice became the main trading power in Europe in the 11th century. Later, in the 16th century, Portugal took over this role, followed by the Netherlands from the late 16th century until the early 19th century. The agrarian era of humanity, after several thousand years of development, was replaced by the industrial era at the end of the 18th century. Its main impetus was the Industrial Revolution in Great Britain, marking a significant societal and technological-economic upheaval (Drieniková – Zubařová, 2013).¹

From a historical perspective, four periods can be identified, each associated with one of the four main trading and economic powers that dominated foreign trade and colonial expansion in their time, thanks to their successful trade policies. (Kosír – Rosenberg, 2007):

1. from the 11th to the 16th century: The Republic of Venice (Venezia),
2. the period from 1500 to 1800: Portugal,
3. the period from 1600 to 1820: The Netherlands²,
4. from the 19th to the early 20th century: Great Britain.

1.1.1 The Republic of Venice and its Contribution to the Development of Trade Activity in Europe

In the territory of present-day Italy before the 11th century, a strong urban tradition existed, unlike in Northern Europe. At that time, traders were primarily foreigners, including Syrians and Jews. Italian cities acted as intermediaries between the more advanced and wealthier "East" and the less developed and poorer "West." Their political, economic, and cultural ties with the Byzantine Empire were very strong. Particularly Venice³ quickly developed and became a significant trading hub. During this period, it competed for its position with the Genoese Republic.

Venice played a key role in opening up trade in Europe to the international dimension. Its strategic location in the northern part of the Adriatic Sea became a crucial factor for the city's economic prosperity. The strategic positioning of the seaport at the crossroads of important trade routes between Western Europe and the Orient allowed Venice to become a hub for international trade and transportation. Over time, it became one of the most prosperous and wealthiest economies in Europe (Freeland, 2012). Venice significantly strengthened foreign trade not only within continental Europe by deepening trade relations with Flanders, France, Germany, the Balkans, and especially the Mediterranean territories, but also developed trade contacts with Asia. In the 13th century, Venice established its colonial system in the eastern Mediterranean, which significantly expanded its trading activities (Puga – Trefler, 2012). Through established caravan connections to ports in the Black Sea, Venice opened the route for the import of goods from China, and via connections with Syria and Egypt, it delivered Indian products to Europe. Venice was instrumental in the import of new goods from the Far East, such as spices, silk, porcelain (as luxury items), and technologies like rice cultivation. To Asia, they exported woolen fabrics, linen, furs from Northern Europe, and the famous Venetian

1 The onset of the information era in the 20th century was a catalyst for the development of globalization, whose defining characteristic became the rapid advancement of information and communication technologies.

2 The borders of the former Netherlands extended as far as the territories of Belgium and Luxembourg. The term "Netherlands" or its equivalents is still used in many languages today – for example, in Czech (Nizozemsko), English (the Netherlands), Russian, German, Spanish (Países Bajos), and Portuguese (Países Baixos). Modern-day the Netherlands consists of 12 provinces, of which only two can be referred to as Holland.

3 The most prominent Republic of Venice existed as a city-state from the 8th to the 18th century.

glass. Thanks to its ideal location, Venice became a kind of gateway between East and West, playing a key role in establishing and maintaining trade contacts along the so-called *Silk Road*.

Venice also became significant through the introduction of institutional innovations. The most notable of these was the innovation in establishing companies in the form of a basic "joint-stock company," created for the purpose of financing trade expeditions – the so-called **commenda**, as trade was a very risky and capital-intensive activity. The **commenda** allowed new entrepreneurs, or ordinary people who decided to take the risk, to engage in trade and share in the financial profits alongside investors who financed their trading voyages (Freeland, 2012). In its early form, it was a one-time contract between partners – one provided the necessary capital, and the other "offered their life," as they directly participated in and supervised the trading expedition. The profits from a successful trading voyage during that time were as high as 400% or more (Záborský, 2012).

Venice also contributed to the development of banking, foreign trade techniques, and the credit market. They played a key role in the advancement of naval technology (shipbuilding techniques, the use of the compass, improvements in navigation), as well as the revitalization and strengthening of *cultural and intellectual life* in Europe through the development of the art of printing, the establishment of libraries, and publishing houses.

Even in the 15th century, the northern Italian cities maintained a leading role in economic affairs, but gradually, Portugal took away their monopoly on spice trade. Their decline from the position of a dominant power was not immediate or drastic, as they still had rich capital reserves, entrepreneurial talent, and an established system of economic institutions. However, the decline was primarily driven by the increasing volume of European trade exchanges. By the late 15th century, economic activity began to shift towards the Iberian Peninsula. The importance of maritime routes grew, new routes were discovered, and this required new transport methods and a change in trade organization. Alongside Portugal, the trade and economic power of Spain also increased. The Commercial Revolution underscored its significance in the ensuing era of European expansion.

1.1.2 The Contribution of Portugal to the Development of European Trade Policy

Between the 15th and 18th centuries, trade was the most dynamic sector of the European economy. The growth of trade exchange was several times higher than the growth of the population, with overseas trade contributing to this, and to some extent, stimulating trade within Europe as well. From the 16th century, the centre of European trade shifted from the Mediterranean area to the seas of Northern Europe, which also meant a change in the types of commodities and the emergence of new forms of trading companies (Cameron, 1996). During this period, *spices* became a luxury trade commodity. Trade in spices was gradually dominated by Portugal, which became the main importer of spices into Europe.

Portugal significantly contributed to the development of foreign trade and colonial activities on the European continent by starting to trade with other countries and continents. It was a European pioneer in expansion across the Atlantic Ocean and in opening trade routes around Africa, India, China, and Japan. In the early 16th century, the Portuguese dominated the Indian Ocean. As a relatively small and poor country, Portugal acquired vast overseas territories and colonies in Asia (e.g., East Timor, Macau⁴), Africa (e.g., Angola, Mozambique), and the Americas, where in 1500, they discovered and colonized Brazil, the only Latin American country not occupied by Spain.

⁴ Macau is a special administrative region of the People's Republic of China. It was the first and last European colony in Asia, belonging to Portugal for nearly 500 years. In 1999, it was handed back to Chinese jurisdiction, with the condition that it would maintain a high degree of autonomy until 2049.

Portugal secured a monopoly on the spice trade (cloves and nutmeg) in the so-called *Spice Islands*— the Indonesian archipelago of Maluku (Hruška, 2019), but it was unable to establish effective control over the sources of its supplies. After the spice trade, Portugal also developed and dominated the *sugar* trade, which became the most significant of the tropical commodities. While sugar was a rarity in Europe in the 15th century, by the end of the 18th century, it had become a common commodity.⁵ Trade with Africa, particularly in gold and ivory, also gained importance.

Portugal, however, earned a notorious distinction in the trade of slaves from Africa to the Americas. From 1500 to 1750, the Portuguese were responsible for nearly half of this trade (Kosír – Rosenberg, 2007). Later, Great Britain would establish a leading position in the slave trade to the Caribbean region.

The slave trade from the 16th century was conducted in **a triangular manner**: a European ship loaded with goods (such as firearms, knives, fabrics, alcohol) sailed to the West African coast, where the cargo was exchanged with local tribal chiefs for slaves (military captives or members of the tribe). The number of slaves depended on how many the ship could carry. This "cargo" was then transported towards the West Indies, to South or North America, where it was traded for sugar, tobacco, and other commodities, which were then exported back to Europe or European colonies. Despite the high mortality rate of slaves, which could reach as much as 50%, the profits from this trade were substantial (Cameron, 1996). In this context, the model of the transatlantic slave trade became known as the "triangular trade" because it occurred between Europe, Africa, and the Americas (the New World) (Britannica, 2024). From 1501 to 1867, this trade resulted in the transport of approximately 12.5 million Africans, with nearly all countries along the Atlantic coast participating in it (Eltis – Richardson, 2015).

Through its trade expeditions, Portugal also gained experience in shipbuilding and navigation, contributing to the further development of maritime activities on the European continent. Together with Spain, they focused on utilizing their overseas colonies, distributing imports from them, while leaving most of the exports to the colonies to other European nations, particularly the Netherlands.

In the 17th and 18th centuries, changes occurred in overseas trade. Spices gradually became more commonly traded goods. With the decline in the importance of precious metals and as more countries acquired their colonies in the Western Hemisphere, imports into Europe began to be dominated by sugar, tobacco, leather, and timber. European countries exported processed industrial goods to their colonies, and there was also significant emigration of people (Drieniková – Zubaľová, 2013).

1.1.3 The Contribution of the Netherlands to the Development of European Trade Policy

The Dutch economic model became an example for other European countries. From the 17th to the early 19th century, the Netherlands was the leading European economy in terms of income per capita. As a relatively small country, it began to effectively promote the principle of specialization in the national economy and became a pioneer in advocating for international openness and liberalization policies in foreign trade. It championed freedom in trade and industrial matters — it did not impose tariffs on the export and import of raw materials and semi-processed goods, and trade in precious metals was also free (Drieniková – Zubaľová, 2013).

⁵ Portugal expanded the cultivation and processing technology of sugar cane, as well as sugar production to Brazil and the islands of Madeira, São Tomé, and Príncipe.

The unusual development of the Dutch navy and merchant fleet initially contributed to the establishment of trade routes in Northern Europe and the intensification of its development. By the second half of the 16th century, the Dutch fleet's capacity even surpassed that of the combined French, German, and English fleets (Kosír – Rosenberg, 2007). This helped strengthen the position of other sectors, such as agriculture (which was the most productive in Europe), shipbuilding, maritime transport, and trade services. The Dutch further improved shipbuilding techniques, relying on timber supplies from the Baltic regions and also supplying foreign fleets.

The 17th century is considered the "Golden Age" for the Netherlands (Freis, 2012). During this period, Amsterdam became an important trading and financial metropolis, a global center for the gold and silver trade, as well as the headquarters for banks and the stock exchange.

Through its foreign trade activities, supported by the development of its navy, the Netherlands established a trade empire primarily in Asia, focusing especially on the Spice Islands of Indonesia. By the mid-17th century, the Dutch had gained control over the spice trade in a manner that the Portuguese had not been able to achieve. The main Asian colony of the Netherlands was the area now known as Indonesia, which was referred to as *Dutch India* at the time (Drieniková – Zubaľová, 2013).

The Netherlands made significant contributions to the institutionalization of foreign trade activities. It transferred the management of trade and governmental powers to private joint-stock companies - known as **the East India Companies**.⁶

In 1602, the Dutch **United East India Company** (Vereenigde Oostindische Compagnie – VOC) was established, a monopolistic organization that, under official pressure, united private trading companies focused on trade with Asia. It operated in the Indian Ocean region, particularly in what is now Indonesia. VOC was also the first company in the world to issue shares and allowed trading in them, creating a secondary market. This led to the establishment of the first stock exchange in Amsterdam in the 17th century (Brinkhof, 2022).

For the trade relations between the Netherlands and the colonies in the West Indies⁷, the so-called **Privileged West India Company** (Geoctroyeerde Westindische Compagnie – GWC) was established in 1621. Its primary areas of focus were the West African coast, Central, and South America. The company became a key instrument for the Dutch in the colonization of the Americas.

Dutch merchants excelled in trade primarily in the early 17th century, and they continued to increase their lead at least until the middle of the century. They specialized in the transportation of foreign goods and the export of herring, and they also exported some of their own products. They imported raw materials, semi-processed goods, and then re-exported them once finished (Cameron, 1996). In the 18th century, both France and Great Britain utilized Dutch trade techniques and "know-how." Their goal was to take over Dutch positions and push them out of markets, which they gradually succeeded in doing. While Dutch foreign trade volume dropped by a fifth between 1720 and 1820, British trade increased sevenfold (Kosír – Rosenberg, 2007).

⁶ The East India Companies were founded in Great Britain, the Netherlands, France, Denmark, Sweden, Portugal, and even in Genoa and Austria.

⁷ The term West Indies originates from the colonial era and refers to a group of islands separating the Gulf of Mexico and the Caribbean Sea (the Bahamas, Greater and Lesser Antilles). The so-called East Indies represented the Spice Islands in the Pacific Ocean, the territory of present-day Indonesia.

1.1.4 Great Britain and its Role in the Development of European Trade Policy

Great Britain was able to refine the Dutch model of trade expansion. From the late 18th century, it became a pioneer in industrial development and transportation, thus symbolizing the Industrial Revolution and the entry of civilization into the industrial era. By the end of the 19th century, it became the first leader of the emerging world economy, a position it maintained until the World War I.

Great Britain succeeded in building a vast colonial empire - known as the British Empire - which spanned the continents of America, Asia, Africa, and Australia. It achieved a dominant position in the slave trade and was also successful in pushing both the Netherlands and France out of their colonies in the Americas and Asia.

The foreign trade policy of Great Britain was based on and profited from the development of industry and the refinement of Dutch experiences in foreign trade. Improvements were made in banking systems, financial and tax institutions, productivity increased in agriculture and industry, and overall, foreign trade expansion was supported. The key elements of British foreign trade policy (FTP) can be classified as follows (Drieniková – Zubařová, 2013):

- *Efforts to monopolize strategic areas* - through the implementation of the so-called "beggar thy neighbour" strategy - kept the Netherlands from maintaining its leading position until the 1930s. The application of this strategy contributed to Britain's influence and the acquisition of a dominant position at the expense of its trading partners. The goal was to increase demand for British exports while reducing dependency on imports. This is a type of trade strategy aimed at improving the financial stability and prosperity of one country at the expense of other countries, i.e., its trading partners.
- *The institutionalization of foreign trade through the monopolistic East India Company.*
- *The monopoly in maritime trade* enforced through the so-called *Navigation Acts*, which became the foundation of British overseas trade and the colonial system.
- *The implementation of the principle of free trade based on low tariffs*⁸ within the empire after achieving dominant status. Until then, Britain's FTP was protectionist. A key symbol of the British protectionist system was the *Corn Laws*, which imposed tariffs on imported grain.

The Navigation Acts, enforced from 1651 and repealed in 1847, aimed to reserve foreign trade for the British merchant fleet and facilitate the expansion of British commerce. The general purpose of these laws was to restrict the use of foreign shipping for trade between Great Britain and its colonies. Goods imported into Britain had to be transported either on British ships or ships from the country of origin. British vessels were required to import goods directly from the country of origin, thereby limiting Amsterdam's role. Trade in fish and coastal shipping was also reserved solely for British ships. Trade with British colonies had to occur on British vessels. The import of industrial goods to the colonies (e.g., from Germany) or the export of important commodities from the colonies (e.g., tobacco, sugar, cotton) had to go through Great Britain first, and could not go directly to the destination via foreign ports (Cameron, 1996). In this way, colonial markets were reserved for British merchants and manufacturers.

The implementation of the Navigation Acts led to a rapid increase in both the size and quality of the Royal Navy, strengthening Great Britain's position as a global superpower until the first half of the 20th century. However, the British navy was never strong enough to fully curtail the commercial power of the Netherlands, which maintained significant influence over overseas

⁸ Free trade was historically understood as trade subject to low tariff rates. It wasn't until the 20th century that the term "free trade" came to represent trade in which both tariff and non-tariff barriers are removed (Kosír – Rosenberg, 2007, p. 53).

markets, financial strength, and naval expertise. Britain was able to limit Dutch involvement in trade with Britain, though; London became the main "warehouse" for American colonial goods, to the detriment of Dutch cities. The British maritime industry, however, developed independently (Drieniková – Zubařová, 2013).

The British ***East India Company*** (EIC) was established at the end of 1600 through a royal charter, granting it monopoly privileges over all trade with the East Indies. The primary goal of the EIC was to engage in the spice trade, which had been dominated by the Spanish and Portuguese during the 16th and 17th centuries. After defeating Portugal in India in 1612, Britain secured trade concessions, allowing it to start trading in cotton, silk, indigo, saltpetre, and spices from southern India. The company established several trading posts along the eastern and western coasts of India, and English communities developed around cities such as Kolkata, Mumbai, and Madras. In 1717, the EIC achieved its most significant success when it was exempted from paying customs duties in Bengal (UCLA, n.d.). In the second half of the 18th century, tea became a major import from Asia, primarily from China. However, Britain financed this trade through illegal exports of opium to China, contributing to the outbreak of the infamous Opium Wars.⁹

However, the EIC gradually transformed from a trading company into a governing enterprise, an agent of British imperialism. Despite the increase in trade and revenues from other sources, rising military expenses burdened its operations, and its collapse seemed imminent. It was saved by state intervention and increased parliamentary control over its affairs. In 1858, the EIC was dissolved, despite its essential successes being defended by British economist and EIC employee John S. Mill. The administration of India was transferred to the authority of the British Crown (UCLA, n. d.).

1.1.5 Other European Colonial Powers

Other European countries also played a role in the formation of colonies and the development of trade links between Europe and Asia, Africa, and the Americas. Spain dominated the American continent, especially in Latin America. Its richest territories were present-day Peru and Mexico. Thanks to the gold and silver from its American colonies, the Spanish Habsburg royal family became the most powerful ruling court in Europe (Cameron, 1996).

France built its colonial empire in Africa, primarily in the territory of the North African Maghreb (in Morocco, Algeria, and Tunisia). On the Asian continent, its dominant region was French Indochina, the territory of present-day Vietnam, Laos, and Cambodia. It also colonized certain areas in North America (Canada, Louisiana) and South America, as well as in the Caribbean (islands in the West Indies). Some former colonial territories are today officially part of France in the form of overseas departments (Drieniková – Zubařová, 2013).

Since *Germany* formed as a state only at the end of the 19th century, it acquired few colonies. These mainly included territories in Africa (such as German Togo, Cameroon, Namibia, Rwanda, Burundi), as well as some islands in Oceania (such as Western Samoa, the Mariana Islands). Similarly, *Italy* began building its colonies in Africa at the end of the 19th century, occupying Libya, for example. *Belgium* also acquired colonies in Africa (mainly the Belgian Congo), and adopted the British model of industrialization. From the beginning of the 19th century, Belgium was the largest industrial economy in Europe in terms of industrial production per capita, a position it held until the beginning of World War I (Cameron, 1996).

⁹ The Opium Wars ended with China's defeat, which allowed for further British expansion and the acquisition of new privileges.

1.1.6 Elements of Foreign Trade Policy in the Colonial Period

The fact that expansion in the field of foreign trade contributes to wealth, overall upliftment, increased prosperity, and the standard of living of the population was recognized by the Venetians. The development of foreign trade to an intercontinental level during the colonial period contributed to the economic boom, particularly in the western part of the European continent. The foreign trade policies of colonial metropolises were characterized by elements of advancing their own interests and aggressiveness. This was further fuelled by increasing competition, rivalry, and the imperialistic competitiveness of individual countries. A negative feature of this period was the trade in slaves and sometimes ruthless exploitation, even plundering, of natural resources in the colonies (Drieniková – Zubaľová, 2013).

During the colonial period, the principle of protectionism predominated in trade policy. However, over time, the principle of free trade, which was advocated by the Netherlands in its economy, began to gain traction. After gaining a dominant position, Great Britain also joined its supporters.

Several factors influenced the increase in competitiveness and export capacity of colonial powers — in terms of economic development, trade strategy, and military support for trade strategy. In the area of FTP, these factors were (Kosír – Rosenberg, 2007):

- the application of the protectionist principle during the struggle for dominance in the international market,
- changes in favour of applying the principle of free trade after gaining dominant position – an example is the repeal of British Corn Laws and Navigation Acts in the mid-19th century,
- official pressure from the state for traders to unite in monopolistic organizations (East India Companies) to carry out and support trade expansion in promising territories,
- enforcement of guaranteeing extraterritorial rights¹⁰ for foreigners – employees of trading companies – in trade agreements.

In the second half of the 19th century, when the principle of free trade prevailed in trade policy, the role of state foreign trade organizations in colonized territories was gradually taken over by private companies.

1.2 Decolonization and Changes in the Field of Foreign Trade Policy on the Example of Great Britain

The colonial system and imperial control over large parts of the world by several powers began to be unsustainable from the end of the 19th century and finally collapsed in the 1960s.¹¹ Although European powers were still heavily investing in their colonies by the late 19th century, it was becoming increasingly clear that this system no longer had a long-term future. The individual subordinate territories – colonies or semi-colonies – expressed their dissatisfaction, and efforts to gain independence from the control of the great powers were growing stronger. Two world wars, combined with the rise in social tension due to poverty, hunger, various epidemics, instability of European economies, conflicts, and the crisis-ridden 1930s, which brought about the collapse of world trade, capital flows, and migration, significantly weakened the economies of the European powers. In the early years following the Second World War, the colonial powers temporarily reasserted control over most of their colonies, but their war-

¹⁰ Immunity for foreign states or international organizations and their officials from the jurisdiction of the country in which they operate.

¹¹ In the mid-1960s, former European colonial powers granted independence to their colonies, except for Portugal, where only after the 1974 coup did the new government negotiate independence for the African colonies of Angola and Mozambique.

induced weakening and the growing strength of indigenous national liberation movements gradually led to the abandonment of imperial control. In some cases, countries voluntarily relinquished their colonies to avoid bearing the costs and risks of national liberation wars (Cameron, 1996).

In 1947, Great Britain granted independence to its colonies on the Indian subcontinent – India, Pakistan, Ceylon (today's Sri Lanka), Bangladesh, and a year later, Burma (today's Myanmar). Indonesia gained independence from the Netherlands in 1949, and French Indochina (Vietnam, Laos, Cambodia) from French colonisation in 1954. The first African country to gain independence was Libya in 1951 (Cameron, 1996).

The collapse of the colonial system brought *innovations in the foreign trade policies* of European powers. Even before the final dissolution of colonialism, the most powerful metropolises sought to preserve as many economic benefits as possible from this system by changing the form of their relationships with their colonies. Some began to undertake liberalisation measures within trade relations with their colonies. Since the economies of the colonies, semi-colonies, or dependent territories did not have fully developed state structures, efforts to liberalise trade relations were implemented through enhanced international economic cooperation, mostly initiated by the metropolises. This initiative also aimed to slow down the process of ending colonial control and the inevitable restructuring of relations between the metropolises and their subordinate colonial territories (Kosír – Rosenberg, 2007).

In 1926, in response to the need to organise relationships and ties within the British Empire, the British Commonwealth of Nations (BCN) was established. It was intended to provide an acceptable form of association between Britain and its colonies, as the previous forms of relationships within the Empire had proven unsustainable. Mutual relations, including economic and foreign trade policy, between the members of the BCN were addressed at relatively regular colonial, later imperial, conferences¹². In 1932, within the framework of the BCN, Britain and its subordinate dominions established **the Commonwealth Preference System**. It comprised 48 member countries, and preferential customs duties applied to their mutual trade relations. High customs duties were retained for the import of goods from non-member countries. Britain's entry into the European Economic Community (EEC) marked the end of this preferential system.

1.3 Applying the Principles of Foreign Trade Policy in the Colonial and Post-colonial Period

In the colonial and post-colonial periods, two fundamental principles were applied in the foreign trade policies of European countries: protectionism and free trade. During periods when the internal conditions and rules of the national market significantly differed from those in other countries, the state's role in protecting domestic businesses from foreign competition was considered natural. Protectionism, or the principle of safeguarding local industries, prevailed in the trade policies of many countries for an extended period (Kosír – Rosenberg, 2007). Political interventions in the economy and trade policy were implemented by Great Britain until the mid-19th century, not only through the Navigation Acts but also through the Corn Laws, which became the central symbol of its protectionist system. France used a system of protective tariffs during the era of Colbertism in the 17th century (Cameron, 1996). The United States pursued a protectionist trade policy until the 1930s.

¹² In the post-war period, as some colonies within the British Empire began to gain greater autonomy and varying degrees of independence from Britain, the British Commonwealth of Nations (BSN) took on its more modern form. In 1949, the London Declaration removed "British" from the name, leaving only "The Commonwealth".

The application of both principles of foreign trade policy (FTP) has historically been influenced by the specific interests of industries or regions within individual countries. For example, in Manchester, a major industrial centre in Britain, free trade was supported in the 19th century, while landowners advocated for the protection of their interests through the Corn Laws (Cameron, 1996). It was Great Britain that first began to implement the principle of free trade in its FTP practice in the 19th century.

1.3.1 Cobden-Chevalier Treaty

Although the theoretical foundations of free trade in Britain were laid by A. Smith and D. Ricardo, this principle was only put into practice in the mid-19th century. In 1846, the Corn Laws were repealed, which marked the triumph of British industrial interests, and in 1849, the Navigation Acts were also abolished.

In 1860, a historically significant trade agreement was signed between Great Britain and France, known as the ***Cobden-Chevalier Treaty***. It is named after the French economist Michel Chevalier, a proponent of economic liberalism, and the British opponent of the Corn Laws, Richard Cobden. Both men persuaded their respective governments of the benefits of a bilateral trade treaty, despite the conflicting trade policies of the two countries.

In the first half of the 19th century, France, in an effort to protect its cotton industry from British competition, implemented a blanket ban on the import of cotton and woollen fabrics, as well as high tariffs on other goods. Under the Cobden-Chevalier Treaty, Britain abolished all tariffs on French imports except for cognac and wine, which were considered luxury goods for British consumers. It retained only a few import duties for revenue purposes (brandy, wine, tobacco, coffee, tea, spices). France lifted the ban on British textile imports and reduced tariffs on a wide range of British goods to a maximum of 30%. In doing so, it abandoned extreme protectionism in favour of a more moderate approach (Cameron, 1996).

The most significant part of this treaty was the *Most Favoured Nation clause* (MFN), which provided for reciprocal benefits granted by either contracting country. This meant that whenever France applied a lower customs duty, it automatically applied to products imported from Great Britain, and vice versa. The application of the MFN clause became an important precedent in the trade policies that followed.

Although the agreement concerned only these two states, its significance was much broader. It became a foundation for similar agreements with other countries. Based on the application of the MFN clause, according to Lampe (2010), the treaty laid the groundwork for an "epidemic of free trade" on the European continent. Over the next 15 years, 56 similar preferential trade agreements were concluded in Europe. For instance, in the 1860s, France established agreements based on the MFN clause with Belgium, the German Customs Union, Italy, Switzerland, Scandinavian countries, and other European nations, excluding Russia. These international treaties contributed to an increase in trade between countries, the reorganisation of their industries, and higher labour productivity (Cameron, 1996; Fojtíková, 2009).

Despite the reduction or elimination of most tariffs, revenue from them was much higher in 1860 than in 1842, a result of a significant increase in trade volume. International trade strengthened and accelerated its growth following British reforms in the 1840s. European trade grew at an average rate of 10% per year for several years. Until the Second World War, Europe never came as close to absolute free trade as it did in the 1860s and 1870s (Cameron, 1996).

The Cobden-Chevalier Treaty became a significant milestone in trade liberalisation in the 19th century as a new instrument for this purpose. However, according to Flandreau (2008), liberalisation occurred even before the treaty was signed, which he sees as merely a change in the instrument of liberalisation. While it sparked the first wave of trade agreements, the

second wave of effects from the creation of trade never materialised. In any case, the bilateral treaties of the 1860s and 1870s were hardly followed by further agreements aimed at deepening liberalisation (Cameron, 1996).

After 1875, this network of trade agreements did not disappear, but neither did it advance towards further trade liberalisation. According to the theory of political economy, the only viable way to achieve further reductions or eliminations of trade barriers is through negotiations between countries on a multilateral basis and the conclusion of a multilateral trade agreement. However, this did not happen in the context of the "scramble for colonies" and the subsequent arms race among European countries (Lampe, 2010) – until the period following the Second World War.

1.3.2 Law on Mutual Trade Agreements

The period of liberalisation in international trade in Europe was short-lived, and from the late 1880s, a gradual return to protectionist policies can be observed. The United States was the first to advocate the principle of free trade in international commerce and was a driving force behind the establishment of a multilateral trade system. However, it remained a strong proponent of protectionism until the 1930s. Protectionist policies in the U.S. intensified particularly in 1930 with the enactment of the Smoot-Hawley Tariff Act, aimed at redirecting domestic demand for imports towards domestic production. This law introduced the highest tariff increases in U.S. history (Cameron, 1996), with average import duties reaching as high as 53%. Despite significant protests from nearly a thousand economists, President Herbert Hoover signed the law. The reaction from U.S. trading partners was the imposition of various retaliatory measures¹³, which negatively affected American exports (which fell by nearly two-thirds by 1932) and led to isolationism.

Under the leadership of newly elected President Franklin D. Roosevelt, the controversial law was repealed. A significant shift in U.S. trade policy occurred towards the principle of free trade. In this context, the system of reciprocal trade agreements became a key instrument of trade policy. The main initiator of liberalist policy in the U.S. was Secretary of State Cordell Hull, who was instrumental in getting Congress to adopt and approve **the Reciprocal Trade Agreements Act (RTAA)**.

Through the RTAA, a new trade policy doctrine was formulated in the U.S., the significance of which lies in the following changes: (Irwin, 1998):

- *The authority over U.S. trade policy* shifted from Congress to the President, including the initiation of negotiations on a multilateral basis. The provisions of the law allowed the President to enter into tariff agreements with other countries¹⁴. The President could reduce or increase import tariffs, but not by more than 50% of the level set by the Smoot-Hawley Act in exchange for tariff concessions from trading partners (history.state.gov, n. d.).
- *The unconditional¹⁵ Most-Favoured-Nation (MFN) clause* was applied. Tariffs declared under this clause were unconditionally applied to imports from all countries.
- *The principle of multilateralism* was implemented. With the adoption of the law, elements of multilateralism began to emerge, particularly manifested in the application of the MFN clause.

¹³ Spain increased tariffs on imports of oranges, cork, and grapes, while Canada tripled tariffs on imports of wood and certain foods from the USA.

¹⁴ Between 1934 and 1939, the USA concluded trade agreements with 19 countries under the RTAA, including an agreement with Czechoslovakia.

¹⁵ The conditional MFN clause was based on granting benefits that were subject to the principle of reciprocity.

The RTAA became the foundation for the post-war multilateral trading system. The United States, as its main initiator, expressed a desire for the relaxation of trade restrictions and support for the political freedom of nations in the Atlantic Charter of 1941 - advocating for equal access to global trade and the world's resources necessary for economic growth. The implementation of multilateral liberalisation of world trade began to materialise through *the General Agreement on Tariffs and Trade (GATT)*, signed in 1947, which, despite being considered temporary, became the exclusive international legal framework for international trade for almost fifty years. The continuation of the GATT system, in the form of formalisation and institutionalisation, represents the functioning of the World Trade Organization (WTO).

Summary

The foreign trade policy of EU countries also stems from the historical context of the development of trade policy on the European continent. The so-called trading powers significantly contributed to the development of trade in Europe. For 500 years, the city republic of Venice dominated European trade. Its position and role of dominance in the development of trade, not only on a continental scale but also on an intercontinental and overseas level, was later taken over by Portugal, which became Europe's pioneer in expansion across the Atlantic Ocean, as well as in opening maritime trade routes around Africa, India, China, and Japan. Its status was gradually taken over by the Netherlands at the beginning of the 17th century, whose economy was strongly based on the promotion of free trade. It conducted its trade activities primarily in the Dutch East Indies, today's Indonesia. The Dutch model of trade expansion was refined by Great Britain, which, from the end of the 18th century, became a pioneer in industrial development, a symbol of the Industrial Revolution and the entry of civilisation into the industrial era, and ultimately a leader in the emerging global economy.

Foreign trade policy during the colonial period was characterised by the application of the principle of protectionism during the struggle for dominance in the international market. After achieving a dominant position, the principle of free trade prevailed. A significant feature was the institutionalisation of trade activities in the form of monopolistic East India companies, whose merchants were granted the right of extraterritoriality. As the colonial system gradually disintegrated, a new element of foreign trade policy emerged, namely the strengthened cooperation between metropolises and their colonies, with an example being the preferential system within the British Commonwealth of Nations (BSN).

In relation to the application of trade policy principles, protectionism dominated the trade policies of several major states for an extended period. The UK was notable for its political interventions in the economy and trade policy, with the implementation of the so-called Corn Laws being a typical example until the mid-19th century. A turning point in the policy supporting protectionism was the 1860 trade agreement between Britain and France. The United States was the first to implement liberalism as a trade policy principle in international and global trade, applying it in its trade policy since 1934.

Glossary

The Most Favoured Nation (MFN) clause - forms the basis of the principle of non-discrimination within the World Trade Organization (WTO): if a country grants a tariff concession, or other advantages, privileges, or exemptions to one country, it must automatically extend them to all contracting parties. Exceptions to the MFN clause include customs unions, free trade zones, small border traffic, cabotage, and the Generalized System of Preferences.

The Silk Road - refers to a network of trade routes in ancient and medieval times that connected East Asia with the Mediterranean.

The East India Companies - is a general term for trading companies established with the aim of establishing trade relations and gaining political control over the Indian subcontinent, the Indonesian archipelago, and neighbouring countries in Southeast Asia.

Foreign Trade Policy - represents a relatively comprehensive set of objectives, principles (or tenets), methods, and corresponding activities and tools that directly influence the stimulation or weakening of developmental trends in foreign trade (value, volume, commodity structure, and territorial direction of exports and imports). This is supported by a network of institutions that implement foreign trade policy in practice.

The Reciprocal Trade Agreements Act (RTAA) - represented an institutional reform of U.S. trade policy, allowing the president to negotiate with other countries on reducing tariffs in exchange for reciprocal tariff reductions by the U.S.

Tasks

Group tasks and assignments

1. Discuss and present within groups the contribution of the trading powers mentioned in the chapter to the development of trade in Europe. Define their impact on the overall elevation of the European continent.
2. In your group, search for the following terms and explain their connection to trade activities during the colonial period: indigo; extraterritoriality law; Batavia; Colbertism; West India; Corn Laws.
3. Research additional information and interesting facts about East India Companies (Dutch, British, or French, or others). Discuss in your group and then present your perspective on the significance of these companies for the trade activities of selected European countries during colonization. Also, indicate what you believe is their main contribution to the development of foreign trade in Europe.
4. Discuss and clarify the development of trade policy in relation to tendencies towards protectionism and liberalism during the colonial and post-colonial periods (using examples from European powers and the USA).
5. Discuss the significance of the Cobden-Chevalier agreement for trade policy in the 19th century.
6. Discuss and clarify the changes in the direction of U.S. trade policy in the first half of the 20th century: when did the turning point occur and based on what factors; how successfully did the U.S. implement the principle of multilateralism in its foreign trade policy; investigate how the powers of the U.S. president in foreign trade policy have been applied since 1934; find parallels with the ongoing trade conflict between the U.S. and China and explore potential consequences.

Recommended Literature

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2 EU's Foreign Trade Policy Towards the Countries of the European Free Trade Association

Learning outcomes

Students will acquire knowledge about the development and current state of the EU's foreign trade policy towards the countries of the European Free Trade Association (EFTA). They will understand the essence of the European Economic Area, as well as the significance of the EU's foreign trade relations with Norway, Iceland, Liechtenstein, and Switzerland in a changing global economic environment. Students will familiarize themselves with the sources from which they can actively obtain new knowledge and information about the EU's foreign trade relations with EFTA countries. The tasks aim to develop students' abilities to solve problems in the EU's foreign trade relations with EFTA countries, to work in teams, to think creatively, to critically evaluate acquired knowledge, to communicate professional opinions, and to present the results of their own work.

Keywords

European Economic Area, European Free Trade Association, internal market, sectoral agreements

Abbreviations

EEA – European Economic Area, EFTA – European Free Trade Association, EC – European Communities, WTO – World Trade Organisation, CH – Switzerland, SITC – Standard International Trade Classification

Introduction

The European Free Trade Association (EFTA) was established in 1960 as a counterbalance to the integration processes developing in Western Europe after World War II within three communities: the European Coal and Steel Community, the European Economic Community, and the European Atomic Energy Community. At its inception, EFTA had seven member states. These states were not interested in membership in the aforementioned European communities due to their economic or political specifics, yet they aimed to promote free trade. Over time, the membership base of EFTA changed, with new states joining and some countries terminating their membership in EFTA upon entering the EU. Currently, EFTA comprises four countries: Norway, Iceland, Liechtenstein, and Switzerland. These are developed and wealthy states, ranking among the top seven countries in the world with the highest GDP per capita (World Bank, 2024). Switzerland and Liechtenstein have close economic ties due to their customs union. Moreover, Liechtenstein uses the Swiss franc as its national currency.

EFTA is an intergovernmental organization whose aim is to "promote free trade and economic integration among its members, within Europe and globally" (EFTA, 2024a). The foreign trade relations of the EU do not have the same foundation with all EFTA members. The EU's relations with Switzerland are, in fact, specific compared to the other EFTA states. Therefore, the following text will discuss the relations between the EU and Norway, Iceland, and Liechtenstein on one hand, and the relations between the EU and Switzerland on the other.

2.1 Relations Between the EU and Norway, Iceland, and Liechtenstein

The foreign trade policy and trade relations of the EU with the trio of countries Norway, Iceland, and Liechtenstein have been governed by the Agreement on the European Economic Area (EEA) since 1994. This agreement goes beyond traditional free trade agreements and allows for the extension of the EU's internal market to these countries without them being EU members. Thanks to the EEA agreement, the trade relations between the EU and this trio of countries are above standard. Together, Norway, Iceland, and Liechtenstein account for 3.8% of the EU's external trade, with Norway contributing the most (European Commission, 2024a).

2.1.1 Development of Mutual Relations

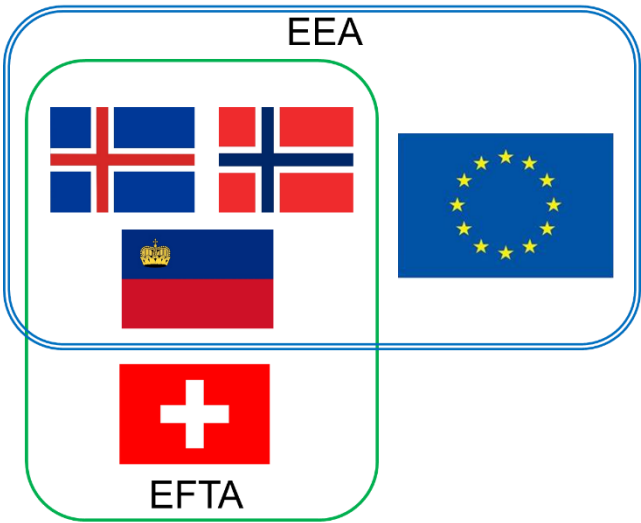
The internal market of the European Community, the predecessor of the EU, was officially completed in 1992. At that time, it consisted of 12 Western European countries. Simultaneously, the EEA Agreement was signed in 1992 (Publications Office of the European Union, 1994), with the aim of allowing EFTA states to participate in this internal market. EFTA had 7 members at that time. In addition to Norway, Iceland, and Liechtenstein, these included Switzerland, Austria, Finland, and Sweden. However, Switzerland ultimately did not ratify the EEA Agreement after a negative referendum, and therefore it did not become a member of the EEA. The EEA Agreement entered into force on January 1, 1994. The enlargement of the EU in 1995 to include Austria, Finland, and Sweden meant that these countries ceased to be EFTA members and became part of the EEA as EU member states. Each subsequent EU enlargement meant that new member states automatically became members of the EEA. Thus, EU enlargement also leads to EEA expansion. Iceland applied for EU membership in 2009. However, six years later, it withdrew its application, thus remaining within the EFTA grouping. Among the main reasons for Iceland's withdrawal from its EU membership application were concerns about the loss of sovereignty in key economic sectors of fisheries and agriculture (Thorhallsson, 2019).

2.1.2 Legal and Institutional Framework of Cooperation

The legal basis for cooperation between the EU on one side and Norway, Iceland, and Liechtenstein on the other side is the EEA Agreement. This is an international agreement. Currently, there are a total of 30 contracting parties, consisting of 27 EU states and 3 EFTA countries (see Figure 2.1).

The Agreement consists of 129 articles, 22 annexes, 49 protocols, and a final act. Its content mirrors the provisions of the Treaty on the Functioning of the EU regarding the fundamental freedoms of the internal market and related policies. An overview of the areas and policies of the EU included in the EEA Agreement, as well as those not included in the agreement, is provided in Figure 2.2. The provisions of the EEA Agreement are interpreted in accordance with the relevant case law of the Court of Justice of the EU existing prior to the signing of the agreement (EFTA, 2024b).

Figure 2.1 Contracting Parties to the EEA Agreement



Source: Own processing.

A unique feature of the EEA Agreement is its so-called dynamic character. This means that the agreement is continuously updated to include newly adopted EU legislation in the area of the internal market, whether in the form of regulations, directives, decisions, or certain non-binding legal acts.

Figure 2.2 Areas and policies of the EU in the EEA Agreement

Areas included in the EEA Agreement	Areas not included in the EEA Agreement
<ul style="list-style-type: none"> • free movement of goods, persons, services, and capital • competition • transport • energy • cooperation in the economic and monetary field • horizontal policies closely related to the four freedoms <ul style="list-style-type: none"> • social policy, including health and safety at work, labour law, and equal treatment of men and women • consumer protection • environment • statistics • company law • accompanying policies, e.g.: <ul style="list-style-type: none"> • research and technological development • education • employment • tourism • culture 	<ul style="list-style-type: none"> • common agricultural policy and common fisheries policy (although the agreement includes provisions on trade in agricultural and fishery products) • customs union • common commercial policy • common foreign and security policy • justice and home affairs (although Norway, Iceland and Liechtenstein are part of the Schengen area) • direct and indirect taxes • economic and monetary union

Source: Own processing.

This update occurs through the formal incorporation of EU legislation into one of the protocols or annexes of the EEA Agreement via decisions of the EEA Joint Committee. The purpose is to ensure that the same rules apply throughout the EEA as close as possible to the date of their

entry into force in the EU. In this way, several thousand EU legal acts have already been incorporated into the EEA Agreement (European Parliament, 2024). Decisions of the EEA Joint Committee are published in the Official Journal of the EU in all its official languages, as well as in a supplement to the Official Journal of the EU in Norwegian and Icelandic. EFTA states cannot participate in the decision-making process within EU institutions; thus, they cannot vote on whether an EU regulation or directive will be approved or not. However, in the case of EU legislation relevant to the EEA, they can participate in its preparation during the initial phases of legislative proposal drafting. For example, they have the right to participate in expert groups or committees of the European Commission.

The provisions of the EEA Agreement introducing the free movement of goods between the contracting parties apply to products of chapters 25 to 97 of the harmonised system, with the exception of products listed in one of the protocols of the agreement, such as protein albumin, technical monocarboxylic fatty acids, and oils from acid refining. Another protocol of the EEA Agreement lists selected agricultural and food products, for which specific provisions of the agreement apply. The provisions of the agreement on the free movement of goods do not apply to agricultural products and fishery products. Goods to which these provisions apply are traded within the EEA without import and export duties or other charges having equivalent effect to customs duties. Quantitative restrictions on imports and exports are also prohibited, as well as all measures having equivalent effect, except for restrictions justified by principles of public morality, public order, or public security, the protection of health and life of humans, animals, and plants, the protection of national cultural heritage of artistic, historical, or archaeological value, as well as the protection of industrial and commercial property. Finally, the contracting parties have committed not to grant tax advantages to domestic products in comparison to products from other contracting parties.

Preferential treatment under the EEA Agreement can only be granted to a product that originates in the EEA. The agreement therefore includes rules of origin that determine to what extent a product must be produced or processed within the EEA in order to obtain the status of a product of preferential origin in the EEA (European Commission, 2024d).

Regarding agricultural products and fishery products, the EEA Agreement includes provisions related to veterinary and phytosanitary matters. According to these provisions, phytosanitary controls upon import take the form of random checks and sampling, except in duly justified circumstances.

The EEA Agreement establishes a system for compensating differences in the prices of basic agricultural raw materials used in the production of processed agricultural products. Price differences can be compensated by imposing an import duty or providing export refunds. This system does not apply to Liechtenstein.

Given that Norway, Iceland, and Liechtenstein do not participate in the EU's Common Fisheries Policy, there are certain trade restrictions in this sector. However, thanks to bilateral agreements, tariffs on most white fish products have been eliminated. Tariffs on other fish and fish products are also gradually being reduced, but not on some of the most important fish species in Norway and Iceland.

The free movement of goods between the EU, Norway, Iceland, and Liechtenstein has also been facilitated by the harmonisation of product requirements. In cases where requirements are not harmonised, free movement is allowed through mutual recognition, meaning that products placed on the market in accordance with the legislation of one partner are recognised by the other partners.

The EEA Agreement further harmonises the legislation of the contracting parties governing intellectual property rights to ensure compatibility with the principles of free movement of goods and to provide a high level of protection for both copyright and industrial rights. The

Agreement also establishes the principle of regional exhaustion of intellectual property rights. This means that if a product has been placed on the market in any EEA country with the consent of the rights holder, they can no longer prevent the import of such products into other EEA countries by invoking their exclusive rights. The establishment of a single public procurement market has also been significant for the free movement of goods in the EEA.

In addition to the free movement of goods, the EEA Agreement also established the free movement of persons, services, and capital. The free movement of persons concerns the nationals of the contracting parties who are workers or service providers, or individuals who are establishing themselves in another contracting state. The free movement of workers includes the elimination of any discrimination based on nationality regarding employment, remuneration, and other working conditions, except for restrictions justified by public policy, public security, and the protection of public health. The EEA Agreement further removes restrictions on the freedom of nationals of EU member states or EFTA countries to establish themselves in the territory of any of these states, as well as restrictions on setting-up agencies, branches or subsidiaries there. Finally, the EEA Agreement abolishes restrictions on providing services within the territory of the contracting parties for nationals of EU member states or EFTA countries who have settled in an EU member state or an EFTA country other than the state of the service recipient.

Figure 2.3 Main Institutions of the EEA



Source: Own processing.

The governance and administration of the EEA involve the EU, Norway, Iceland, and Liechtenstein. For this purpose, joint institutions have been established, such as the EEA Council, the EEA Joint Committee, the EEA Joint Parliamentary Committee, and the EEA Consultative Committee (Figure 2.3). These institutions are represented by officials from both the EU and the three EFTA states.

The EEA Joint Committee decides by consensus which EU legislation will be incorporated into the EEA Agreement. It is thus the main decision-making body of the EEA. The EEA Council has a political role by assessing the overall functioning of cooperation within the EEA and providing suggestions for its further development. The EEA Joint Parliamentary Committee is not directly involved in the decision-making process; however, it monitors and reviews the decisions of the EEA Joint Committee. Its members have the right to ask questions of the EEA Council and the EEA Joint Committee, as well as to express their opinions in the form of reports and resolutions. The EEA Consultative Committee ensures cooperation among the social partners of the EU, Norway, Iceland, and Liechtenstein. The relevant EU institutions (the European Commission and the Court of Justice of the EU) and the EFTA institutions (the EFTA Surveillance Authority and the EFTA Court) are responsible for the uniform implementation and application of the

rules arising from the EEA Agreement; therefore, no special EEA institutions have been established for this purpose.

2.1.3 Trade Cooperation

The EU is the largest trading partner for the EFTA countries. The EU accounts for more than 63% of Norway's foreign trade turnover, over 53% for Iceland, and more than 70% for Liechtenstein.

From the EU's perspective, Norway ranks sixth, Iceland is in 54th place, and Liechtenstein is ranked 76th in terms of their share of the EU's foreign trade turnover (European Commission, 2024a-c). The low shares of Liechtenstein and Iceland reflect the fact that they are small economies. While the share of the three EFTA countries in the total EU export reaches 2.65%, their share in the total EU import is somewhat higher at 3.8%. The trade balance has been persistently negative from the EU's viewpoint.

Chart 2.1 Trade between the EU and Norway, Iceland, and Liechtenstein (in million EUR)



Source: Own processing according to Eurostat (2024a).

The development of trade between the EU and Norway, Iceland, and Liechtenstein (Chart 2.1) shows historically relatively stable values for EU exports. The values for EU imports exhibit higher volatility, particularly noticeable since 2022. The significant increase in EU imports during this period has led to a deepening trade balance deficit between the EU and Norway, Iceland, and Liechtenstein. The reasons for the volatility in EU imports can be clarified by the commodity structure of EU imports. Industrial products dominate mutual trade. In addition, fish are also important, accounting for more than 7% of EU imports from Norway and even over 35% of imports from Iceland.

In the case of imports into the EU from Norway, mineral fuels account for a high share of over 50%. Oil and petroleum products make up more than 30% of this import, while natural gas accounts for over 18% (Eurostat, 2024a). The increase in the import of oil and natural gas

from Norway to the EU has occurred in connection with Russia's invasion of Ukraine, which has prompted the EU to reduce its dependence on imports of these energy sources from Russia. Norway is the third-largest exporter of natural gas in the world and the fifth-largest exporter of oil. In June 2022, the EU and Norway signed a joint declaration to strengthen cooperation to ensure energy independence and enhance the resilience of the EU (European Parliament, 2023). The import of energy products from Norway reached a significant value in 2022, primarily due to high prices for these commodities. The decline in these prices in 2023 led to a decrease in the value of their imports into the EU. At the same time, there was also a slight decrease in the quantity of imported energy raw materials due to energy-saving measures implemented by EU countries (Eurostat, 2024b). Exports from the EU to Norway primarily consist of machinery and transport equipment (39%), market products (13.8%), and various industrial products (13.2%).

The EU imports the most market products from Iceland (particularly non-ferrous metals, specifically aluminium), which account for over 56% of total imports. This is followed by the aforementioned fish, which make up 35% of imports into the EU (European Commission, 2024b). The massive production of aluminium in Iceland is linked to the availability of cheap electricity due to abundant geothermal and hydroelectric resources. Iceland is among the largest producers of electricity per capita in the world and is also one of the largest producers of aluminium. Fishing and tourism are other pillars of the Icelandic economy. Fishing, along with related sectors, accounts for a quarter of the country's gross domestic product, while tourism contributes more than 6% (Ministry of Foreign and European Affairs, 2023). Fish represent about 40% of Iceland's total exports. The country records the highest value in the indicator of revealed comparative advantages in this commodity group (UNCTAD, 2024). The EU primarily exports machinery and transport equipment (44.4%), market products (13.8%), and various industrial products (13.7%) to Iceland.

In the import of goods from Liechtenstein, various industrial products are the most represented, accounting for over 47% of total EU imports (European Commission, 2024c). Although most of the population in Liechtenstein works in the services sector, primarily in finance, the industry also plays an important role in the country's economy. Industrial production is technologically and research-intensive. Given the limited domestic market, almost all of it is exported abroad. For example, control devices and dental technologies are exported to the EU (Liechtensteinische Landesverwaltung, 2024). The main export commodities from the EU to Liechtenstein are machinery and transport equipment (32.2%), market products (31.9%), and various industrial products (13.8%).

2.2 Relations between the EU and Switzerland

The EU and Switzerland are neighbours with strong historical, cultural, political and economic ties. Thanks to mutual bilateral agreements, the EU's relations with Switzerland can be described as closer than with any other country outside the EEA (Delegation of the European Union to Switzerland and Liechtenstein, 2024). While the EU is Switzerland's largest trading partner, Switzerland is the EU's fourth largest trading partner.

2.2.1 Development of Mutual Relations

After the end of the Second World War, due to the enforcement of the policy of neutrality, Switzerland was not interested in participating in the integration processes that resulted in the creation of the three European Communities. However, in order not to remain isolated, it supported the establishment of the EFTA and became its member. In 1992, when the EU and EFTA countries signed the EEA Agreement with the aim of expanding the EU's internal market

to include EFTA countries, Switzerland was part of these plans. It even applied to join the EU shortly after signing the EEA Agreement. However, the citizens of Switzerland voted against EU membership in the referendum, which is why Switzerland ultimately did not even ratify the EEA Agreement. As the only EFTA country, it did not become part of the EEA (Figure 2.1). Mutual relations between the EU and Switzerland subsequently developed on a bilateral level, with more than 120 bilateral agreements gradually adopted (European Parliament, 2024). The following subsection discusses the most important of them.

2.2.2 Legal and Institutional Framework of Cooperation

The foundation of mutual trade and economic relations between the EU and Switzerland is the free trade agreement of 1972 (Publications Office of the European Union, 2024a). This agreement applies to products belonging to chapters 25 to 97 of the harmonised system, with the exception of several products listed in the annex of the agreement (e.g., flax, hemp, mannitol used as an artificial sweetener, etc.). It also applies to products listed in the protocol on certain processed agricultural products, which include, for example, butter, unflavoured yoghurts, confectionery, chocolate, pasta, baked goods, ketchup, soups and broths, frozen vegetables, coffee, tea, animal or vegetable fats and oils, beer, and vinegar. Therefore, the agreement does not cover live animals and plants, nor most agricultural and food products, such as meat, milk, cheese, eggs, vegetables and fruits, cereals, and so on.

The partners committed to not applying any tariffs or charges having equivalent effect to tariffs on products covered by the free trade agreement. They will also not impose quantitative restrictions and measures having equivalent effect. The contracting parties further agreed to refrain from fiscal measures that would directly or indirectly discriminate against the products of the other contracting party. For goods to benefit from preferential treatment under this agreement, they must comply with the origin rules established in the agreement. These rules are based on the Regional Convention on Pan-Euro-Mediterranean Preferential Rules of Origin.

The free trade agreement allows for trade in goods to be restricted in certain cases. These include restrictions justified by the protection of public morals, law, order, and public safety, the protection of life and health of people, animals, or things, the protection of national treasures of artistic, historical, or archaeological value, the protection of industrial and commercial property, or regulations relating to gold and silver. The contracting parties may also adopt protective measures concerning trade in arms, ammunition, or military materials, or measures essential for their own security in times of war or serious international pressure. Furthermore, the contracting parties may take appropriate measures (e.g., withdraw tariff concessions) in cases where they encounter serious difficulties as a result of obligations arising from the agreement, such as a significant increase in the import of a product that seriously harms the production activities carried out within the territory of the contracting party. In such cases, however, all conditions and procedures established in the agreement must be met.

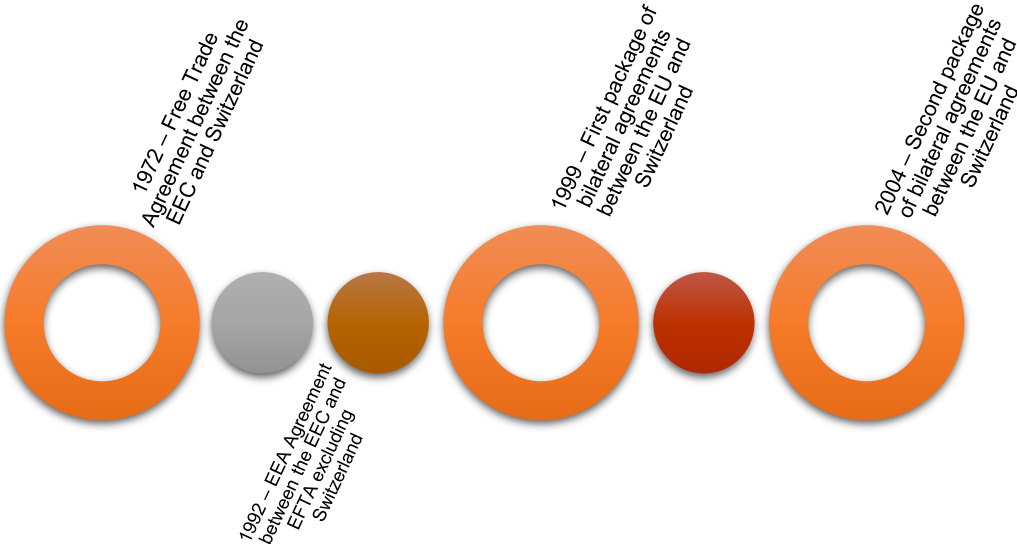
The free trade agreement also includes a prohibition on restrictions on payments related to trade in goods, as well as a ban on foreign exchange or administrative restrictions on the provision or acceptance of short-term and medium-term loans related to the trade transactions of residents of the contracting parties. The agreement contains provisions on the protection of competition similar to those applicable in the EU. It prohibits the abuse of a dominant market position by enterprises, as well as cartels and public aid that violate or threaten to violate competition. The free trade agreement does not preclude the maintenance or establishment of customs unions or free trade areas by the contracting parties.

Regular meetings between the partners and oversight of the proper implementation of the agreement are ensured by the Joint Committee of the EU and Switzerland for the Free Trade Agreement. The Joint Committee consists of representatives from both the EU and Switzerland.

It issues recommendations and decisions within the established competencies based on mutual agreement of the partners.

In addition to the free trade agreement, the legal framework for cooperation between the EU and Switzerland is formed by sectoral agreements, which align Swiss law with the relevant EU sectoral legislation. Through these agreements, Switzerland has gained partial access to the EU internal market.

Figure 2.4 Development of Contractual Relations between the EU and Switzerland.



Source: Own processing.

The first package of bilateral sectoral agreements was adopted in 1999 and came into force in 2002 (Figure 2.4). It consisted of seven agreements, of which the following are particularly important in terms of trade relations:

- agreement on mutual recognition of conformity assessment – eliminates technical trade barriers through mutual recognition of conformity assessment in twenty regulated sectors,
- agreement on certain aspects of public procurement – based on the WTO Agreement on Public Procurement, it allows the entities of the contracting parties non-discriminatory access to the public procurement market,
- agreement on trade in agricultural products – essentially applies to products in chapters 1-24 of the harmonised system, includes sanitary and phytosanitary rules, tariffs, and tariff quotas for agricultural products, with the exception of cheeses, for which trade is fully liberalised, as well as mutual protection of geographical indications, including food and agricultural product origin labels (Publications Office of the European Union, 2024b).

In addition, the first package of sectoral agreements included agreements on the free movement of persons, air transport, road transport, as well as cooperation in the field of research.

The second package, consisting of nine sectoral agreements between the EU and Switzerland, was adopted in 2004. It includes the Agreement on Processed Agricultural Products, which revised the protocol of the free trade agreement concerning processed agricultural products.

This agreement allows the partners to apply compensations in cases of significant price differences between basic agricultural raw materials in the EU and Switzerland used in the production of processed agricultural products. For example, if the price of agricultural raw materials in the EU is lower than in Switzerland due to internal EU measures such as subsidies, Switzerland can impose charges on the relevant agricultural components of foods upon import, provided that these charges do not exceed the difference between the higher reference price of agricultural raw materials in Switzerland and the lower reference price in the EU. Reference prices represent the prices at which companies in processing sectors typically purchase these raw materials on the domestic market. These prices are updated at least once a year. Price compensations may also take the form of export refunds. In the case of exports from Switzerland to the EU, this would mean aligning prices to the level of reference prices in Switzerland.

The second package of sectoral agreements between the EU and Switzerland further ensures cooperation in the areas of statistics, combating fraud, the environment, education, Schengen and asylum, taxation of interest, the audiovisual sector, and an agreement on Switzerland's financial contributions to economic and social cohesion for EU states that joined after 2004. These financial contributions can be understood as compensation for allowing Switzerland partial integration into the EU internal market (European Commission, 2024e).

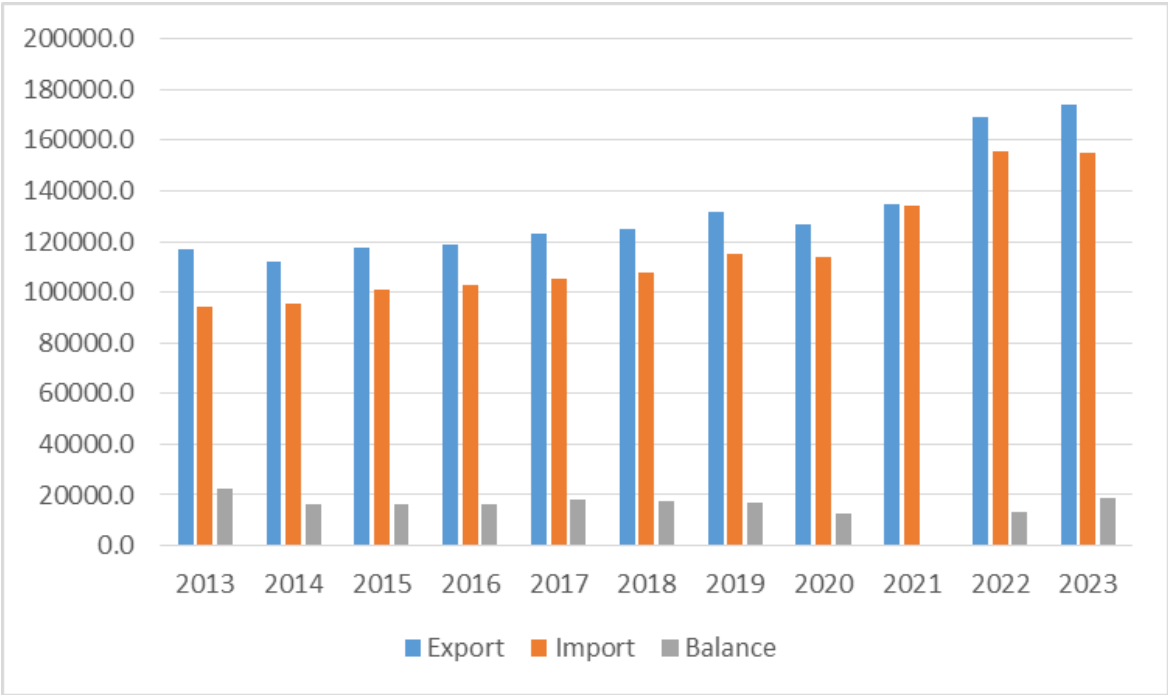
Unlike the EEA Agreement, the bilateral agreements between the EU and Switzerland do not have a dynamic character, which creates difficulties in their ongoing updating according to newly adopted EU legislation. To address these issues, the partners have been striving since 2014 to achieve an Institutional Framework Agreement that would include rules and procedures for the dynamic adoption and uniform application of EU internal market legislation. Since 2022, the aim has been to include institutional elements in every existing and future agreement between the EU and Switzerland (European Parliament, 2024). Based on a Joint Understanding between the partners, negotiations on a new package of measures concerning structural issues within various agreements began in March 2024 (European Commission, 2024f). If successfully concluded, a Swiss referendum on these changes is expected to take place no earlier than 2026.

2.2.3 Trade Cooperation

The EU is Switzerland's largest trading partner, accounting for over 51% of the total imports of goods and 40% of the total exports of goods from this country (European Commission, 2024g). Other significant trading partners for Switzerland include the USA and China. However, their share in Switzerland's foreign trade turnover is several times smaller compared to the EU, with the USA accounting for 12.2% and China for 8.4%, highlighting the importance of the EU as Switzerland's trading partner. From the EU's perspective, Switzerland is the fourth most significant trading partner after the USA, China, and the United Kingdom. Switzerland accounts for 7.4% of the EU's exports and 5.5% of its imports.

The values of mutual trade in goods between the EU and Switzerland show a growth trend. A significant increase has been observed since 2022, particularly on the EU's export side. However, this increase is related to rising prices of traded goods. The EU maintains an active trade balance with Switzerland (Chart 2.2).

Chart 2.2 EU trade with Switzerland (in million EUR)



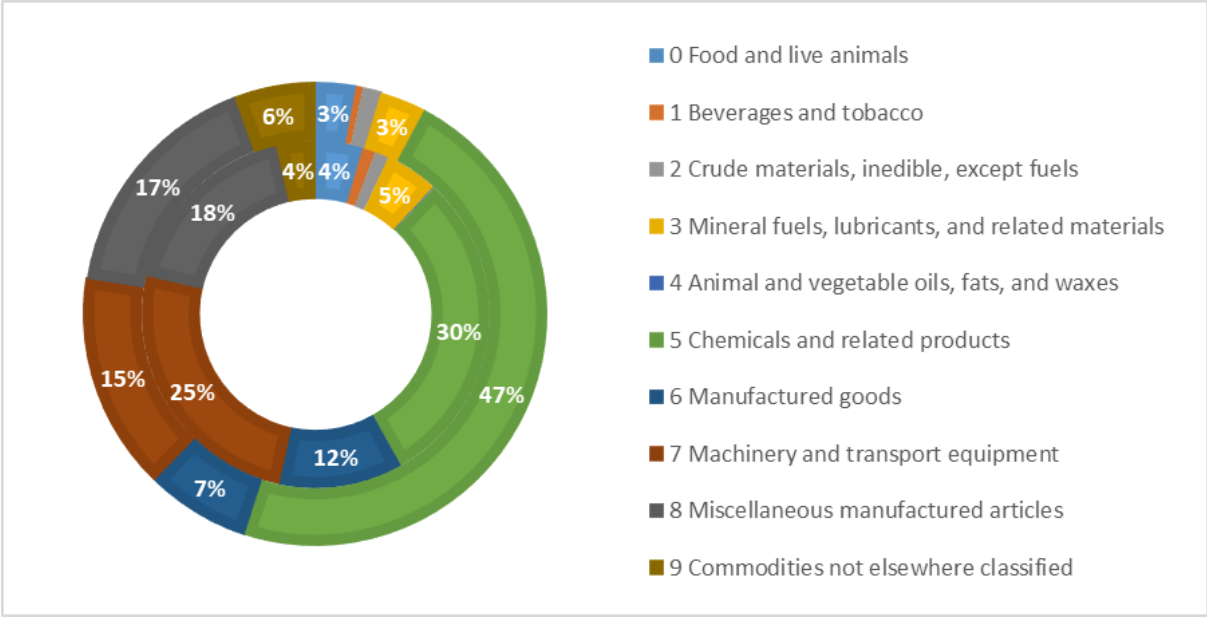
Source: Own processing according to Eurostat (2024a).

Mutual trade between the EU and Switzerland is composed of over 96% of industrial products. The most traded commodities include chemicals, machinery, and transport equipment, as well as various industrial products. A detailed overview of the commodity structure of trade by major SITC groups is illustrated in Chart 2.3, where the inner ring captures the structure of exports from the EU to Switzerland, and the outer ring shows the structure of imports into the EU from Switzerland.

In imports to the EU from Switzerland, chemicals dominate thanks to pharmaceutical products, whose share of total imports reaches almost 28%. Switzerland is a significant global producer of pharmaceuticals, and in this product group, it shows some of the highest revealed comparative advantages worldwide (UNCTAD, 2024). The second largest share of imports belongs to various industrial products, within which clocks and watches, as well as scientific and control equipment, are mainly imported into the EU. Within the group of machinery and equipment, the EU imports the most non-electric machines from Switzerland, with a 7.3% share of total imports.

The EU primarily exports pharmaceutical products to Switzerland. Their share of exports is just under 23%, which is lower than their share of imports. The high share of pharmaceutical products in both imports and exports indicates the presence of intra-industry trade between the EU and Switzerland in this product category. The second most exported commodity group is machinery and transport equipment, within which automotive industry products dominate with a 6% share of total EU exports. This is followed by various other industrial products.

Chart 2.3 Commodity structure of EU trade with Switzerland according to SITC in 2023



Source: Own processing according to European Commission (2024g).

Summary

Thanks to the EEA Agreement and numerous bilateral sectoral agreements, the EU's relations with EFTA countries can be considered the most developed and closest of all countries in the world. These agreements allow EFTA countries to participate in the four freedoms of the EU internal market. However, certain restrictions remain in place for trade in agricultural products and fisheries due to the sensitivity of these commodities for the respective countries. The Schengen Agreement, signed by all EFTA countries and the EU, except for Ireland and Cyprus, has also abolished internal border controls for the movement of goods and people.

The existing legal framework for cooperation and geographical proximity allow for the intensive development of foreign trade relations between the EU and EFTA. The EU represents the largest trading partner for EFTA countries. For the EU, EFTA countries are important trading partners both in terms of exports, as they are advanced markets with high purchasing power, and in terms of imports of critical commodities, such as oil and natural gas imported from Norway, pharmaceuticals primarily imported from Switzerland, and other high-tech and research-intensive products imported from Liechtenstein or Switzerland. The importance of stable supplies of these commodities from such reliable partners has grown, particularly in connection with the geopolitical and geoeconomic changes of recent years, including Russia's invasion of Ukraine, supply disruptions due to lockdowns during the COVID-19 pandemic, and the need to strengthen the competitiveness of EU industry, which has been threatened by the inflation crisis.

Glossary

Customs quota – this refers to the amount of a specific type of goods that can be imported at preferential, i.e. lower, customs duties than the standard rates for that product. If the set amount is exceeded, the regular customs duty applies.

Harmonized System – a commonly used term for the harmonized system of description and coding of goods, an international classification system. This system was developed by the

World Customs Organization, and individual countries use it as the basis for their customs tariffs. Its purpose is to allow importers, exporters, or customs authorities to clearly identify the type of product through a numerical code. Goods are divided into 21 main sections, which are further subdivided into chapters (a total of 97), headings with a 4-digit numerical code, and subheadings with a 6-digit numerical code (European Commission, 2024h).

Regional Convention on Pan-Euro-Mediterranean Preferential Rules of Origin – a convention whose contracting parties include the EU member states, EFTA (Iceland, Liechtenstein, Norway, Switzerland), signatories of the Barcelona Declaration (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, the Palestinian Authority, Syria, Tunisia, Turkey), the Faroe Islands, countries involved in the Stabilisation and Association Process (Bosnia and Herzegovina, North Macedonia, Albania, Montenegro, Serbia, Kosovo), Moldova, Georgia, and Ukraine. In order for goods to benefit from customs preferences, they must originate in the Pan-Euro-Mediterranean area. This means that they are either (a) entirely obtained (e.g., extracted or grown) in the territory of a contracting party, (b) composed of materials not originating in the contracting countries but sufficiently processed in the territory of a contracting party, or (c) imported from the EEA and exported to another contracting country. Contracting parties can treat goods originating from another contracting country as if they were domestic products. Proof of origin is provided by an EUR.1 or EUR-MED certificate issued by customs authorities in the exporting country. With these documents, importers can benefit from preferential customs regimes. An EUR.1 certificate or EUR-MED declaration of origin can also be prepared by an approved exporter (Publications Office of the European Union, 2018).

Schengen Area – it consists of the territory of 29 countries (EU member states except for Ireland and Cyprus and all EFTA countries) that have abolished internal border controls, while simultaneously carrying out checks at external borders that are valid for all Schengen Area countries.

Revealed comparative advantages – an indicator denoted by the acronym RCA, which is based on the theory of D. Ricardo. According to this theory, trade between countries is determined by relative differences in productivity. These differences are "revealed" using trade statistics. RCA thus indicates which commodities a country has competitive strength in exporting (UNCTAD, 2024).

SITC - Standard International Trade Classification, which is used to analyse the international trade of countries in order to ensure the comparability of data between individual countries and years. It was adopted by the UN Statistical Commission. It categorises goods into 10 groups (SITC0 – SITC9).

Intra-industry trade – trade between two countries of similar goods belonging to the same industry.

Tasks

1. Compare how the provisions on the free movement of goods in the EEA Agreement are similar to the provisions of the free trade agreement between the EU and Switzerland.
2. Compare how the provisions on the free movement of goods in the EEA Agreement differ from the provisions of the free trade agreement between the EU and Switzerland.
3. Task for group work in four-member teams. Required materials: sticky notes or small papers, markers for each student. The procedure for group work is as follows:
 - Each member of the group first works individually on the task: What reasons do you think discourage Switzerland from joining the EU? On each note, the student should write legibly only one reason in the form of a phrase between 2 - 6 words. They should

try to write down as many phrases as possible (at least 5 - 6) that come to mind, without critically evaluating their ideas. In this first step, quantity is more important than quality of ideas.

- Then, all group members gather their notes in one place and together read the phrases on each note. Duplicate phrases are eliminated so that each phrase remains only once.
- The group discusses the individual reasons, and in this discussion, additional yet unmentioned reasons may be generated. These are again written on notes in the same way: one reason in the form of a phrase between 2 - 6 words on one separate note.
- The group re-evaluates the individual phrases and eliminates those deemed irrelevant.
- The group organises the phrases into categories based on criteria they define. The criterion could be, for example, the nature of the reasons, with one category for trade reasons, another for other economic reasons, and a third for non-economic reasons, etc.
- The group presents the results of their work to the other groups. Note: The individual groups may work on the same task (What reasons do you think discourage Switzerland from joining the EU?), or they may have different tasks according to the teacher's assignment, e.g., What reasons do you think might motivate Switzerland to join the EU?

Recommended Literature

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3 The EU's foreign trade policy towards Turkey

Learning outcomes

Students will gain knowledge about the development of the EU's foreign trade relations with Turkey, including Turkey's pro-European ambitions, the evolution of foreign trade cooperation, and the agreements governing these relations. The main focus is on the current foreign trade policy applied by the EU towards Turkey, the trade issues faced by both partners, ambitions to modernise the customs union between the EU and Turkey, as well as Turkey's status as a candidate country for EU membership. The tasks at the end of the chapter foster the ability to work with up-to-date sources, support group work including team communication, the formation and presentation of individual opinions, and critical thinking.

Keywords

Association Agreement, Customs Union, Candidate Country, Foreign Trade

Abbreviations

EU – European Union, EC – European Communities, GATT – The General Agreement on Tariffs and Trade, WTO – World Trade Organization, FDI – Foreign Direct Investment, UN – United Nations, GSP – Generalized System of Preferences, IPA – The Instrument for Pre-accession Assistance, PPS – Purchasing Power Standard.

Introduction

The Republic of Turkey, often referred to as a bridge between Europe and Asia, was established in 1923 as a parliamentary democracy led by a president. Its founder and first president, Mustafa Kemal Atatürk, implemented a series of reforms and built a secular pro-democratic state, which became a member of the Council of Europe in 1949, joined the international GATT agreement (later WTO) in 1951, and entered NATO in 1952.

Turkey, one of the founding countries of the United Nations (UN), has been oriented towards the West since 1923. Since 1959, it has repeatedly requested to join the EU, but due to various circumstances, it has not yet become a member state. Turkey is one of the significant trading partners of the European Union, which is Turkey's largest trading partner.

GDP per capita in Turkey reached 69% of the EU's GDP per capita (in PPS) in 2022, with GDP growth at 5.6%, unemployment at 10.4%, and government debt at 31.7% of GDP. However, inflation reached 85.5% in October 2022. The country shows relatively high economic growth but continues to shy away from market-oriented policies. The services sector dominates the economy, accounting for 56.6% (European Commission, 2024c). Key macroeconomic indicators are presented in Table 3.1.

Table 3.1 Turkey – Key Macroeconomic Indicators (2022)

Macroeconomic Indicators	2022
GDP (in billion USD)	905.84
GDP Growth (in %)	5.60
Inflation Rate (in %)	72.30
Population (in million)	85.28
Unemployment Rate (in %)	10.30
Public Debt (as % of GDP)	31.70
Current Account Balance (in billion USD)	-55.40

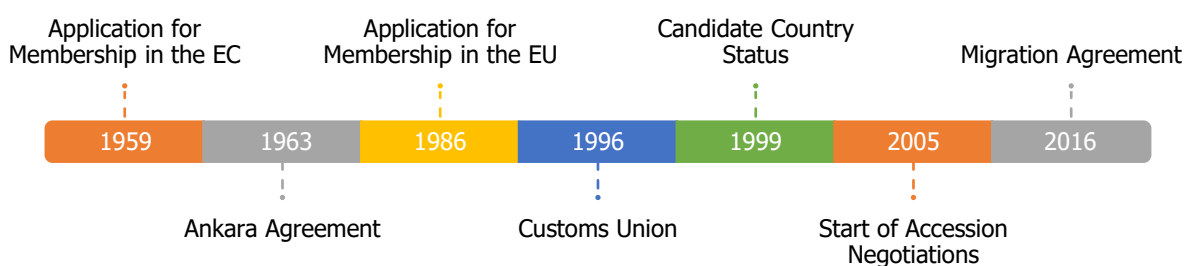
Source: Stegmanová, 2024.

3.1 Development of Foreign Trade Relations between the EU and Turkey

The relations between the EU and Turkey have gone through various periods of tension and crisis, and the tone of mutual negotiations has gradually changed. Domestic political developments, economic stagnation, and the global situation have recently led to a shift away from pro-Western values in Turkey and a diminishing hope that the country will become a full member of the EU.

In 1957, the European Communities (EC) were established, and Turkey applied for membership as early as 1959 (Liboreiro, 2023). Figure 2.1 shows a timeline of Turkey's pro-European ambitions, which we will explain in more detail in this chapter.

Figure 3.1 Development of Turkey's Pro-European Ambitions



Source: Own processing.

3.1.1 Development of Foreign Trade Relations in the Years 1959 - 1980

Turkey applied for membership in the European Communities for the first time on July 31, 1959. The Council of Ministers of the EC accepted the application and proposed that the EC conclude an association agreement with Turkey, which would create a legal basis for Turkey's integration into the EC and gradually lead to the reduction of economic disparities between the partners. The motivations for accession were (Sanverdi, 2010):

- Political (pro-Western and pro-European orientation)

- Economic – Turkey was not achieving the economic development necessary to be comparable to EC countries, with 80% of its exports to the EC consisting of agricultural products. The EC was Turkey's largest export market, accounting for 35% of Turkish exports, while its imports represented 32%. The EC markets, unlike Asian markets, appeared to be stable. Turkey's accession to the EC would mean easier access to the market, support under the Common Agricultural Policy, access to funds, and an influx of FDI. Development aid would also be significant.

In 1963, an association agreement, known as the Ankara Agreement, was signed, which began to be implemented on December 1, 1964. The association process was structured into three phases:

- *The preparatory phase*, during which Turkey was to align its system and approach the values of the EC, as well as the economic level of EC countries.
- *The second phase*, during which an additional protocol was signed in 1970, setting the conditions for transitioning to a customs union and the gradual free movement of industrial goods, agricultural products, and people. In 1971, the EC removed tariffs and quantitative import restrictions from its markets. Turkey was to gradually eliminate trade restrictions, with the goal of establishing a customs union within the next 22 years (Ministry of Foreign Affairs, Republic of Türkiye, 2023).
- *The third phase* was defined as Turkey's entry into the EU.

In 1974, the Turkish army landed on the island of Cyprus, occupying the northern part and dividing the island into two territories, with only Turkey recognizing the northern part, known as Turkish Cyprus. The southern part became a part of the EU in 2004. To this day, the Cyprus issue remains a contentious point in EU-Turkey relations (Suvarierol, 2003).

Unfortunately, from the late 1970s until the mid-1990s, Turkey experienced an unstable political situation, culminating in a military coup in 1980 when the army took power. In terms of trade policy, Turkey adopted an import substitution policy, which is protectionist. This policy involved restricting imports and replacing them with domestic production. Civilian authority was reestablished in 1983, and trade gradually began to liberalize. Bilateral relations between Turkey and the EU stagnated until 1984 (History of Turkey – EU Relations, 2023).

3.1.2 Development of Foreign Trade Relations in the Years 1986 - 1999

In 1986, Turkey once again applied for membership in the EU, but again without success. The reasons included Turkey's ongoing presence in Cyprus and economic stagnation. Turkey's GDP per capita was around \$1,700, which was very low compared to Germany and France, where GDP per capita was around \$16,000. The previously frozen relations also meant the halt of preparatory reforms under the Ankara Agreement (Liboreiro, 2023).

Turkey continued to implement reforms and fulfil the Copenhagen criteria, established in 1993 at the European Council meeting in Copenhagen, which became a condition for countries to join the EU. Meeting the Copenhagen criteria requires (EUR-lex, 2024):

1. Institutional stability in terms of ensuring democracy, the rule of law, human rights, minority rights, etc.
2. Establishment of a market economy capable of facing competition within the EU.
3. Ability to undertake the obligations arising from EU membership (to comply with rules, standards, and to adhere to the norms of the economic, political, and monetary union).

In 1996, a customs union began operating between the EU and Turkey, which pertained to trade in:

- industrial goods,
- processed agricultural products.

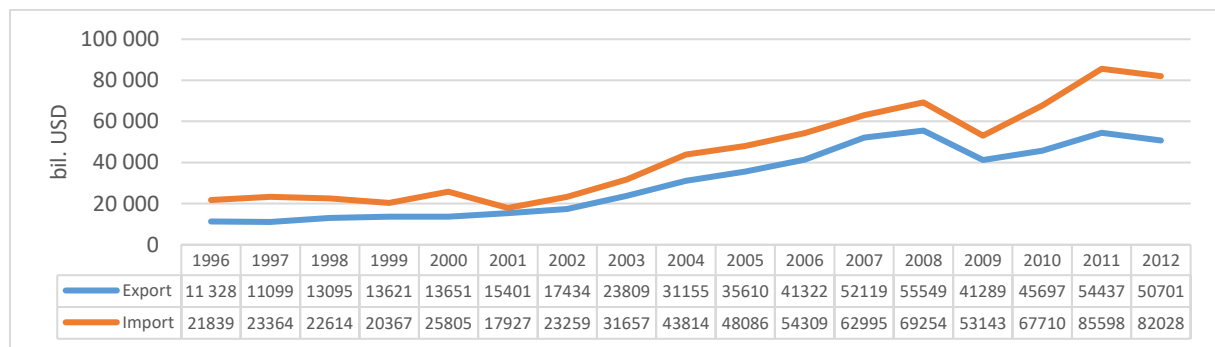
The preferential trade within the customs union did not include:

- agricultural products,
- coal and steel products covered by the agreement between Turkey and the European Community for coal and steel.

The customs union between Turkey and the EC meant (European Commission, 2024a):

- free movement of eligible goods, either produced in the territory of Turkey or the EC, or released for free circulation after import from third countries into Turkey or the EC,
- alignment of Turkey's customs tariff with the EC tariff, including preferential measures,
- alignment of customs and other laws (intellectual property protection, taxes, competition),
- preferential agreements in agriculture (rules of origin).

Chart 3.1 Development of Turkey's foreign trade with the EC (mil. USD, 1996 - 2012)



Source: processed according to Usta, 2022, p. 4.

Chart 3.1 shows the development of Turkey's foreign trade after 1996, when the customs union between the EU and Turkey came into effect. The graph indicates that until 2008, both imports and exports of Turkey were growing, with imports consistently exceeding exports throughout this period. A decline in both imports and exports occurred in 2009, during the global financial crisis, and began to rise again from 2010. After 2012, a further decline was again recorded. Total trade increased from 33.1 billion USD in 1996 to 132.8 billion USD in 2012. By 2023, mutual trade had quadrupled.

The share of the EU in Turkey's total exports to the EU ranged from 49% to 60% between 1996 and 1999, after which it declined. In 2012, it represented only 34.12%, increased to nearly 37% in 2016, and then fell again to 35.93% in 2021. In contrast, foreign direct investment (FDI) flows increased.

We can therefore conclude that in the observed period from 1996 to 2012, following the establishment of the customs union, both imports and exports of Turkey in absolute values increased; however, the share of the EU in Turkey's total exports gradually declined, meaning that Turkey expanded its exports to other markets, particularly those in the Middle East.

Regarding Turkey's pre-accession ambitions, during the Helsinki Summit in 1999, Turkey was granted *candidate country status*.

3.1.3 Development of Foreign Trade Relations in the Years 2000 - 2023

Turkey *began accession negotiations* for EU membership in 2005, after taking certain steps toward democratization. However, these negotiations had an open-ended nature, meaning that even if the country fulfilled all the conditions for EU membership, membership was not guaranteed. In the early years following the commencement of these negotiations, Turkey implemented several necessary reforms, such as constitutional amendments to limit the military's powers and changes to the judiciary hierarchy.

Since 2010, however, reforms came to a halt, and other issues emerged that were perceived as a departure from democracy (Michalski, 2024). The most serious were considered to be the following:

- There was no progress in resolving the Cyprus issue.
- In 2013, the police violently suppressed mass anti-government protests.
- A faction of the Turkish military rose against the government in 2016, bombing parliamentary buildings, with civilians joining the uprising. The attack resulted in 251 fatalities and 2,200 injuries (Arwa, 2022).
- The constitutional referendum in 2017 strengthened the president's powers, which was perceived as an undemocratic step by the EU.
- Negotiations concerning the Kurdish issue, which pertains to the 18-20% Kurdish minority—who are not recognized as a minority in Turkey—were not resumed (GOV.UK, 2023).
- There was non-compliance with the obligations arising from the 2016 migration agreement, specifically regarding the readmission of refugees from Greece back to Turkey.

Since 2013, discussions have been underway regarding *the liberalization of visa requirements*. Turkey has fulfilled 66 out of 72 conditions; however, unmet conditions include cooperation in combating corruption, other criminal activities, and terrorism, as well as collaboration with European institutions (Europol). As of the closing date of this textbook, the visa requirement has not been lifted (Joint Communication to the European Council, 2023).

In 2016, *a migration agreement* was reached between the EU and Turkey aimed at managing the influx of migrants heading to the EU during the Syrian conflict. There were 3.6 million refugees in Turkey during the conflict, and the agreement sought to financially support their accommodation in Turkey and ensure they did not migrate to the EU (Senyuva, 2020). The EU offered 6 billion EUR to alleviate the humanitarian crisis in Turkey and promised visa-free travel for Turkish citizens. In 2021, the budget was increased by an additional 3 billion EUR. Key points of the agreement included (Terry, 2021):

- Turkey was to take measures to prevent migration from Turkey to the Greek islands.
- It was to be ensured that those who illegally arrived from Turkey to the EU would be returned to Turkey (there have been issues with these measures).
- For each refugee returned from the EU to Turkey, the EU was to accept one asylum seeker from Turkey.

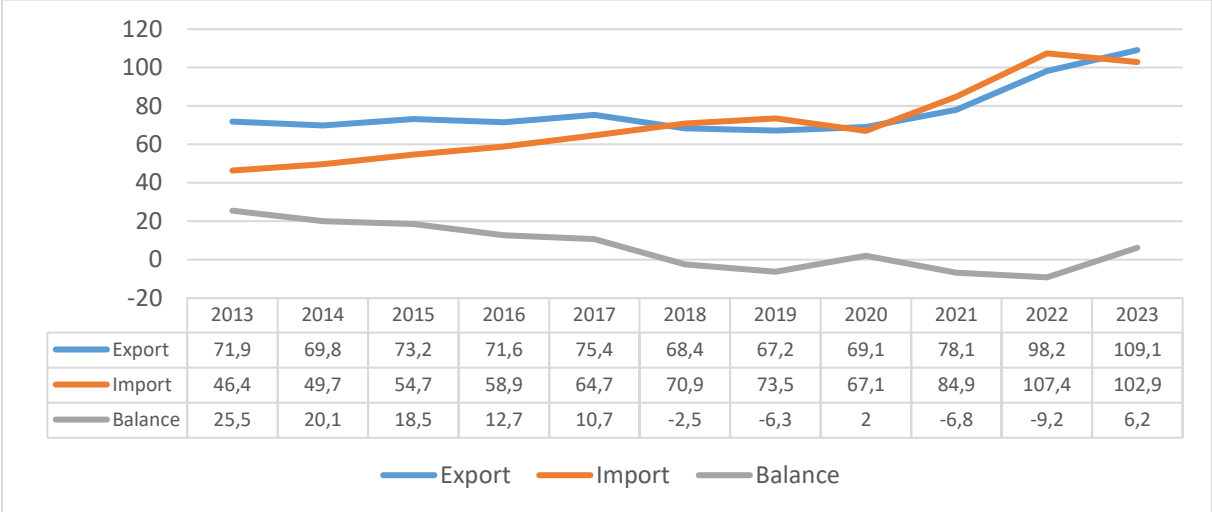
Since 2018, accession negotiations have been suspended, and in 2019, it was officially decided that the EU would not allow the opening of a new chapter in the country's accession negotiations. Turkey no longer met the Copenhagen criteria. However, the EU evaluates Turkey's progress as a candidate country each year (European Commission, 2023).

Within the pre-accession instrument IPA for the years 2007–2013, Turkey received 3,960 million EUR, and during the years 2014–2020, it could access 3,186 million EUR (European Commission, 2024b). After the earthquake in 2023, the EU pledged financial assistance of 6 billion EUR to help those affected by the earthquake (European Commission, 2023).

The mutual trade between the EU and Turkey in 2023 reached 206 billion EUR, making Turkey the EU's fifth-largest trading partner, with its share of the EU's foreign trade increasing from 3.3% in 2022 to 4.1% in 2023. The EU is Turkey's largest import and export market, accounting for 41% of Turkish exports, while 29% of imported goods in Turkey come from the EU. Trade in services totalled 35 billion EUR in 2022, with 1.4% of that attributed to trade with the EU. Foreign direct investment (FDI) from the EU to Turkey amounted to 56.8 billion EUR in 2022, while FDI from Turkey to EU countries reached 24.4 billion EUR. On both sides, the commodity structure is primarily composed of machinery and equipment, as well as electrical devices (European Commission, 2024d).

Chart 3.2 illustrates the development of mutual trade between Turkey and the EU from 2013 to 2023. Exports from the EU slightly decreased until 2020, but since 2021, there has been a visible recovery. In contrast, the import curve rose until 2019, with a decline noted in 2020. In 2021 and 2022, there was a significant increase, reaching 107.4 billion EUR, the highest figure in the observed period. In 2023, imports again decreased slightly. The trade balance has been negative since 2018, except for the year 2020.

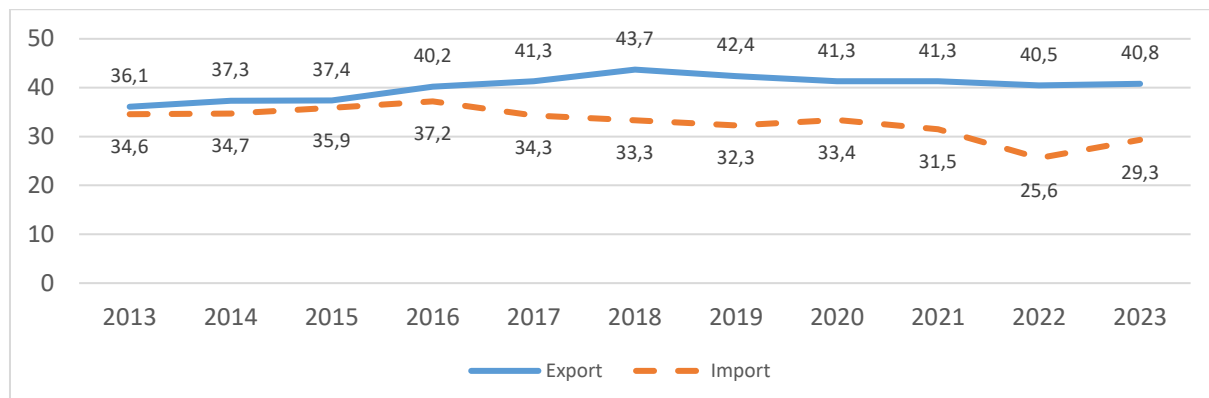
Chart 3.2 Development of EU Foreign Trade with Turkey (billion EUR, 2013 - 2024)



Source: ITC, 2024.

Chart 3.3 illustrates the share of exports from Turkey to the EU and imports from the EU in the years 2013 to 2023. The share of Turkey's exports to the EU in total Turkish exports tended to grow until 2018, after which it has gradually declined. Throughout the observed period, however, it remains higher than the share of imports from the EU to Turkey, with a value in 2023 (40.8%) significantly exceeding that of 2013 (23.1%). The share of imports was stable with a slight increase until 2016; since then, it has shown a declining trend, reaching its lowest share in 2022 (25.6%). In 2023, this share increased to 29.3%, which is lower than the share in 2013 (34.6%). Germany has long been Turkey's largest trading partner within the EU.

Chart 3.3 Development of Turkey's Export and Import Shares to the EU (in %, 2012 – 2023)



Source: Statista, 2024a, Statista 2024b.

3.2 Barriers in Turkey's Accession Negotiations and Entry into the EU

In this subsection, we will address the main obstacles that Turkey faces in the process of acceding to the EU. The most significant among these include:

- The geographical issue stems from the fact that only 3% of Turkey's territory is in Europe.
- If Turkey were to join the EU, it would gradually become the most populous state in the EU with significant decision-making powers in EU institutions.
- The unresolved Cyprus issue: Turkey has not recognized the integrity of Cyprus to this day, and tense relations with Greece persist. It does not apply the additional protocol regarding the customs union to the Republic of Cyprus, nor does it allow direct trade between the Republic of Cyprus and Turkey, or maritime and air transport connections (Joint Communication to the European Council, 2023).
- Existing deficiencies in cooperation with the EU in the areas of corruption and other criminal activities, such as with Europol.
- Non-compliance with the Copenhagen criteria.
- Disrespect for minority rights and stagnation in addressing the Kurdish issue, along with human rights violations.
- Economic lag compared to EU countries and overall low competitiveness of the economy.
- Varying levels of development in the regions of Turkey, particularly in the eastern areas, which are low and reach only 6% of the EU's GDP (Sabadoš, 2024).
- Underdeveloped agriculture, employing 30% of the population (Sabadoš, 2024). Turkey's agriculture would be a burden on the budget of the Common Agricultural Policy. The incorporation of Turkey into the EU and thus into the Common Agricultural Policy is primarily opposed by France, which fears the diversion of significant funds from the European budget for subsidies to Turkey.
- Overall high costs of accepting Turkey into the EU, estimated to be around 25 billion EUR annually (Sabadoš, 2024).
- The risk of an influx of a large and cheap labour force. Available data for 2023 estimates that 1.9 million Turks with Turkish citizenship currently live in Europe, with 1.3 million in Germany (Statista, 2023). The Turkish Ministry of Foreign Affairs states that about 5.5 million Turks live in Western Europe (MFA, 2024). The Turkish TNS Institute summarizes in the results of its survey that 23% of respondents would migrate to the EU for work, and 21% are considering leaving Turkey for the EU. However, the EU does not have such absorptive capacity (Sabadoš, 2024).

- After Turkey's accession to the EU, border protection would be too costly due to its size and neighbouring countries. Turkey shares borders with countries facing instability and military conflicts (Syria, whose border is not fully under control, Iran, Iraq).
- A strong position of a large military.
- Inconsistencies with the EU's foreign policy on the following points (Joint Communication to the European Council, 2023):
 - Turkey's refusal to join sanctions against Russia and Belarus. In fact, Turkey has deepened its dependency on Russia, particularly in the energy sector.
 - Blocking the ambitions of the Republic of Cyprus to join NATO.
 - Non-compliance with the 2016 migration agreement, especially the part concerning the readmission of refugees from Greece.
- Issues concerning gender equality, the rights of children, disadvantaged individuals, and minorities.

3.3 Obstacles to Mutual Trade

From various existing obstacles, the following are the most relevant on Turkey's side according to Trade Barriers (2024):

- *The area of public procurement is protectionist* and favours domestic providers, mandating the use of certain domestic materials, machinery, software, etc.
- *Alcoholic beverages* must be labelled with a stamp; however, local authorities limit the number of labels that suppliers can order. There is also a tax fee for the labels.
- *Medicines* – Turkey requires reference prices set in Turkish lira, which are converted to euros at an unfavourable fixed exchange rate. Turkey does not accept European certificates, and importers must submit numerous documents, prolonging the registration period for new medicines in Turkey. This is due to Turkey's aim to achieve self-sufficiency in pharmaceutical products.
- *Textile Products* – Upon import into Turkey, online registration is required, which is valid for 90 days and cannot be extended or reused. The Ministry of Trade may also request additional documents. The registration process is time-consuming, and despite the existence of a customs union, authorities require proof of the goods' origin and financial guarantees.
- *Textile and Leather Products* - An export tax of 50 cents per kilogram is applied to hides, and export registration is required.
- *Additional Tariffs* ranging from 1.9% to 50% outside the common customs tariffs within the customs union apply when products originate from third countries (outside the EU). These additional tariffs are also applied if the products have been placed in free circulation in the EU, particularly affecting textiles and clothing.
- *Additional Taxes* are imposed in cases of discrepancies between Turkey's GSP system and that of the EU. Turkey is expected to apply the EU's GSP system as a standard when products are imported through the EU.
- *Import Licenses* are required for second-hand, old, and refurbished products.
- *Beef Imports* into Turkey are subject to quotas.
- *Registration in the TAREKS system* - a control system for imports, into which the importer must register. Importers from the EU point out the requirement to submit documents that should not be required due to the customs union. In Turkey, for example, EU certificates are not accepted, and testing is required in Turkish laboratories (machines and construction equipment, toys, footwear, electrical appliances).
- Goods imported into Turkey must be cleared within 20 days (45 days for maritime transport), otherwise they may be sold, re-exported, or destroyed (MFA, 2023).

- To import computers and telecommunications equipment, permission from the Turkish Telecommunications Regulatory Authority is required (MFA, 2023).
- Import licenses are required for food.

On the EU side, the main barriers to mutual trade are primarily: (European Commission, 2024d):

- The EU extended anti-dumping measures on the import of birch plywood originating from Russia and imported via Turkey.
- The EU introduced import duties on certain shipbuilding components from Turkey (13.6%) and China (23%) to protect European manufacturers from competition and preserve jobs in Italy and Spain.

The EU applies various sanctions against Russia and, with exceptions for Central and Eastern European countries, does not purchase oil and natural gas from Russia, as their import was banned in February 2023. However, 12 months after the ban, EU countries imported 5 million tons of oil products worth 3.1 billion EUR from Turkey, which were re-exported from Russia. Statistics on oil imports from Russia to Turkey confirm this, indicating a twofold increase that reached a value of 17.6 billion EUR from February 2023 to February 2024. Turkey has become the largest buyer of Russian oil (Basquill, 2024). According to Khitakhunov (2023), in 2022, oil exports from Turkey to some member states significantly increased: sevenfold to Romania, twenty-ninefold to Germany, and high exports were also noted to the Netherlands, Bulgaria, and Lithuania. Turkish exports of machinery and equipment to Russia doubled, prompting the US to impose sanctions on four Turkish companies, as these were dual-use goods. In the first quarter of 2024, the volume of re-exports of sensitive goods decreased after the EU urged Turkey to take measures to prevent them. Turkey declared that it would not join the sanctions (it only aligns with the unilateral sanctions of the UN Security Council) but would not facilitate their circumvention. Consequently, re-exports through Turkey to Russia fell from 17 million EUR per month to 5 million EUR; however, re-exports of sensitive goods from Turkey to Kazakhstan increased, where they never arrived (Daily News, 2024). In the case of oil, the EU is expected to tighten regulations on what is considered Russian oil and what is not.

3.3.1 Problems Arising from the Customs Union

The establishment of the customs union was associated with issues that led to the need to modernize the customs union in 2014. Among the persistent problems are (Usta, 2022):

- The obligation to provide preferences to countries with which the EU concludes preferential free trade agreements. Turkey is not a member of the EU and therefore has no influence on the formulation of its foreign trade policy, tariff levels, determination of rules of origin, etc. However, according to the rules of the customs union, it must introduce and comply with preferential agreements. Turkey is not part of the EU negotiations and cannot influence the content of these agreements or promote its interests within them.
- Goods from countries with which the EU has a free trade agreement have free access to the Turkish market; however, Turkey does not have access to their markets if it does not have a free trade agreement with them. For example, South Africa, Mexico, Algeria, Japan, and Vietnam have duty-free access to the Turkish market, but they do not want to sign a free trade agreement with Turkey, and Turkey does not have preferential access to their markets.
- Limit on transport quotas – even though several agreements have been signed, limits on transport quotas still apply, which, with the increasing export from Turkey to the EU, mean that for over-limit transport, Turkish exporters must pay additional fees to

the European country that issues the permit (the total loss is around 5.5 billion USD per year).

- The customs union does not apply to services, the trade of which is governed by the General Agreement on Trade in Services (GATS), nor to public procurement and agricultural products.
- Visas are required even for business trips for Turkish citizens and entrepreneurs traveling to the EU. European citizens enjoy visa-free travel.
- Insufficient mechanism for resolving disputes that arise.

3.4 Perspectives on the Development of Mutual Relations

For the further development of the institutional arrangement of relations, several scenarios are proposed according to Usta (2022):

1. *Modernization of the customs union*, which should also include trade in agricultural products and services, as well as public procurement, could lead to an increase in Turkey's agricultural product exports by 95% and services by 430%, and a GDP growth of 2%. The GDP of the EU could increase by 0.8%.
2. *Signing free trade agreements* with all EU partners and expanding the customs union to all these partners - this scenario, along with the previous one, would likely lead to similar GDP growth.
3. *Signing a comprehensive free trade agreement* (moving away from the customs union), which would give Turkey independence in deciding with whom to sign what trade agreements and allow it to set its external tariffs and trade policy. It would likely take over the determination of rules of origin, as changing them would lead to a decrease in trade. Turkey would reduce its trade with the EU and increase it with other partners, likely resulting in a GDP decrease of 0.8% for the country. This move would not significantly affect the EU.
4. *The abolition of the customs union*, without any other preferential agreement, which would likely lead to a 33% decrease in EU exports and a 43% decrease in Turkish exports.

For now, both sides lean towards the scenario of modernizing the customs union; however, there has been no progress in negotiations since 2019, partly due to the Cyprus issue, as Turkey refuses to extend the customs union to Cyprus. The tension is also heightened by the fact that Turkey does not impose sanctions on Russia and Belarus and serves as a conduit for the re-export of goods to Russia from countries that have adhered to the sanctions.

In the near future, Turkey's accession to the EU is not expected, as Turkey has deviated from the path of democratization and the EU is also addressing other issues as priorities. However, in 2023, there was a slight turn that could indicate an improvement in mutual relations (Joint Communication to the European Council, 2023). These are the following facts:

- In democratic elections, the Justice and Development Party (AKP) won, confirming that there is currently no other political alternative in Turkey.
- Turkey, during a NATO meeting, stated that it would like to revitalize its relations with the EU and resume accession negotiations, modernize the customs union, and liberalize the visa requirements for Turkish citizens.

The European Commission proposed to resume negotiations on the modernization of the customs union if Turkey starts to meet the conditions set by the current agreement and takes measures to prevent the circumvention of sanctions against Russia through the reexport of goods via Turkey, as well as to stop the export of technologies that support the conflict in

Ukraine. The EU further demands adherence to the migration agreement, particularly cooperation in preventing illegal migration towards the EU and the readmission of refugees from the Greek islands, with the EU providing financial and technical support. However, on the other hand, the EU should address the positions of some of its member states regarding Turkey's accession to the EU. This concerns, for example, the Republic of Cyprus due to the disputes we have already mentioned, Greece, which perceives Turkey as a military rival (disputes over maritime borders), and also France, for which Turkey represents competition in the Mediterranean region.

In conclusion, it is important to emphasize that both parties, the EU and Turkey, recognize that improving relations and deepening trade connections would lead to increased trade and revenues in both partner countries.

Summary

Turkey has had a long-term pro-European orientation with the aim of becoming a full member of the European Communities and later the EU. It applied for membership shortly after the establishment of the EEC in 1959, but its application was rejected. The EEC later concluded the Ankara Agreement with Turkey, an association agreement aimed at leading Turkey toward the necessary changes, aligning with the policies, standards, and level of the EEC, creating a customs union, and eventually allowing Turkey to join the EEC. However, mutual relations became complicated due to the Cyprus issue and internal political changes, and relations remained frozen. Turkey reapplied for EU membership in 1986, but it only gained candidate country status in 1999, with accession negotiations beginning in 2005. These negotiations were described as open-ended, with no guarantee of the country's acceptance into the EU if all conditions were met. However, since 2010, negotiations have stalled due to Turkey's drift away from a pro-Western and democratic orientation, as well as the failure to implement the necessary reforms to align with the so-called *acquis communautaire* and EU standards. Although the negotiations were reopened later, they have been suspended again since 2019.

Mutual relations are currently governed by an association agreement, and since 1996, there has been a customs union between the EU and Turkey concerning trade in industrial products and processed agricultural products, which has resulted in a fourfold increase in mutual trade. However, the agreement is now outdated and liberalizes trade to a lesser extent than the comprehensive free trade agreements that the EU is currently concluding with its trading partners. The problem could be resolved by modernizing the customs union agreement to include trade in services, agricultural products, intellectual property, public procurement, and other sectors. Within the customs union, various issues persist due to Turkey's unwillingness to grant preferences to countries that have free trade agreements with the EU but not with Turkey, as well as various tariff and non-tariff barriers, the removal of which could facilitate smoother trade operations.

Turkey is the fifth largest trading partner for the EU, while the EU is Turkey's largest market for both imports and exports. Germany has long been Turkey's most important trading partner among EU countries. The mutual trade relations between the EU and Turkey face several obstacles, stemming both from the outdated customs union and from Turkey's foreign policy orientation.

In 2023, Turkey expressed interest in reopening accession negotiations, modernizing the customs union, and liberalizing visa regulations. However, the EU conditions these steps on compliance with the migration agreement and the adoption of measures regarding sanctions against Russia, which are being circumvented through trade with Turkey. Relations are also complicated by the Cyprus issue, to which Turkey refuses to change its stance, as well as from Greece and France, which view Turkey as a rival.

Glossary

Association Agreement - an international bilateral treaty by which a country commits to the EU without entering the EU, but it can lead to future membership. The EU has been using association agreements since the establishment of the EEC (Article 236 EEC). Under these agreements, countries provide each other with preferential treatment and create a free trade area or customs union (the case of Turkey). The EU and Turkey have an association agreement known as the Ankara Agreement (1963), which was intended to be a transitional step toward EU membership.

Customs Union – is the second level of economic integration, in which member states mutually eliminate trade barriers and have a common trade policy and common customs policy towards third countries. The EU uses the TARIC customs tariff.

Candidate Country – a country that aspires to join the EU and has been granted candidate status based on the recommendation of the European Commission. The European Commission examines whether the country meets the Copenhagen criteria, and the European Council decides whether to open accession negotiations with the candidate country. Candidate countries for EU membership, in addition to Turkey, include Serbia, Montenegro, Albania, Bosnia and Herzegovina, Ukraine, Moldova, and Georgia.

Accession Negotiations – during the accession negotiations, 35 chapters are opened that the country must resolve for its system to be compatible with the EU and for the country to be ready to join the EU.

Tasks

Group Tasks and Assignments

1. Discuss and present the benefits of Turkey's accession to the EU within the group.
2. Evaluate the significance of the migration agreement from 2016 and propose solutions to the migration issue in the context of EU-Turkey relations.
3. Discuss and present Turkey's positions on the sanctions directed against Russia. State your opinions on whether Turkey should join them or not, and what it would mean for Turkey (consequences, benefits, risks).
4. Search for data on Turkey's foreign trade relations with neighbouring countries and evaluate those relationships.

Recommended Literature

European Commission. (2024). *Türkiye 2023 Report*. Available on 9. 7. 2024 at: https://neighbourhood-enlargement.ec.europa.eu/document/download/eb90aefd-897b-43e9-8373-bf59c239217f_en?filename=SWD_2023_696%20T%C3%BCrkiye%20report.pdf

Susler, B. (2020). *Turkey, the EU and the Middle East*. Routledge. 196 p. ISBN 9781032336893

4 Trade Defence Measures of the European Union

Learning outcomes

Students will gain knowledge about the development and current status of the implementation of trade defence measures of the EU against third countries. In this context, they will understand the individual steps through which the EU introduces measures to protect its trade against potentially harmful imports from abroad. They will also familiarize themselves with how European economic entities can apply for such forms of protection and what principles must be adhered to for the defence measure to come into effect. The tasks at the end of the chapter aim to contribute to a more effective understanding of the issue of trade defence in the EU, the ability to work in teams, the development of critical thinking among students, the formation of their own opinions, and their ability to assess the factual situation.

Keywords

European Union, anti-dumping measures, countervailing measures, safeguards, EU interest test, causal link

Abbreviations

ADM – anti-dumping measures, CVM - countervailing measures, SF - safeguards, WTO – World Trade Organisation, HS – numerical code according to the harmonised system for the description and numerical designation of goods developed by the World Customs Organization (WCO), EC – European Commission

Introduction

In a globalised world, liberal trends in the foreign trade policies of individual countries dominate, gradually removing barriers to free trade. However, in recent years, situations have arisen where factors such as weak economic growth or loss of competitiveness prompt governments to resort to elements of protectionist trade policy. The longer the global economy takes to recover, the more countries turn to protectionist tendencies. Governments thus adapt their trade policies to gain the maximum advantages within international relations, linking this goal with protection against potential dangers associated with global trade. Some authors indicate that current changes in the global economic environment literally force countries to use protectionist measures to stabilise national economies (Georgiadis a Gräb, 2016; Lipková et al., 2011; Yatsenko et al. 2020).

Countries that utilise protectionist measures must, however, adhere to the conditions and rules of the World Trade Organisation (WTO), which governs the management of trade policies through its regulations. From a legislative perspective, WTO regulation is based on the foundations of international agreements, through which various principles are established, such as the principles of non-discrimination, predictability, and the promotion of development and economic reform. These are considered one of the fundamental pillars of the multilateral trading system. (WTO, 2022).

Despite the support for free trade and the prevention of protectionist activities, the WTO has established exceptions to the principle of non-discrimination that allow countries to implement

certain defence measures to support the domestic market. These are situations where countries can, under strict conditions, for example, (WTO, 2022):

- conclude a free trade agreement only for goods traded within the grouping or community (**discrimination against external goods**);
- provide less developed countries with special access to their markets (**discrimination against goods from outside these countries**);
- protect their market against products subject to unfair trade practices (**discrimination against goods that could cause harm to domestic producers**).

The European Union itself is governed by these rules within its common trade policy, which, despite its liberal direction, is forced to use elements of protectionism, ultimately aiming to contribute to the more efficient functioning of industry within the EU and its competitiveness. If fair trade is threatened, the EU will use mechanisms to eliminate the risks posed by unfair trade practices, following the principle: "trade should be fair, but when it is not, the EU will restore fairness and a level playing field" (European Commission, 2020).

4.1 EU Trade Defence Measures Against Dumping

The first and most widespread group of EU trade defence measures are anti-dumping measures (ADM). These are introduced when an economic entity from a non-member country exports products to the EU at prices lower than their so-called normal value. The normal value is typically based on the sales prices in the exporter's market, but it can also be determined as the sum of production costs, selling expenses, general and administrative expenses, as well as a reasonable profit. The legal basis for these measures can be found in Regulation (EU) 2016/1036 on protection against dumped imports from countries outside the EU.

In determining dumping, the normal value of goods is compared with the export price in practice, on the basis of which the dumping margin is established. The subject of the investigation (product) is defined descriptively and with the use of customs codes at the start of the investigation. For the purposes of the investigation, however, the European Commission (EC or simply the Commission) defines specific types of the investigated goods (e.g., for aluminium discs, individual types by diameter size), determines the dumping margin for each type of these goods, and subsequently calculates their weighted average to establish a single final dumping margin. The Commission then invites manufacturers of the product in the country under investigation to cooperate in the investigation. From the registered manufacturers, it typically selects a sample of three companies where the investigation is conducted, and individual dumping margins are calculated. For companies that intended to cooperate but were not included in the sample, the dumping margin is subsequently determined as a weighted average of the individual dumping margins of the sampled companies. Special provisions apply if the products originate from countries where market forces are significantly influenced by distortions caused by government interventions. Market distortions include, for example, state policies and their impact, significant presence of state-owned enterprises, lack of independence in the financial sector, etc. These distortions result in prices and costs (including costs of energy and raw materials) not being the outcome of a free market (European Commission, 2006).

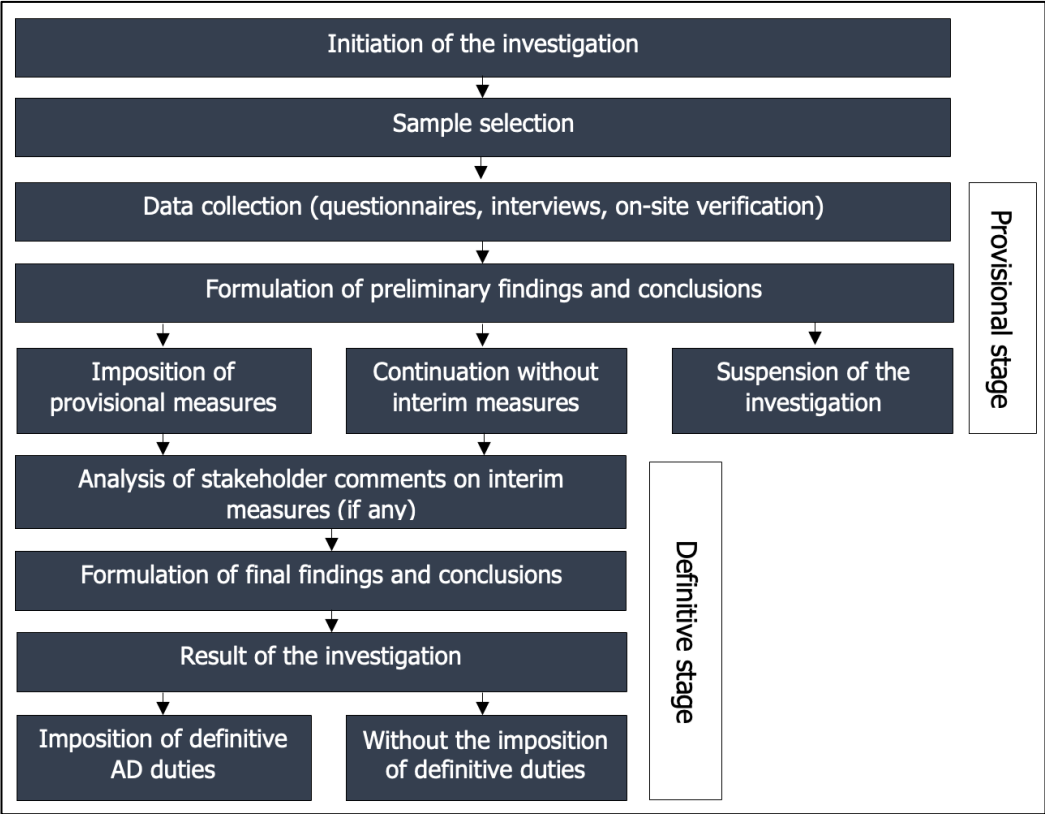
Since 2018, the European Union has been using a new methodology to assess market distortions in third countries. Theoretically, this methodology is generally applicable and does not target any specific country, though in practice, it is only applied against China. To facilitate requests for anti-dumping investigations under this methodology by affected European industries, the European Commission published a working document providing an overview of government interventions in China's economy, and later in Russia. The methodology aims to identify and correct market distortions caused by state interventions in other countries, with

the dumping calculation based on the rules of the anti-dumping agreement. If significant market distortion is found in the exporter's country, the European Commission has the right to adjust prices, as these prices are not relevant for comparison with the export price. In such cases, the normal value of the product is determined based on production and sales costs that reflect undistorted prices or reference values, utilising either production and sales costs from another country with a similar level of economic development, or relevant undistorted costs, prices, or reference values at an international level (European Commission, 2017; Council of the European Union, 2017). In practice, the European Commission uses the "recipe" for manufacturing the investigated product, i.e., a list of inputs and their consumed quantities, directly from the investigated manufacturer in the third country, but replaces the costs and prices of individual inputs, as well as sales costs and profit margins, with undistorted prices or reference values.

4.1.1 Procedure for Anti-dumping Investigation

The European Union decides on measures through investigations to determine whether goods imported into the EU from a third country are subject to dumping. The basic step to initiate an investigation is for an industrial entity or sector from the European Union to submit a valid complaint with sufficient evidence of harm caused by the trading activities of a foreign company. In most cases, this complaint is submitted by associations or organisations of producers within the EU (e.g., EUROFER for iron and steel), which hold greater influence. The investigation then begins, assessing whether dumping is occurring with imports from one or more countries, while also verifying if the following additional conditions are met: the EU industry has suffered significant harm caused by this dumping behaviour, there is a causal link between the dumping and the harm, and the introduction of an anti-dumping measure is not contrary to the EU's interest (European Commission, 2023). The anti-dumping procedure is clearly illustrated in Figure 4.1.

Figure 4.1 Process of EU anti-dumping investigation (simplified scheme)



Source: Own processing.

Figure 4.1 shows that anti-dumping investigations in the EU occur in specific phases. After the initiation of the investigation and the selection of a sample, the so-called "Provisional stage" follows, which leads to provisional measures. This consists of data collection and subsequent formulation of preliminary findings and conclusions. Three situations can arise here: either provisional (also referred to as temporary) duties are imposed for a maximum of 6 months, or the investigation continues without the imposition of duties or measures, or the investigation is terminated. If the investigation continues, it moves to the so-called "Definitive stage," which is the final phase, where comments from interested parties on the provisional measures are first analysed, if they have been imposed, and then final findings and conclusions are formulated. This stage can conclude either with the imposition or non-imposition of final duties. If the European Commission imposes a final duty, it must have a validity period, typically five years. The measure itself can be revised during this period, for example, certain groups of goods or some entities may be exempted from it.

After the EU publishes a notice about the impending expiry of anti-dumping measures on specific goods, an entity may request a review of these measures before their expiry in order to reintroduce expiring or new measures. According to Regulation (EU) 2016/1036 on protection against dumped imports from countries outside the EU, if dumping and harm continue, or if the harm is alleviated only due to the existing measures, or if it is likely that further dumping and harm will occur after their expiry, the European Commission may, upon review, extend the validity of the imposed anti-dumping duty for a maximum of another five years. This process is known as **a expiry review**. The outcome of this review can only result in either the termination of the validity of the originally imposed measures or an extension of their validity. However, the amount of the duties cannot be changed.

In addition to reviews before expiry, it is important to mention the so-called **anti-absorption reviews**. Absorption refers to a situation when:

- *in direct exports*, the exporting producer, i.e. the producer in the investigated country exporting goods to the EU, reduces the export price in such a way that the effect of the anti-dumping duty is not reflected in an increase in the price of the goods;
- *in indirect exports through a linked importer in the EU*, this importer absorbs the duty, meaning that it does not pass it on to its prices upon resale, therefore the imposed duties do not lead to a sufficient increase in the prices of the goods imported and further sold in the EU.

If there is suspicion and evidence of duty absorption, interested parties (exporter, importer, EU producer, or end user) may request an anti-absorption investigation to verify the effectiveness of the imposed duty. To initiate such an investigation, sufficient evidence must be presented that, after the original investigation period and before or after the imposition of final measures:

- either the export prices have decreased,
- or the resale prices or subsequent selling prices of the imported products in the EU have not changed, or have changed insufficiently.

On the other hand, foreign entities have the opportunity to provide reasons that would justify the insufficient movement of prices, such as a reduction in overhead costs or profits of importers, or fluctuations in exchange rates. If the European Commission finds that defence measures have clearly affected prices and the interested parties have not demonstrated reasons for the insufficient movement of prices, the dumping margins are recalculated, taking into account the reassessed export prices. The result may be an increase in protective duties of up to double in order to eliminate the identified harm (European Commission, 2022; Van Bael and Bellis, 2019).

4.2 EU Trade Defence Measures Against Subsidies

The second category of trade defence instruments of the EU consists of **measures against subsidies**, or **countervailing measures (CVM)**. According to the WTO (2021), subsidies are financial contributions provided by a government or other public authority of a third country to certain domestic enterprises or industries, thereby granting them an advantage. These include, for example, direct transfers of funds (grants, loans, or equity injections), potential transfers of funds or obligations (loan guarantees), tax relief, or the purchase of goods, as well as the provision of goods or services (excluding general infrastructure). Governments also support domestic exporters through export subsidies, premiums, export bonuses, and financing for the production of raw materials and goods that replace their imports, which can also affect export prices. The main aims of subsidisation are to conserve foreign exchange reserves, increase employment, and, in the case of financing domestic production to replace imports, strengthen political influence over countries for which the substituted goods are important for their economic stability. Export subsidisation is temporary, intended to gain a new market or strengthen the position of domestic enterprises in an existing market. After eliminating competition, prices usually return to world price levels or reach even higher values (Baláž et al., 2019).

The EU's procedure for deciding on countervailing measures (CVM) is similar to that for anti-dumping measures (ADM). An economic entity that is potentially threatened by the import activities of a certain company from a third country must submit a valid complaint to the European authorities and provide sufficient and relevant evidence. After evaluating the complaint, the European Commission (EC) will initiate a countervailing investigation, during which it examines whether subsidisation is taking place by the respective country, whether the

EU industry has suffered significant harm, and whether this harm was caused as a result of the subsidies. In this case as well, a test of EU interest must be conducted (Szatmári et al., 2020).

4.3 EU Trade Defence Measures Against Excessive Imports

The final group of trade defence instruments of the EU consists of **measures** to protect the market **against excessive imports**, called also **safeguards** (SF). These measures are employed when there is a sharp and unexpected increase in the absolute or relative volume of imports of a specific product into an EU member state, causing or potentially causing economic harm to the domestic industry. During the investigation of the introduction of SF, trends in imports are examined, the conditions under which the imports are taking place are assessed, and it is determined whether this import is causing harm to producers in the EU or whether there is a potential for such harm to arise (European Commission, 2013).

Final measures of this type can be defined as quantitative restrictions on the import of a specific product. They may include import quotas with limits on permitted imports and customs quotas that apply to imports exceeding the set limit (European Court of Auditors, 2020). The investigation of excessive imports must be initiated regardless of the origin of the products. However, SF are generally not applied to imports from developed and least developed countries (subject to certain conditions). During this process, the European Commission may **deviate from the principle of non-discrimination** and apply defence measures against a country in accordance with WTO conditions. These EU measures can only remain in place for the necessary period to remedy the consequences of excessive imports and must be **gradually removed**. The EU, as the initiator of the measures, should provide compensation to the countries affected by these measures (Ministry of Economy of the Slovak Republic, 2022). The process of protection against excessive imports differs slightly from the procedures for ADM and CVM. It is important to note that the import of a specific good can be monitored if there is a risk that the growing trend of imports could harm producers in the EU. In this case, it is not about restricting imports but about automatically granting import licenses for a limited time (European Commission, 2021).

4.4 Forms of Trade Defence Measures

European trade protection processes generally involve the same steps and can lead to the implementation of relevant defence measures. In cases of dumping and subsidies, the EU implements the following final measures (European Court of Auditors, 2020):

- **Ad valorem duties** – a percentage of the value of the goods;
- **Specific duties** – a fixed amount of duty per unit of goods;
- **Countervailing duties/minimum import price** – the duty equals the difference between the set minimum price and the selling price of the exporter;
- **Price commitments** – the exporter is obliged to sell at the minimum import price or above it.

For cases of measures against excessive imports, the following defence measures are known, in English "Safeguard measures" (European Court of Auditors, 2020):

- **Quantitative restrictions** or limits on the import of products from all countries in the form of:
 - **Import quotas** that restrict permitted imports,

- **Customs quotas** with duties on imports exceeding the permitted limit.

4.5 Criteria for Implementing Trade Defence Measures

The European Commission, in implementing trade defence measures, adheres to WTO rules while also applying additional regulations that align with its legislation. The implementation of EU trade defence measures is contingent upon meeting fundamental requirements in accordance with the Union's interests. These aspects are crucial for the proper configuration and level of defence measures and include the following (European Commission, 2010):

- **the existence** of dumping, subsidisation (or excessive imports) itself;
- proven **harm** caused to the domestic industry;
- **the existence of a causal link** demonstrating that the harm was caused specifically by the investigated unfair imports and not by other factors;
- the Union **interest test**, which determines whether there is a contradiction between the intended measures and the interests concerning the domestic economy.

The issue of the existence of dumping and subsidisation has been explained in the previous subsections. The second mentioned criterion is the existence of harm, where the Commission must demonstrate that the relevant sector of the EU has suffered significant harm due to the actions of a third party. This issue is related to the calculation of the margin of harm, which involves comparing the export price of the products of the manufacturer with their price in the domestic industry, which includes production costs and a reasonable profit (European Commission, 2018). Significant harm includes, for example, loss of market share, reduced price levels, or lower profitability.

Another criterion that must be met is **causation**. The EU demonstrates that **the investigated import has caused significant harm** to its domestic industry, meaning that the imported quantity has increased while the sales or production of the domestic sector has decreased. It must be clearly shown that these facts are a consequence of the harm caused by dumping or subsidies, and other possible causes, such as a decline in demand, changes in the trade structure, technological advancement, or an increasing volume of non-dumped or non-subsidised imports, must be excluded (European Commission, 2010; European Court of Auditors, 2020).

The final criterion is **the Union interest test**, or public interest test. In this case, EU authorities examine whether the imposition of trade defence measures is not in conflict with the interests of the domestic economy as a whole. This test involves **analysing the interests of all economic entities within the EU** prior to the implementation of the measures. During this process, the EU decides to apply defence measures only if it is demonstrated that they do not contradict the overall public interest. This test assesses whether the measures would harm the domestic economy more than they would help the domestic industry affected by unfair import practices. Therefore, the interests of affected industrial entities, import users, importers, and consumers are taken into account. Lobbyists also have an impact in this test, as they legally seek to influence decisions regarding the imposition of tariffs (European Commission, 2013a; European Commission, 2010; European Court of Auditors, 2020).

4.6 Lesser Duty Rule

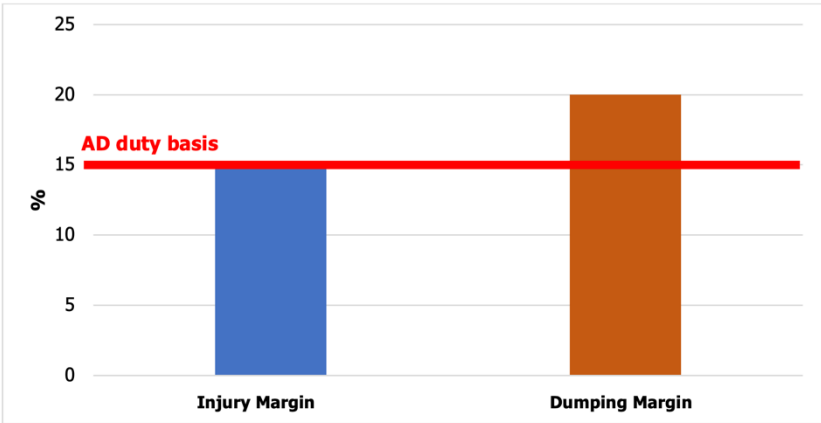
The lesser duty is one of the most important aspects of implementing the EU's defence instruments. This rule has been officially used in international trade since the Uruguay Round of GATT (1986 – 1995), although it was first proposed during the Kennedy Round (1964 –

1967). Attempts to implement it also occurred in the Tokyo Round (1973 – 1979), but due to differing opinions among countries, they were unsuccessful. Although the rule is recognized, its implementation remains **at the discretion of WTO member states**. Countries are not obligated to apply a lesser duty in every investigation, but it is recommended if it can reasonably alleviate harm (Chun and Ahn, 2022).

The EU primarily uses this rule to mitigate the level of imposed duties. According to WTO rules, trade defence measures (ADM/CVM) can be imposed up to the level necessary to eliminate dumping (subsidisation). If the injury margin is lower than the dumping margin, then a WTO member can decide whether to impose a duty at the full level needed to eliminate dumping or subsidisation, or only at the level necessary to remove the injury. This process is referred to as the implementation of the rule of lesser duty. The EU is the only jurisdiction that applies it universally (WTO, 2024; Nehra, 2020; Chun and Ahn, 2022).

The EU has, however, established **exceptions** to the application of the lesser duty rule. When deciding on a lesser duty, the European Commission must consider **the distortions in the prices of raw materials** used in production. If it is demonstrated that the share of distorted raw material prices exceeds 17% of the production costs of the product under investigation, the lesser duty rule may be waived. Nevertheless, the outcome of the union interest test must be taken into account. If the test shows that **a higher duty would negatively impact** supply chains and users, **the lesser duty rule must be followed**, even if the conditions for the exception are met. Many cases, therefore, still fall under the lesser duty rule despite identified distortions due to the protection of EU interests (Nehra, 2020; Vermulst and Sud, 2022; Chun and Ahn, 2022). These cases are illustrated in charts 4.1 and 4.2.

Chart 4.1 Graphic representation of the use of the lesser duty rule in EU investigations without identified distortions.



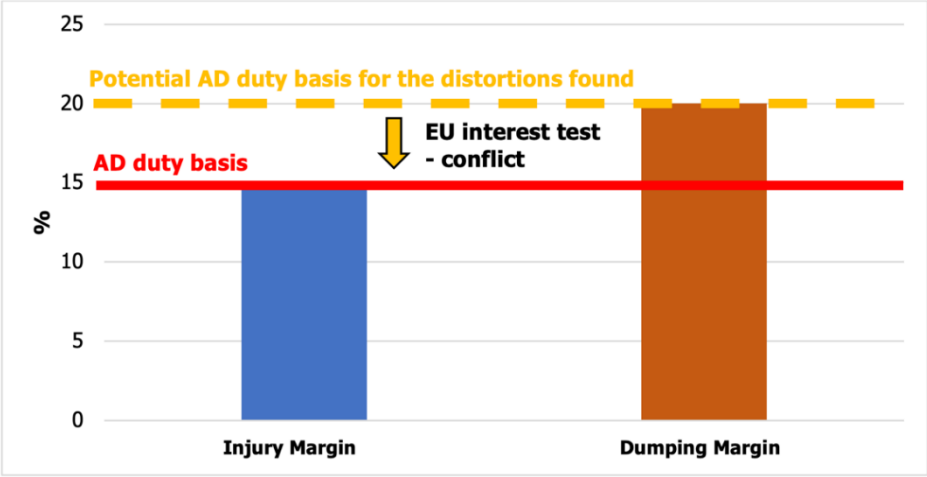
Source: Own processing.

In chart 4.1, we see a practical example of the application of the lesser duty method. In this illustrative example, the European Commission found during the investigation that the dumping margin is 20%, while the injury margin was established at 15%. If the EU finds no distortions in the prices of the raw materials used to produce the imported goods, and if the union interest test does not identify any disruption to that interest, **the lower margin**, which is the injury margin, will be used as the basis for calculating the duty. The lesser duty method is applied in this case without further conditions.

Chart 4.2 illustrates a different practical situation that can arise when determining the duty rate. In this case, we will consider the existence of a conflict between the trade defence

measure and the economic interest of the EU, which will ultimately affect the choice of the specific margin.

Chart 4.2 Graphical representation of the use of the lesser duty rule in EU investigations with identified distortions and a conflict of union interest.



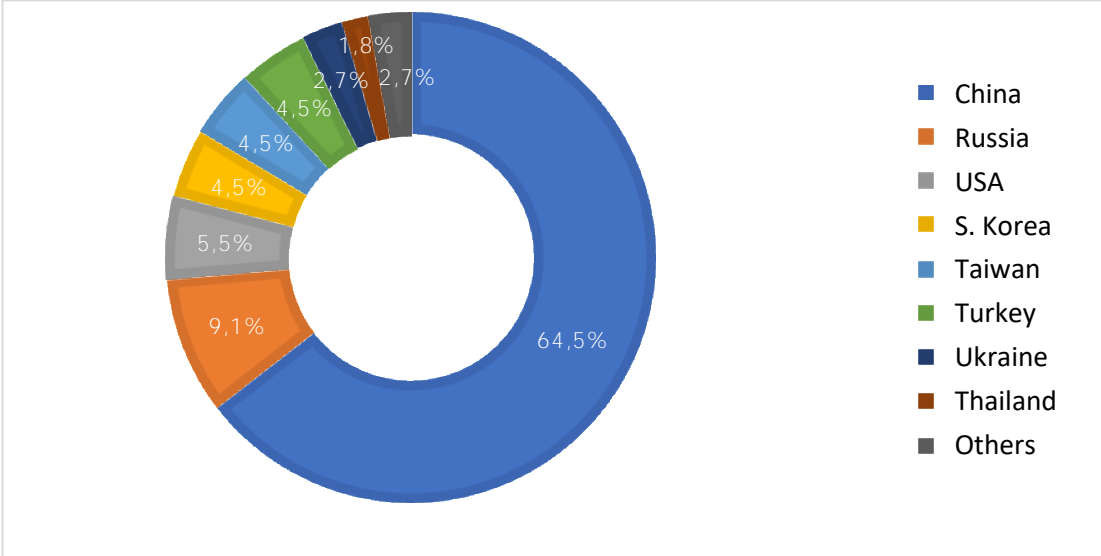
Source: Own processing.

On chart 4.2, an example is illustrated of applying the lesser duty method despite proven distortions in the prices of raw materials on foreign markets. In the investigation, the Commission found that the injury margin was lower than the dumping margin, similar to the example in chart 4.1. The Commission could therefore use the lesser duty method. Furthermore, in this case, the Commission also identified significant distortions in the prices of raw materials that significantly affect the price of imported goods. For this reason, the Commission should ideally abandon the lesser duty rule and use the higher dumping margin (20%) as the basis for the duty. Nevertheless, it must take into account the results of the Union interest test. In our illustrative example, the test showed results indicating that a higher duty rate would negatively impact supply chains and consumers in the EU. Therefore, despite the identified distortions and potential risks, the Commission must use **the lesser duty method**, specifically the basis of the lower injury margin (15%). In this way, the Union interest test can influence the final decision on the implementation of trade defence instruments. To better understand how EU trade defence measures work, the following subsection will outline the countries against which the Commission is proceeding, as well as the commodities most represented in these cases.

4.7 Territorial and Commodity Structure of EU Trade Defence Measures

In the EU, a range of trade defence measures against imports from third countries was in effect as of mid-2024. The majority of these measures relate to the protection against dumping. All cases are detailed **in the EU's electronic database of trade defence measures**, which is publicly accessible and contains selected documents related to specific cases. In addition to ongoing investigations, it also includes concluded investigations, regardless of whether a final decision to impose protective duties due to unfair trade practices from third countries was made (European Commission, 2024i). The territorial structure of the EU's trade defence instruments is presented in Chart 4.3.

Chart 4.3 The territorial structure of the EU's trade defence measures in effect as of August 2024.



Source: Own processing according to European Commission (2024).

The EU applies trade defence measures **mainly on goods and raw materials produced in China**, which account for nearly 65% of all measures. Following at a significant distance are Russia and the USA.

All three types of trade defence measures in the EU (ADM, CVM, SF) are practically applied to imports from these countries and are also implemented on various product groups. In 2024, the most represented product groups within the EU's trade defence measures can be identified as follows (European Commission, 2024i):

- HS72 Iron and steel,
- HS73 Articles of iron and steel,
- HS38 Various chemical products,
- HS54 Chemical fibres.

Other goods, which are represented to a lesser extent within the measures, are e.g. HS01 Live animals, HS69 Ceramic products, HS70 Glass and glassware, HS76 Aluminium and articles thereof, HS85 Electrical machinery and equipment, as well as HS87 Vehicles other than rolling stock.

The protection of trade, the domestic market, and consumers in the EU is a significant aspect of the EU's common trade policy towards third countries in an evolving globalised world. Through these measures, the EU eliminates the negative impacts of potentially harmful trading activities originating from the external market environment. Although the EU has long preferred a policy of free trade, this also brings the aforementioned risks. Therefore, the EU continuously seeks compromises between liberal and protectionist trade policies and employs a combination of both (Juhás, 2023).

Summary

The European Union and its foreign trade relations have long been presented and perceived through the principles of free trade. Despite the EU's liberalisation tendencies, it must protect its market from the potential dangers of unfair trading practices from abroad. Some entities from third countries attempt to unfairly push domestic European producers or sellers out of

the market through dumping prices, subsidised imports, or excessive import quantities. As a result of these activities, the European market could suffer significant economic damage, and domestic producers might lose their market positions, allowing entities from third countries to gain a dominant position in the European market and subsequently set product prices based on that position.

The EU protects itself against these practices by implementing trade defence measures, most commonly in the form of tariffs or other measures that must strictly comply with WTO policies and principles. A potentially harmed party, often through industry associations, usually requests the initiation of an investigation into a specific situation, providing clear evidence that it has suffered harm due to unfair trading practices. The European Commission will initiate an investigation process during which it may impose temporary measures and subsequently conclude it by levying final tariffs if unfair conduct is proven. The main conditions for the imposition of final measures include the presence of unfair practices, significant harm, a causal link, and a conducted interest assessment (ensuring no conflict between the trade defence measures and the economic interests of the EU). The validity of final measures typically lasts for five years. However, if it is found that unfair practices have only been eliminated through tariffs and there is a risk of further unfair practices after their expiry, the Commission may extend the validity of the imposed tariff following a request for investigation before the expiration. Currently, the Commission also implements so-called anti-absorption measures to prevent circumvention of tariffs.

The most widely used trade defence instruments in the EU are currently anti-dumping measures. In terms of origin, the most affected goods are from China, while from a commodity perspective, this primarily includes products made of iron and steel, chemical products, and aluminium products. In this way, the EU aims to protect its manufacturers from unfair trading practices from abroad, which could otherwise push European entities out of their domestic market.

Glossary

Dumping – the process through which an economic entity seeks to sell goods in a foreign market by temporarily lowering prices, with these prices set below the levels typically charged in the domestic market, or lower than the sum of production costs, non-production costs, and a reasonable profit. In this way, the manufacturing or trading company aims to push domestic producers or small firms out of the market.

Subsidy – support from public financial resources provided by the government or another public authority of a third country to the domestic industry or a specific group of sectors, which subsequently affects the export prices of products to the EU (European Court of Auditors, 2020).

Normal value – the market price of a product in the country of export is usually considered the normal value. However, if the product is not sold on the domestic market, has low sales volume, or is sold at a loss, the normal value is calculated based on the production costs in the country of export, to which a reasonable amount of selling costs, general or administrative costs, and profit are added. Special rules apply to economies that are subject to significant distortions.

Dumping margin – the difference between the normal value of a product and the export price charged by the exporter in the EU market.

Injury margin – represents the level of duty necessary to eliminate the injury caused by dumping or subsidies.

Significant injury – substantial injury suffered by the EU industry, such as a decrease in price levels, reduced profitability, loss of market share, etc.

Tasks

Group tasks and assignments

1. Try to list and characterise all trade defence measures of the EU that could be implemented in its trade relations with third countries.
2. What conditions must be met for the European Commission to impose trade defence measure against the import of the investigated goods from a third country?
3. Imagine a situation where you are a steel manufacturer in the EU and your company is facing dumping behaviour from a Chinese company in the EU market. What procedure would you choose for your protection? How would the European Commission react in your case? Discuss the individual steps of the investigation.
4. Similarly to the previous task, discuss the individual steps of the investigation into the subsidised behaviour of a foreign company. What are the differences in this proceeding compared to antidumping investigations?
5. In the electronic database of EU trade defence measures (Trade Defence Investigations), search for information about investigations that concluded with the imposition of final measures. Work in groups and try to select different cases. Within these, look for the following information:
 - Who submitted the request for investigation to the European Commission,
 - When the investigation started,
 - The country/countries from which the entity/entities under investigation originate,
 - The product groups the investigation focuses on,
 - What temporary measures were adopted (if any),
 - What arguments the suspected party used to defend their low prices,
 - What margins the investigating authority established,
 - What final measures the European Commission imposed against unfair imports.
6. In connection with the new methodology for assessing market distortions in third countries (Chapter 4.1), find the latest EU document concerning China. The title of the document is *Commission Staff Working Document on Significant Distortions in The Economy of the People's Republic of China for the Purposes of Trade Defence Investigations*. What market distortions did the European Commission identify in China? Which of the distortions do you consider the most severe? In your opinion, is there a country that, in the current geopolitical situation, could be subject to a similar methodology?
7. Read the following case study and complete tasks A to D that follow it. Discuss possible solutions arising from each task.

Case Study: Import of Processed Aluminium Foils Originating from the People's Republic of China into EU Countries

In accordance with Article 5 of the Basic Regulation, i.e., Regulation (EU) 2016/1036 of the European Parliament and of the Council of 8 June 2016, a complaint was submitted to the European Commission (hereinafter referred to as "the Commission") alleging that the import of processed aluminium foils originating from the People's Republic of China was causing injury to the relevant manufacturing sector in the EU.

The complaint was submitted on 8 September 2020 by six producers from the EU (hereinafter referred to as "the applicants"), representing more than 50% of the total production of processed aluminium foil in the EU. The subject of this investigation was the aforementioned processed aluminium foils with a thickness of less than 0.021 mm, without backing, rolled, but not further processed, in rolls weighing more than 10 kg (hereinafter referred to as "the product subject to investigation").

The allegedly "illegally" imported product that was subject to investigation originating from the People's Republic of China (hereinafter referred to as "PRC" or "the country in question") was classified under the CN code ex 7607 11 19 (TARIC codes 7607 11 19 60 and 7607 11 19 91). The applicants argued that due to the existence of significant distortions as defined in Article 2(6a)(b) of the Basic Regulation, **it is inappropriate to use prices and costs from the domestic market in the PRC**. To support their claims of significant distortions, the applicants relied on information from the Commission's staff working document on significant distortions in the economy of the PRC for trade defence investigations dated 20 December 2017, which describes the specific situation in the PRC market, particularly regarding aluminium, and also referred to the OECD report titled *Measuring Distortions in International Markets – The Aluminium Value Chain*.

In light of the available information, the Commission believed that there was sufficient evidence under Article 5(9) of the Basic Regulation indicating that, due to significant distortions affecting prices and costs, **the use of prices and costs from the domestic European market in the country in question was inappropriate**, thereby justifying the initiation of an investigation based on Article 2(6a) of the Basic Regulation.

The applicants provided evidence that **the import of the product under investigation from the country in question increased overall in absolute terms**. The evidence submitted by the applicants indicates that the volume and prices of the imported product had, among other effects, a negative impact on the prices charged by the manufacturing sector within the EU, resulting in significant adverse effects on the overall performance, financial situation, and employment in that sector. Additionally, the applicants provided evidence that there is sufficient, freely available capacity in the PRC, suggesting that a significant increase in imports is likely to occur.

The applicants also claimed that the flow of "unfair" imports is likely to continue to increase significantly due to the recent imposition of tariffs and measures on the product under investigation in third-country markets such as the USA, Turkey, India, Mexico, and Indonesia. This indicated the likelihood of the redirection of exports from the PRC to the EU, which would lead to a significant increase in this type of import within the Union. They further asserted that these changes in circumstances are clearly foreseeable and expected imminently.

According to the applicants, the increase in unfair imports was the main cause of injury, and they argued that there were clearly no other factors that could weaken this causal link. The Commission concluded that there was sufficient evidence that **the volume and prices** of the imported product under investigation **had negatively impacted the quantities sold and**

the level of prices charged, which significantly adversely affected the overall performance of the Union's manufacturing sector.

Source: Processed according to European Commission (2024).

Tasks related to the case study:

- A. What type of trade defence measure is being investigated in this case according to the text you have read? Justify your answer and support the correctness of your statement with specific claims from the text. What term can we use to replace the phrase "illegally imported product" in the text?
- B. What are the next steps in the EU's investigation process in this case?
- C. The amount by which the export price from the country of origin is lower than the normal/fair market price of the goods in that country is referred to as _____.
- D. Is there a possibility to reopen or restart an investigation related to trade protection if the measure against Chinese imports were to end? If so, briefly describe this process.

Recommended reading

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