

# Title: **Survey of substantial instruments of trade policy and export promotion in the European Union and Armenia<sup>1</sup>**

## **Abstract:**

As it is known export promotion is the important part of trade policy of each country, as well as the European Union and Armenia. The paper signifies the importance of trade liberalization and integration in EU by pursuing export expansion strategies. The primary purpose of this paper is to examine the role and significance of export promotion in the European Union (EU) on the basis of detailed survey of substantial instruments of export promotion - EU Market Access Strategy and Market Access Database making process and mechanism of their implementation. The EU Market Access Strategy is an essential component of the Global Europe Strategy and the Market Access Database was created as the main operational tool of this strategy. In this field particular attention is paid to partnership and connection with private sector, to the participation of EU Member State Representatives and others, to the Different Structures among EU member states, as well as to the new relationship with Member States and business. The usage of such a instruments in Armenia could improve the technical and methodological assistance to exporters making promotion more targeted. This study tries also to examine in detail the process of trade barriers regulation as one of the main tool and instrument for trade policy and analyzes what this process entails for the European economy and besides this, the trade agreements and public procurement regime are discussed. The paper also seeks to identify the main characteristics of institutions involved in export promotion in Armenia and find out the ways of its improvements.

**Keywords:** Export promotion, trade liberalization, Market Access Strategy, Market Access Database, trade barriers, regulation, European Union, Armenia

**JEL classification codes:** E61, E65, F13, F17, F42, F68

**Author:** Karen Grigoryan

**Author Affiliations:** PhD in Economics, Associate Professor, Department of Macroeconomics, Armenian State University of Economics

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# **Survey of substantial instruments of trade policy and export promotion in the European Union and Armenia**

## **Introduction: The significance of trade policy and export promotion in the EU and in Armenia**

It is evident that over the last decade the European Union (EU) has identified trade as one of the priorities for its development policy. The view of the European Commission is that the gains from trade will be essential for speeding up progress towards achieving the Millennium Development Goals. The common market stimulates competition on a European scale while giving European companies better resources to develop their assets for facing international competition.

Of course, trade policy and export promotion are strongly correlated. Basically, the last one is the part of the trade policy, and the main difference between them is the following: export promotion is more related with providing market information for exporters, and trade policy – with regulation of trade barriers for exporters and importers.

Actually, on many issues, the institutions of the European Union are relatively small players compared to nation-states. For example, the issue of energy policy or environmental policy, remains confined to the national boundaries of the member countries of EU. On other issues, such as monetary policy or international trade negotiations, EU has acquired exclusive rights, so to speak, over nation-states (Asaftei and Parmeter, 2010). It should be mentioned that the EU has already acquired a sufficiently broad and significant set of political prerogatives to be much more than a simple area of free trade and policy coordination (Alesina A. and Wacziarg R. 1999).

It is worth to remark that smaller countries in EU benefited relatively more from the formation of a European free trade area than larger countries (see Alesina, Spolaore and Wacziarg (1997) for more on this point), so coordinating on open trade and harmonized standards will benefit small countries more.

The first problem that Armenia encountered after the world economic crisis was largely due to the fact that economy was not sufficiently diversified. Crisis response of the Armenia focused on further diversification of the economy, which is possible mainly with diversification of export sector. Unfortunately trade balance of the country still remains

significantly negative and exports are very concentrated depending on fluctuations of foreign markets. Therefore export promotion is a primary objective for economic policy of Armenia.

The reminder of the paper is organized as follows. The first section gives a brief overview of the basic fundamentals of trade liberalization and integration in EU, the next sections describes the significance of EU Market Access Strategy and Market Access Database in the export promotion process, identifies partnership and connection with private sector, and the mechanism of the participation of EU Member State Representatives and others, analysis the different structures among EU member states, as well as to the new relationship with Member States and business. Besides this, there are sections of examination of trade barriers and EU experience in the regulation of barriers, trade barriers with an effect on export markets, as well as trade agreements and public procurement. The last section analyses export promotion in Armenia.

### **Trade liberalization and integration in EU**

A larger, more intense competition can produce higher efficiency. In the EU free trade means more effective distribution and usage of production factors. And finally, the EU countries enjoy economies of scale and the increasing competition can produce a faster growth rate. It is also possible that the EU growth forecasts in their turn cause growth. As a result, the integration process in the EU has had a liberalizing effect on the flows of goods and productive factors between participating economies. Integration involves an intensification of economic relationships, particularly trade relationships, in those countries which have decided to reduce or eliminate trade barriers (Grigoryan, 2012).

Basically, the trade policy of EU is geared towards the liberalization of its trade regime, through both the multilateral and preferential routes. At the multilateral level, the EU continues to be a key player, including in the launch and ongoing implementation of the Doha Development Agenda (DDA). It accords at least Most Favoured Nation (MFN) treatment to all World Trade Organization (WTO) Members. In general, the EU meets its WTO notification obligations, thereby contributing to the transparency of its trade regime.

In summary, trade theoretic models (Krugman, 1979; Dixit and Norman, 1980; Helpman, 1981; Venables, 1987; Baldwin and Venables, 1995) show that trade liberalization may:

- (1) lead to increases in domestic output through imports, therefore increasing competition in the domestic market (“import disciplining hypothesis”),
- (2) allow firms to reap the benefits of scale economies through exports (“scale hypothesis”); and
- (3) expose domestic firms to new knowledge and expertise in foreign markets (“learning-by exporting hypothesis”) which allows them to improve their efficiency level (e.g., Porter, 1985).

So, access of exporters to import at their world prices serves as the first condition of effective policy of export promotion. The policy of protection against import of the market will be badly coordinated with the encouragement of export. In this case, exporters of the given country are laid initially down in more adverse competitive conditions in comparison with exporters from other countries that in conditions of escalating globalization of economy and manufacture has enormous significance for penetration on the world markets (Grigoryan, 2006).

It should be remarked that trade liberalization in Europe has its history. Of course, the Western Europe was the pioneer in this field. Trade liberalization between Western and Eastern Europe started before collapse of socialistic system and one of the first countries were Romania and Yugoslavia. Particularly, the European Community signed an initial Generalized System of Preferences with Romania in 1974, and an agreement on manufacturing trade was reached in 1980 (Cristobal-Campoamor, 2008). Nevertheless, the most comprehensive Generalized Systems of Preferences (GSP) were approved by the EU and individual Central and Eastern European (CEE) countries at the beginning of the 1990s. The EU granted GSP status first to Hungary and Poland (1990), then to Bulgaria and former Czechoslovakia (1991), and subsequently to Estonia, Latvia and Lithuania (1992). In short, "the features found in the trading pattern of CEECs suggest that the export share towards EU-15 was, in the first half of the 1990s, relatively high partly because reduction in trade barriers had already taken place." (De Benedictis, De Santis and Vicarelli, 2005).

Eventually, even though trade liberalization brings net gains to the economy, this does not imply that the economy is immediately better off. It may well be that for a period of time following the liberalization, the economy is worse off than without liberalization.

## **The significance of EU Market Access Strategy and Market Access Database in the export promotion process**

Basically, by helping overcome information barriers, trade promotion programs may facilitate the expansion of exports along the extensive margin in terms of both countries and products, and, in the latter case, especially those of differentiated goods.

Furthermore, the Global Europe framework of 2006<sup>2</sup>, which is Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, argued that trade policy can make a key contribution to growth and jobs in Europe by ensuring that European companies remain competitive and that they have genuine access to the export markets they need<sup>3</sup>.

Europe's first and clearest priority in maintaining open global markets is through its commitment to the WTO, the multilateral trading system and the Doha Round. Progressive global liberalisation is not only the most effective way of creating an open trading system, but it is the only way that genuinely delivers for all, developing and developed countries alike.

However, a renewed policy on market access that focuses on particular problems or markets is an essential part of the EU's wider strategy. This Communication proposes a stronger Partnership to deliver market access between the Commission, Member States, and business, based on extensive public consultation. It sets out a clearer, more results-oriented approach that focuses on concrete problems that EU businesses face in third country markets. It identifies both the weaknesses of the current system, and the extent to which EU policy has to change to reflect a changing global economy.

In fact, the EU Market Access Strategy was launched in 1996<sup>4</sup> with the aim of enforcing multilateral and bilateral trade agreements and ensuring that third country markets were open to EU exports. This strategy aimed to provide exporters with information on market access

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<sup>2</sup> Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions – Global Europe – Competing in the world – A contribution to the EU's Growth and Jobs Strategy COM/2006/0567 of 04.10.2006.

<sup>3</sup> Source: Global Europe, A stronger partnership to deliver market access for European exporters, External trade, European Commission, [http://trade.ec.europa.eu/doclib/docs/2006/november/tradoc\\_130518.2.pdf](http://trade.ec.europa.eu/doclib/docs/2006/november/tradoc_130518.2.pdf)

<sup>4</sup>Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions: The Global Challenge of International Trade: A Market Access Strategy for the European Union COM (96) 53 final of 14.02.1996.

conditions and a framework within which to tackle the barriers to trade in goods, services, intellectual property and investment.

A strong market access policy is a key function of the common commercial policy, and a key area in which the EU can deliver real economic benefits for its Member States.

Equally important, the Market Access Database (MADB) was created as the main operational tool of this strategy. It is a free, on-line service for EU exporters, incorporating information on market access conditions in around 100 countries and an evolving public record of currently around 500 market access barriers reported, primarily by business, to the Commission. The information sections of the database are well utilised and generally very popular with users.

As a result of the priority the EU has given to multilateral efforts to reduce trade barriers, the European Commission's focus has to some extent shifted away from specific barrier removal. There is a strong need to correct this, both because of the growing importance and complexity of non-tariff barriers and because of the demands of stakeholders. This can be achieved through improved consultation with business and Member States and a more focused approach to tackling barriers and optimum deployment of resources. Failure to improve coordination will make it much more difficult to detect, analyse and assess priority cases, and to achieve systematic success in eliminating barriers.

### **Partnership and connection with private sector**

Whether formally recognized or not, government and exporters usually are involved in a "public- private partnership," in which the private sector provides the initiative and the public sector provides the necessary controls and support (Grigoryan, 2011). So, in this case it can be considered that the EU plays a particular role of big public sector at european level for all EU member countries.

Specifically, the MADB has been designed with EU enterprises, companies and corporations in mind as the main beneficiaries of the services provided in order to stimulate, encourage and promote their exports of goods, services, investment and ideas. It is an information tool that is directed towards them for their use in achieving this goal. Hence, the primary focus of the evaluation exercise was directed towards their needs. This involved consideration of issues such as the completeness of the information contained in the MADB toolbox from their

perspective, the reliability of this information and its quality as well as what else this group believed could usefully be added to further assist them.

Particularly, inside this group, special attention is paid to the views and needs of Small-and Medium-Sized Enterprises (SMEs) since the promotion of exports by this segment is a key objective of EU trade policy. In addition, in light of the low user statistics for some of the EU-10 new Member States, special focus was paid to this group with a view to determining why this phenomenon appears to have emerged.

Additionally, EU and national trade associations play a key supporting role in the promotion of exports by EU enterprises and industries generally by providing advice and information of trading conditions in third countries either directly or indirectly to their members. In many cases, they also play a crucial co-ordination role by acting as the interface between EU enterprises and the European Commission.

Moreover, for those trade associations organised on an EU-wide basis (i.e. whose membership includes companies or member organisations across a number of different EU countries), the MADB is also an information tool that could add value to the services that they can provide to their members. The same is true of trade associations and chambers of commerce organised at national level. Hence, the views of these groups were also considered important in this evaluation. A large number of EU and national trade associations, across a wide range of economic sectors, provided their views and, in many cases, constructive criticisms and suggestions for improvements<sup>5</sup>.

### **The participation of EU Member State Representatives and others in the EU export promotion process**

Basically, the views of EU Member State representatives were sought in three dimensions in the context of the stakeholder evaluation process.

1. EU government representatives participating in the inter-institutional committee (known as the Market Access Advisory Committee) provide their views on the MADB both from their own perspective and those of users in their own member countries.

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<sup>5</sup> Source: Global Europe, A stronger partnership to deliver market access for European exporters, External trade, European Commission, [http://trade.ec.europa.eu/doclib/docs/2006/november/tradoc\\_130518.2.pdf](http://trade.ec.europa.eu/doclib/docs/2006/november/tradoc_130518.2.pdf)

2. National officials involved in export promotion activities, as well as in agencies or departments involved in market access issues, were also asked for their views on the main issues.
3. Certain local, provincial and regional government agencies were also asked their views on the functioning of the MADB in order to better understand the instrument's utility beyond simply the national government level.

In general, government aid to industry consists primarily of investment, export, and regional development grants, and R&D grants for SMEs. This assistance takes various forms within the individual countries: tax incentives, low interest rate loans, and/or subsidies for technological research programs.

Noticeably, the possibility was offered also to consultants and academics to provide their views on improvements to the MADB as well as market access issues generally.

In fact, this aspect of the evaluation process revealed a rich seam of users who made extensive use of the MADB and had valuable contributions to offer on ways that it could be improved. Many of these users relied on the MADB to provide both individual and strategic advice to their clients. This was also the case, for example, with individual European Information centres but also a number of private consultants offering assistance, especially to SMEs, on trade-related issues.

Furthermore, many Non-Government Organisations (NGOs) also took time to provide their views on the usefulness of the MADB for their activities which provided valuable insight into the non-commercial uses of the information contained in the Database. The opportunity was also taken to seek the views of EU trade union organisations in order to present a full picture of perceptions.

In general, stakeholders' views can be classified into two general categories.

The first is the collective view, or consensus, among stakeholders on their opinions on the MADB as well as the management processes for handling market access issues. In this context, there was in fact a surprising consistency of themes heard through the whole spectrum of stakeholders that participated in this exercise. These views ranged from technical issues involving the operation and functionality of the MADB all the way through to basic



principles on how market access issues should be handled internally by the European Commission.

The second category consists of stakeholder-specific issues that individual groups expressed should be addressed. In many instances, these proposals and suggestions concerned specific adjustments to the MADB that would improve the MADB for certain EU industry sectors.

### **The Different Structures among EU member states in export promotion process**

The study showed that there are characteristic differences between export promotions in EU member countries. For example, in developing countries, the export promotion is mostly considered as an instrument of economic development, whereas in the developed countries, the focus of export promotion programs is one of strengthening the competitiveness of companies. Anyway, the promotion policy in developing countries also seeks this goal.

Similarly, there are differences in market access issues too. It is clear from the stakeholder consultation process that market access issues are handled relatively differently in the EU Member States. There are many reasons for this, one main one being a question of resources. In Member States where trade policy in general receives limited funds, resources do not allow specific efforts to be put on market access issues.<sup>6</sup>

In addition, the general organisational structure of the governmental departments in the various Member States also plays a significant role. For example, in some countries, trade promotion, in the form of advice to national industries on market access opportunities and restrictions in foreign markets, may not be viewed as relating to trade policy in particular.

Instead, such trade promotion activities may fit into the general framework of external policy or perhaps as part of the responsibilities of the industry ministry. It is also possible that such trade promotion tasks are considered better handled by separate governmental or non-governmental bodies.

On the whole, there appear to be three distinct basic models for the handling of market access issues in the governments of the EU Member States.

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<sup>6</sup> Source: Global Europe, A stronger partnership to deliver market access for European exporters, External trade, European Commission, [http://trade.ec.europa.eu/doclib/docs/2006/november/tradoc\\_130518.2.pdf](http://trade.ec.europa.eu/doclib/docs/2006/november/tradoc_130518.2.pdf)

- A fully operational market access department that deals with the full spectrum of market access issues ranging from providing information relating to the Applied Tariffs Database and the Exporters Guide to Import Formalities on the one hand, to action to remove foreign trade barriers on the other.
- An inter-departmental division of responsibilities for applied tariffs and assistance to exporters (often provided through departments responsible for export promotion), on the one hand, and barriers to trade (handled by officials who are primarily responsible for trade policy matters), on the other hand.
- No specific national level department dealing with the MADB and market access issues and government officials serve this role as part of a broader range of trade-related issues (including, for example, the operation of the EU's commercial policy instruments).

Actually, in some Member States, for example, the UK, Italy, and Finland, an operational market access department has been set up to deal with market access issues of concern to the domestic industry. One has established a national focal point for trade barriers in the Department for External Economical Relations and another has a Market Access Centre of Excellence (MACE).

Thus, in these Member States, the officials inside the market access departments view their main responsibility as providing information and assistance concerning trade barriers to domestic enterprises and industries. The information and advice given to such enterprises and industries is coordinated by a special trade barrier coordinator who is assisted by officials with sector responsibilities (e.g. Intellectual Property Rights-IPR, Sanitary and Phytosanitary-SPS etc.) as well as geographical (country) responsibilities. In addition, the market access departments typically also include officials involved in the promotion of exports and internationalisation in general. Both the trade barrier and the export promotion aspects are coordinated with other parts of the government.

Hence, this model consequently links trade policy (general coordination of efforts to remove trade barriers) and trade promotion (information and assistance to companies concerning market access data) activities for improving market access in third countries. Such coordination of tasks may improve the overall organization of market access issues and help mutual understanding of the political, as well as economic, issues actually involved.

In other Member States, for example France and Spain, there is an interdepartmental division of responsibilities for assistance to exporters (through export promotion departments), on the one hand, and barriers to trade (handled by officials responsible for trade policy matters) on the other hand.

Meanwhile, this inter-departmental split very much reflects the division between trade policy and trade promotion at the national and European level. Trade promotion as such is generally not considered to be one of the responsibilities of the Community. Consequently, Directorate General (DG) Trade is not concerned to any significant extent in trade promotion activities, apart from that the MADB is, in fact, used as an export tool for EU industries wanting to pursue export opportunities abroad. Instead, the EU Member States have national policies in place to promote and assist the domestic industry when doing business abroad. In some countries, this situation is mirrored in the organisational structure of the government through the separation of trade promotion activities from other market access initiatives and trade policy in general.

For this reason, the advantage of such a split is that it allows greater specialization when it comes to tackling market access problems. While the trade promotion officers are experts on advising domestic companies on market access conditions in foreign countries from a business perspective, the trade policy officials are better positioned to assist in the politically sensitive task of removing specific trade barriers, mainly through coordination with the European Commission. The trade promotion department may also interact more closely with other parts of the government to achieve a more coordinated and balanced approach to trade promotion, for example focused on specific sectors or geographical areas etc.

Moreover, member states which maintain an inter-departmental split consequently also exhibit high levels of activity towards MADB-related issues. However, it is mainly the trade promotion departments that make use of the MADB tool in their day-to-day activities. There is consequently, to a certain extent, a difference in the organizational structure between Member States and the Commission in this respect since MADB issues are typically coordinated with Member State trade policy officials and not trade promotion officers.

At the same time, several member state's trade promotion departments report great reliance on most aspects of the MADB for their own purposes as well as a source of information to which they can refer enquirers. When talking to customers about doing business overseas, its

staff will offer a range of advice, information and services tailored to each enquirer's needs. These requests are varied but commonly concern duty rates, VAT (and its foreign equivalents), additional taxes and documentation. Where appropriate, this advice can be extended to cover market access issues including the topics covered by the MADB. Hence, there is very active direct (by government officials themselves) and indirect (by referrals of companies to the MADB by officials) use of the MADB in this dimension.

On the trade barrier side, market access issues are dealt with by officials whose primary responsibilities reside in the area of trade policy advice and who provide both policy advice and the co-ordination of action that leads to the removal of trade barriers in third countries. Inside these departments, full time officials ensure that the relevant specialist deals with each trade barrier. Since these officials are from the trade policy side of the Member States, it is common for them to work closely with colleagues who deal with the Trade Barriers Regulation (TBR), the WTO Technical Barriers to Trade (TBT) Agreement, the WTO Dispute Settlement procedure and Trade Facilitation. Their market access cases come from a number of different sectors of industry across a range of third country markets.

Also, in certain Member States, for example Estonia and Malta, there is no designated or specialised market access department as such dealing with the MADB and market access issues.

In some of these countries, market access issues, when they appear, are instead handled directly by trade policy advisers specialised in certain trade areas such as Sanitary and Phytosanitary (SPS), Technical Barriers to Trade (TBT), Services etc. or by other ministries concerned, for example by the agricultural, environmental, external relations, finance, and competitiveness or communication ministries. The relevant officials are themselves in contact with the complainants and communicate with the European Commission. Extensive coordination is typically also conducted within the national administration and with delegations in foreign countries. The MADB may be used for background information and is useful for the purpose of checking whether the barrier is already known to the Commission. The MADB and market access issues are promoted on a general level without reference to specific market access capabilities.

However, in some other member states that have adopted this model, there are no specialised trade experts dealing with market access barriers on an individual basis and government

officials involved in MADB issues instead serve this role as part of a broader range of trade-related matters.

Furthermore, no formalised market access network exists at national level. Market access questions, when they appear, are generally co-ordinated internally on an ad hoc basis depending on the trade barriers that arise. This situation is most prevalent among the smaller Member States and, critically, a significant number of the ten new EU Member States.

In general, no major activities are undertaken at national level to promote the use of the MADB or indeed to hold out any government official as being responsible for taking action against specific barriers to trade that are being reported. Limited market access promotion activities are however organised, sometimes in cooperation with industry or trade promotion agencies.

As a result, officials in this group of Member States tend to refer their national industries and enterprises directly to the MADB if the issue in question relates to applied tariffs and/or import formalities or, in the case of trade barriers, to the European Commission's Market Access Unit. Often, enterprises are also referred to specialised trade promotion agencies, Chambers of Commerce or Federations of Industries.

Actually, each of these models has its own advantages and disadvantages. At the general level, it is relatively clear that it is difficult for the European Commission's Market Access Unit to interface with the Member States based on a harmonised approach simply because of the diversity of the audience that it is addressing. This also partly explains the difficulties encountered in the Market Access Advisory Committee (MAAC) in developing common approaches to the development of the MADB and the removal of barriers to trade generally.

Hence, there is no single uniform model inside each Member State for the European Commission's Market Access Unit to have a direct relationship with. This lack of uniformity, although not unexpected, means that different officials inside each Member State view their responsibilities towards market access issues somewhat differently. This also means that different Member States view their relationship to the Market Access Unit in different ways. This is also reflected in the discussions of the Market Access Advisory Committee (MAAC) where the commonality of interests might not be as strong as might have been thought.

And yet, the channels of communication between the European Commission and the EU Member States' national departments on administrative matters are not as well-developed as they could be. On important issues such as reporting on trade barriers communicated to them, there is a wide range of approaches. Some Member States try to tackle the barriers to trade themselves when only national interests are involved. Others refer enquiries directly to the European Commission's Market Access Unit.

As a result, this situation is not wholly satisfactory from either an information gathering or barrier removal perspective. The European Commission has competence under the EC Treaty to tackle barriers to trade in third countries and indeed is better equipped to perform barrier removal activities at the EU wide level. Hence, it could be the case that putting in place a better system for co-ordination between the European Commission and the individual EU Member States is necessary especially when barrier removal actions require handling at EU level. This is clearly the case when an obstacle to trade in a third country has an impact on a number of EU industries and enterprises located in more than one EU Member State.

Thus, one obvious benefit from improved co-ordination and communication at this level may be the possibility that EU Member States are better placed – for historical, cultural or geographical reasons – to lead on efforts to remove barriers to trade in third countries. The example cited by one EU government representative was the relationship between some of the EU Scandinavian countries and Russia. Some of the new Eastern European EU Member States also have strong historic relations with the neighbours in those regions. It may be the case that better and faster results can be achieved through diplomatic overtures made at this level rather than through the efforts of the European Commission. However, this benefit does not alleviate the need for these efforts to be properly co-ordinated which implies putting in place some form of regular reporting and communication system.

However, currently, inter-service consultations and co-operation on market access issues inside the European Commission, and specifically the Market Access Unit, has a loose institutionalised character. Regular communication with Commission officials in the large diversity of Directorates formally represented on the Market Access Action Group (MAAG) no longer appears to occur, especially vis-à-vis the more remotely connected Directorates such as DG-SANCO, DG-TREN and DG-Agriculture. There are two principal exceptions to this observation. First, some of the Commission officials inside the Market Access Unit (MAU) have regular contacts with other Directorate Generals (DGs) of the Commission

because of their sectoral and – to a lesser extent - geographical responsibilities. Second, more regular contacts appear to take place between the MAU and the TBR/Dispute Settlement Unit as well as the Commission's Legal Service. This is because of the importance of the input of these Units into their daily work in identifying and analysing barriers to trade being reported to them.

### **A new relationship with Member States and business**

The role of the European Commission in the common commercial policy making process is vital. Though, it is clear that to be more effective the Commission needs to establish a new partnership with both member states, which have their own competences in this area, and European business.

Furthermore, the Commission, member states and business need to establish improved ways of working. This implies much more systematic contact and cooperation at all levels, both within the EU and in third countries. The Commission, member states and business should work better together to establish priorities for action in barrier removal, as well as linking up databases and developing a network of market access specialists.

This is particularly important on the ground in key third country markets, where local knowledge is strongest. Commission Delegations, member state embassies and European businesses operating in foreign markets are familiar with the local administrative structures and processes and usually best placed to offer initial reviews of market access problems, identify cases requiring coordinated action with specialists in Brussels in areas such as intellectual property, technical barriers to trade (TBT) and sanitary / phytosanitary (SPS) protection, and conduct local follow-up. In practical terms, there is much already going on in third countries to pool resources and contacts. However more systematic contacts and coordination would improve intelligence gathering, make it possible to identify and react to relevant legislative proposals before they are adopted and use local knowledge and leverage to apply diplomatic pressure to tackle market access barriers quickly and effectively.

In 2006 the Commission commissioned an evaluation study and undertook an internet consultation on the European Union's approach to market access. The consultation attracted

more than 150 responses from Member States, EU business, and other stakeholders. The evaluation and consultation process established the following key conclusions<sup>7</sup>:

- The EU needs to improve the mix of policy instruments it brings to securing and preserving market access – combining a commitment to multilateral and bilateral trade negotiations with committed action to ensuring those agreements are enforced.
- While export promotion rightly remains the essential role of EU Member States, many European companies work on a European, and increasingly a global, scale. The Commission, Member States and business need to work more closely together in partnership to maximise leverage in tackling and preventing barriers, both in Brussels and third countries.
- The EU needs to be better at prioritising action against barriers in order to achieve the greatest economic impact for the EU.
- The EU needs a more efficient and transparent service for businesses. Small and medium sized enterprises (SMEs) are increasingly active in export markets and often face the greatest challenges in addressing trade barriers. SME problems with market access need to be taken carefully into account in the practical implementation of the strategy. The Commission adopted a Communication in November 2005, which includes specific reference to addressing the needs of SMEs in this area.

In conclusion, the results of the evaluation and consultations make clear that market access is felt to be an area that deserves stronger action at the EU level. EU business wants a more result-oriented approach to help overcome the concrete problems they face in accessing third country markets with a speed and effectiveness that reflect modern commercial reality<sup>8</sup>.

### **The trade barriers: EU experience in the regulation of barriers**

Basically, export promotion, as a part of trade policy, is closely connected with a dismantling of trade barriers. A number of actions in the field of trade barriers regulation can render significant influence on the export of goods and services.

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<sup>7</sup> Source: Global Europe, A stronger partnership to deliver market access for European exporters, External trade, European Commission, [http://trade.ec.europa.eu/doclib/docs/2006/november/tradoc\\_130518.2.pdf](http://trade.ec.europa.eu/doclib/docs/2006/november/tradoc_130518.2.pdf)

<sup>8</sup> Source: *Ibid.*



However, under globalization processes the characteristic features of barriers to trade has changed. Where market access once focused on border tariffs, non-tariff and other “behind the border” barriers in the markets of trading partners are increasingly important. A clear distinction should be drawn between unnecessary barriers to trade and justified and legally defensible measures to fulfill legitimate policy objectives, such as security, protection of human, animal and plant health and of the environment. While it is necessary to regulate trade, this must be done in a transparent and non-discriminatory manner, which is not more trade-restrictive than necessary in pursuing other legitimate policy objectives.

Specifically, these new types of barriers are more complicated, technically challenging and time consuming to detect, analyse and remove. Many market access problems now arise because existing rules are not correctly implemented or enforced. Furthermore, the expansion of WTO rules has not fully kept pace with the expanding range of barriers in the global economy.

While the GATT and the WTO has been remarkably effective in removing tariff barriers to trade, and has moved into areas such as the policing of sanitary restrictions on trade, there are still many areas where WTO rules need to be developed and evolve in order to address nontariff barriers. In addition, the more we can share best practice and approximation of environmental and social standards with trading partners, the better for EU business.

In summary, the main trade barriers could be classified as the following:

1. Tariff barriers. Although these have been eroded by successive multilateral trade rounds, high tariffs still pose problems for EU exporters.
2. Burdensome customs procedures for import, export and transit as well as unfair or discriminatory tax rules and practices.
3. Technical regulations, standards and conformity assessment procedures that are not in line with WTO rules on Technical Barriers to Trade (TBT Agreement).
4. Misuse of sanitary and phytosanitary measures i.e. those that are not justified on health and safety grounds within existing WTO rules.

5. Restrictions on access to raw materials, particularly restrictive export practices, including export taxes, which drive up prices for products such as hides and skins, and key mineral and metal goods, as well as dual pricing practices.
6. Poor protection of intellectual property rights including geographical indications and the lack of proper implementation and enforcement.
7. Barriers to trade in services and foreign direct investment such as unjustified foreign ownership caps, joint venture obligations and discriminatory treatment.
8. Restrictive government procurement rules and practices that prevent EU companies from bidding effectively for public contracts in third countries.
9. Abusive and/or WTO-incompatible use of trade defence instruments by third countries.
10. Unfair use of state aids and other subsidies by third countries in a way that constitutes market access barriers.

In the context of the progressive liberalization of world trade in goods and services, it is vital that trade policy instruments maintain third country markets open for European Union exporters. Consequently the Council of EU adopted the Trade Barriers Regulation (TBR) in December 1994 (Council Regulation N°3286/94) (1) which came into effect on 1 January 1995.

In fact, the TBR is a legal instrument that gives the right to EU enterprises, industries or their Associations as well as the EU Member States to lodge a complaint with the European Commission who then investigate and determine whether there is evidence of a violation of international trade rules which has resulted in either adverse trade effects or injury.

Furthermore, the TBR is an instrument aimed at opening third country markets by eliminating obstacles to trade for the benefit of EU exporters. The TBR has a broad scope of application that applies not only to goods but also to services and intellectual property rights, when the rules concerning these rights have been violated and had an impact on trade between the EU and a third country.

Consequently, a wide range of obstacles to trade or trade barriers is covered by the Regulation. An obstacle to trade is defined in the Regulation as “any trade practice adopted or maintained by a third country in respect of which international trade rules establish a right of action”. In this context, international trade rules are primarily those established under the World Trade Organisation (WTO) or, since February 2008, those contained in bilateral Free Trade Agreements.

In addition, the TBR is designed to ensure that the rights of EU under international trade agreements can be enforced in cases where non-EU (i.e. “third”) countries “adopt or maintain” barriers to trade.

Complaints can be lodged against the following two types of trade barrier:

- a non-EU country enforces a trade barrier which adversely affects exports from EU Member States; or
- a non-EU country enforces a trade barrier which adversely affects the EU market. For instance where a trade barrier prevents the EU from obtaining a commodity it requires.

### **Trade barriers with an effect on export markets, as well as on the EU market**

A complaint may be lodged with the Commission by one or more EU enterprises, or an association acting on their behalf which has or continues to suffer adverse trade effects as a result of a trade barrier (i.e. a law, regulation etc) imposed by a non-EU country. Article 2(6) of the TBR (2) defines the term “Community enterprise”.

For instance, as of February 2008, four complaints have been lodged so far by individual companies. The first case was against Brazil and their non-automatic import licensing with regard to Sorbitol. The complaint was lodged by Cerestar, one of the largest EU producers of Sorbitol. The second case, again concerning a trade barrier in Brazil, was lodged by Dornier, the German aircraft manufacturer, as regards the export subsidies the Brazilian Government was giving to one of their aircraft manufacturers, Embraer. The third case was lodged by Volkswagen as regards the discriminatory VAT legislation that had been introduced by Columbia. The fourth complaint was submitted by Philips, the electronics manufacturer, and concerned the compulsory licensing of CD-R technology by Taiwanese authorities.

However, this route is not confined to a single enterprise, or group of enterprises, and can equally be used by an association that acts on behalf of one or more of its members. Many complaints have been lodged by either national associations of the EU Member States or by European associations and have covered a variety of industry sectors. For instance ANAPA, the Spanish National Association of owners of deep-sea longliners, or Febeltex, the Belgian textile federation have brought cases on behalf of their members. Similarly CESA (the Committee of European Union Shipbuilders associations) lodged a complaint with the Commission under this route.

Though, the TBR differs from other trade policy instruments such as anti-dumping or anti-subsidies where the complainant must represent a major proportion of the EU industry. Indeed, the TBR is the only trade policy instrument which gives the right to an individual company to present a complaint to the European Commission.

A complaint can be lodged by an EU industry or professionally recognised/accredited association acting on its behalf, which has suffered material injury from trade barriers having an effect on the EU market.

Article 2(5) of the TBR defines the term “Community industry”. As a rule, the second track is only open for producers that account for a major proportion of total Community production of identical, similar or directly competing goods or services and who have been affected by the trade barrier.

So far, there have been only four cases which have considered material injury in the EU market, as well as adverse trade effects in a third country market. No TBR case has been based exclusively on injury in the EU market. In part this is due to the fact that distortions in the EU market are normally best addressed through the antidumping and countervailing duty instruments.

In addition to industries, associations or individual enterprises, EU Member States could also lodge a complaint in respect of either of the above types of obstacles to trade. However to date none of them have chosen to do so<sup>9</sup>.

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<sup>9</sup> Source: Global Europe, A stronger partnership to deliver market access for European exporters, External trade, European Commission, [http://trade.ec.europa.eu/doclib/docs/2006/november/tradoc\\_130518.2.pdf](http://trade.ec.europa.eu/doclib/docs/2006/november/tradoc_130518.2.pdf)

Besides, there are barriers that are of major economic and/or systemic importance for European business in the markets of certain of European strategic partners - China, India, Japan, Brazil/Argentina (the latter grouping due to the Mercosur dimension), Russia and the US. In 2009, trade with these partners represented 45% of EU trade in goods and commercial services (with the US accounting for 19% and China 10%) and 41% of EU foreign direct investment (FDI) flows (with the US alone accounting for 35%).<sup>10</sup>

Also, traditional customs barriers continue to exist alongside more sophisticated new forms of measures. For example, measures in Russian Federation and Argentina have increasingly given rise to concern for European exporters since the onset of the financial and economic crisis in 2008. A detailed analysis of the implementation of the measures reveals a consistent pattern of lack of transparency, administrative discrimination in the form of burdensome procedures and often arbitrary interpretation of existing rules, e.g. on customs valuation.

The EU has vigorously acted such measures, in particular where there are good reasons to believe that the measures are not WTO-compatible, such as in the case of Argentina's import licensing system. However, in the latter case, even concerted action in the WTO with other partners equally affected by the measures did not yield major results. Consideration will therefore have to be given as to whether other means, such as formal WTO dispute settlement procedures or more political intervention is warranted.

Although the exact economic impact of the barriers mentioned in Trade and Investment Barriers Report 2011, cannot be quantified in detail, European exports potentially affected by such measures are in the range of €6 to 130 billion (9 to 12 % of EU's total exports in 2009) and EU imports of raw materials worth around €6 billion<sup>11</sup>. These estimates of "potentially affected trade" should not be interpreted as an indication of EU "lost trade". Lost trade is implicitly only a fraction of "affected trade" and should be considerably lower, but - given the available information and complex nature of trade barriers - cannot be quantified accurately. The figures nevertheless give a notion of the trade volumes potentially affected by the various measures. Solving these barriers would thus have a significant impact on EU

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<sup>10</sup> Trade and Investment Barriers Report 2011, Report from the commission to the European Council, Engaging our strategic economic partners on improved market access: Priorities for action on breaking down barriers to trade.

<sup>11</sup> This number only covers export restrictions on agricultural and industrial raw material imports which account for only one-third of the EU's total raw material imports (11% of total EU imports). The other two-thirds of the EU's raw material imports concern energy raw materials (23% of total EU imports).

exports and would provide additional access to important government procurement markets. In addition to the economic gains to be derived from the EU's negotiating agenda, this would be a very important contribution to the external dimension of the Europe 2020 objectives of smart, sustainable and inclusive growth.

However, to achieve these gains, it is imperative that all players involved, notably the – the Commission, as representative of the EU in trade matters, assisted by the EU delegations, now integrated in the European External Action Service on the one hand, and the competent authorities of the Member States on the other hand – engage proactively.<sup>12</sup>

In particular, all models predict that trade protection for an industry depends on industry output, not on demand, and that deviations from free trade are increasing in output. This in turn means that if we look at two different industries, one exporting and one import-competing, facing equal demand, the exporting industry will receive more trade policy support than the import-competing industry. This theoretical result is clearly at odds with reality (Matschke, 2008).

### **Trade agreements and public procurement**

Specifically, the EC has in place several preferential trade agreements (PTAs), and negotiations for new PTAs are ongoing. The EC concluded agreements with Chile, Egypt, Jordan, and Lebanon. Negotiations are ongoing with many other countries and group of countries. The EC continues to offer non-reciprocal trade preferences to almost all African, Caribbean and Pacific Countries (ACP) countries under the Cotonou Agreement; and to developing countries in general under its GSP scheme, including its "Everything But Arms" initiative for tariff- and quota-free access to almost all exports from least developed countries.

Currently, the EC's purely MFN regime applies to nine WTO members, which account for some 36% of its merchandise trade. The EC's preferential trade agreements have so far resulted in free trade with the concerned partners in industrial goods and limited liberalization of trade in agricultural goods, i.e. a certain share of its trade with preferential partners is still under the MFN regime. Some PTAs also provide for liberalization of some services

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<sup>12</sup> Trade and Investment Barriers Report 2011, Report from the commission to the european council, Engaging our strategic economic partners on improved market access: Priorities for action on breaking down barriers to trade.

subsectors. Under its reciprocal preferential agreements, liberalization is undertaken asymmetrically, with the EC liberalizing at a faster speed. Increasingly, its PTAs are taking into account trade rules (e.g. trade defence instruments, standards and technical regulations) and environmental considerations, and are with or seek to encourage other regional groupings.

Also, the EC has taken measures to simplify, modernize, and make more flexible its public procurement regime. In May 2004, reforms relating to the coordination of public procurement procedures were approved. Measures taken in the area of competition policy include: legislative reforms aimed at modernizing the enforcement system for EC competition rules, and reducing the incidence of anti-competitive practices in the motor industry and air transport sector; block exemptions in specified areas; and a revision of the merger regulation. On intellectual property protection, legislation was adopted on, inter alia, the registration of EC designs; protection of geographical indications and designations of origin for agricultural products and foodstuff; and on measures to combat counterfeiting and piracy.

In addition, the WTO Agreements contain provisions, which give developing countries special rights as well as exemptions to WTO obligations. The "special and differential treatment" principle states that any new rule must take account of the prevailing circumstances of developing countries. The EU approach is to increase flexibility vis-à-vis the developing countries, without creating a two-tier WTO.

### **Export promotion in Armenia**

The domestic dimension of the business climate (i.e., regulatory regimes and measures directly affecting entry, conduct and exit for firms) influence significantly the external interaction of domestic firms in Armenia. The elements of this dimension are the procedures for the simplification and harmonization of foreign trade, the state of the infrastructure and its management, and the provision of such backbone services as telecommunications, banking, insurance, transportation, and business services. These are as important for domestic as for external activities. Together with customs procedures, related border clearance regulatory procedures, technical standards regulations and airport efficiency and effectiveness they shape the ease and speed with which goods and services move across national borders services; therefore, they are crucial to trade in goods. In consequence, improvements in the domestic business climate may produce limited positive economic effects if not accompanied by similar improvements in trade facilitation.

In Armenia, among different organizations involved in various stages in the export promotion process, the Armenian Development Agency (ADA) is the most important one, which was established in 1998 by the Government of the Republic of Armenia to facilitate foreign direct investments and promote exports. In its export promotion activities ADA helps to find markets for products, undertakes market studies and seeks out partners for joint ventures aimed at increasing the volume of exports and development of Armenian enterprises. ADA also organizes international conferences, business-forums, trade fairs and exhibitions. The Armenian Government considers ADA as the main national intermediary for bridging gaps between policy development and implementation and the public and private sectors. The Chairman of the Board of ADA is the Prime Minister of the Republic of Armenia.

ADA assists foreign businesses interested in Armenian products and services by:

- Providing information about Armenian products and manufacturers,
- Searching for matching local partners,
- Organizing trade missions, seminars, making events and participation in business exhibitions,
- Developing international business promotion projects,
- Keeping the database of exporter-manufacturers,
- Preparing the catalogue of Armenian exporters (electronic version) and its annual updating.

In terms of the overall formal ease of doing business, Armenia ranks sixth among 20 transition economies. Doing business across all areas is on average easier than in three New EU member states - Czech Republic, Poland, Bulgaria and Romania —and in all other Commonwealth of Independent States (CIS) countries. Only three Baltic States (Estonia, Latvia and Lithuania), Slovenia, Hungary and the Slovak Republic—all of them with strong reform credentials—score higher than Armenia. Within areas, Georgia ranks highest in starting a business and in registering property and enforcing contracts, Lithuania in closing a business, Slovenia in protecting investors, and the Bulgaria, Latvia and Slovak Republic in access to credit (Doing Business, WB 2010).



Although Armenia appears to be one of the top performers among CIS countries, this is not sufficient. An important consideration is that Armenia has to neutralize the negative effects of its remoteness to the centers of gravity of global markets and of its being landlocked. The frame of reference for Armenia's regulatory reforms should be at least the best practice in the CIS or EU new members region, if not the best international practice. Here, on both counts, the differences are huge, even though Armenia fares quite well overall in relation to other former centrally planned economies.

Armenia's foreign trade regime is liberal and stable, thanks to WTO commitments. Access to Armenian markets of goods is very liberal in terms of official border and behind-the-border arrangements. Tariffs are low, not only by CIS standards but by international standards as well. Although Armenia's weighted and unweighted average MFN tariff rates are twice as high as in the EU, they are still well below 5 percent.

Nevertheless, Armenia's relatively liberal foreign trade and foreign investment regimes will fail to bring benefits in the absence of transparency, consistency, fairness and effectiveness in the implementation of regulations and laws. This has been responsible for the relatively low FDI inflows despite an apparent absence of formal barriers.

Independent Armenia introduced formal trade and customs barriers. Although customs fees have been kept flat at 0% and 10%, and applied only to 30% of imported goods, customs control has evolved as an arbitrary and corrupt service to the detriment of domestic suppliers of imported goods and domestic producers of exported goods. Armenian exporters are formally exempt from customs duty payments, but unofficial customs taxes amount to 6% to 13% of total transport costs to Georgian ports (Armenia, *The Caucasian Tiger*, World Bank Report, 2006).

## **Conclusions**

The appropriate combination and optimal coordination between trade policy and export promotion is the condition for success in export development. Nowadays, in trade policy and export promotion, on the whole, EU has gradually acquired exclusive rights over member countries. Meanwhile, smaller countries in EU benefited relatively more from the formation of a European free trade area than larger countries.

Basically, the trade policy of EU is geared towards the liberalization of its trade regime, through both the multilateral and preferential routes. At the multilateral level, the EU continues to be a key player.

EU Market Access Strategy and Market Access Database are perhaps the most commonly assistance techniques in the area of export promotion. These instruments preferably recommended offering Armenia as technical and methodological tool for trade policymakers. One of the main arguments for export support is the public good issues (information). So, the aim of EU Market Access Strategy is enforcing multilateral and bilateral trade agreements and ensuring that third country markets were open to EU exports. This strategy aimed to provide exporters with information on market access conditions and a framework within which to tackle the barriers to trade in goods, services, intellectual property and investment. A strong market access policy is a key function of the common commercial policy, and a key area in which the EU can deliver real economic benefits for its Member States. The Market Access Database is the main operational tool of this strategy.

Export promotion is closely connected with a dismantling of trade barriers. However, under globalization processes the characteristic features of barriers to trade has changed. Specifically, the new types of barriers are more complicated, technically challenging and time consuming to detect, analyse and remove. The Technical Barriers to Trade (TBT) is an instrument aimed at opening third country markets by eliminating obstacles to trade for the benefit of EU exporters. TBT is the only trade policy instrument which gives the right to an individual company to present a complaint to the European Commission.

The EC has in place several preferential trade agreements (PTAs), and negotiations for new PTAs are ongoing.

Recommendations for future actions in export promotion in Armenia are following: Foster cooperation between public institutions such as ADA and other institutions like MoE, MoA, SMEDNC: Set priorities of trade fairs who are relevant for the Armenian businesses and receive Government support; Develop funding plan and secure funding for Int' Trade Fairs over mid term period; Train public institutions on individual trade fairs and specific requirements of a host country; Link tourism promotion with product trade fairs to create synergies and better country branding.

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