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## Assessing EU concessions for service trade liberalization in the Doha Round: What frequency indices suggest

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**Kiel Working Paper No. 1168**

**Assessing EU Concessions for Service  
Trade Liberalization in the Doha Round.  
What Frequency Indices Suggest**

**by  
Rolf J. Langhammer**

**June 2003**

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# **Assessing EU Concessions for Service Trade Liberalization in the Doha Round. What Frequency Indices Suggest**

## **Abstract**

While the EU is a customs union in merchandise trade (goods), it has not yet reached this stage of integration in service trade. How far the EU is from a customs union in service trade is very difficult to assess because of the nonquantitative nature of trade restrictions in this sector. The paper tries to present first indications of how far the EU is from being a customs union by calculating frequency indices of trade measures using the Hoekman approach based on the February 2003 EU first offer regarding service trade in the Doha Round. The calculations show that differences in national policies against nonmember states are particularly relevant in modes of supply via factor movements. Inter alia, policy measures comprise national needs tests, residence criteria, and nationality criteria. The paper concludes that there is reason to assume that in the course of the Doha Round negotiations some if not many of national measures will be given up. Therefore multilateral trade negotiations will be instrumental to bring the EU to a complete customs union as it happened in goods trade between 1958 and 1968 when the Dillon Round and the Kennedy Round helped to complete the customs union in industrial goods.

Keywords: trade liberalization, services, EU policy, Doha Round

JEL classification: F1, F2

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## **Assessing EU Concessions for Service Trade Liberalization in the Doha Round. What Frequency Indices Suggest**

### **The Issue**

In the early eighties, the EU was once labelled “the not-so-perfect customs union” (Donges, 1981: 11). The reason was that until the completion of the single market in 1992, EU member states still enjoyed national sovereignties in trade policies against non-member states, i.e., the right to temporarily waive the commitments of the common external trade policy under Art 115 EEC Treaty and to operate national quotas. These rights were gradually abandoned after 1992 when remaining national quotas for imports of bananas, Japanese cars and textiles and clothing were converted into community-wide regulations. However, the transition to a “perfect customs union” was limited to the industrial sector, in principle also to agriculture, because the EU Treaty in Art. 9 defines the customs union as a tariff union with common tariffs and tariff-equivalent charges against non-member states. As tariffs are mostly irrelevant for trade in services, there is no legal analogy in the Treaty between non-services and services concerning the customs union. An analogy, however, exists between the pre-1992 not-so-perfect customs union and the post-1992 internal market for some services, in particular professional services. Pelkmans (1997: 108) labels this market “uncommon” due to a large number of EU member state-specific regulations concerning recognition of professional

qualifications, the rights of establishment and of cross-border supply. This suggests that the EU is still on the way of completing the stage of a free trade area in services. For the time being, it is neither a full free trade area nor a customs union. National policies toward trade in services differ not only vis-à-vis non-member states but also between member states.

To what extent and in which sectors the customs union objective has been missed up to now escapes comprehensive quantification. This is because services can be supplied through different modes (via trade or factor movement) which are mostly not subject to border charges but to domestic legally defined non-price barriers, for instance, through denial of rights of establishment (capital movement) or obstacles against migrant inflows (labour movement). Therefore, next to market access, conditions for national treatment are at least as important as determinants for service trade. Even if foreign suppliers have access to foreign markets they can easily be discriminated against competing domestic suppliers. The heterogeneity of both service sub-sectors and policy measures makes quantification of barriers equivalent to goods trade virtually impossible.

The purpose of this paper is to shed some light on the degree to which the EU still deviates from a customs union in services. The empirical tools for this endeavour are frequency indices based on the list of sector-specific concessions which the EU in February 2003 has offered in the context of the multilateral trade negotiations of the WTO, the so-called Doha Round (GATS 2003). The principle underlying these negotiations in services is the existence of a positive

list of sectors which each WTO member state is prepared to open to foreign trade and a negative list of measures which the member state is determined to maintain in these sectors. Concessions vary by the four modes of supply which the General Agreement for Trade in Services (GATS) has introduced (cross-border trade, consumption abroad, commercial presence and temporary presence of natural persons) and by market access and national treatment. Therefore, the GATS structure differs substantially from the GATT structure, not only with respect to the distinction between pricing and non-pricing measures but also with respect to the absence of liberalisation formulas or protection dismantling “across the board”.

As a result, there is no other way but to try convert qualitative non-price measures and concessions into a quantitative frequency indicator which can approximate the degree of bindingness or restrictiveness of concessions for the EU in total and – if national measures are maintained – for individual EU member states. This is done in the subsequent section I of this paper. Section II introduces the major national measures which are responsible for the findings from Section I. Section III concludes on the preliminary results and addresses the need for further research concerning impact analyses of barriers to trade in services.

## **I. Frequency Indices of EU Offers in the Doha Round**

Frequency indices for assessing the importance of non-tariff barriers to trade have a long tradition in trade barrier inventories. In the realm of goods, they were first introduced during the Tokyo Round and became a standard workhorse for the GATT secretariat and other institutions (Nogués, Olechowski, Winters, 1985). Hoekman (1996) and later Poveda and Droege (1997) using the Hoekman approach applied the frequency indices approach to services by developing a three-level weighting approach. To each of the 155 service categories categorised in the GATS differentiated by the four modes of supply and the two areas of commitments (market access and national treatment) Hoekman allocates a number which proxies the degree of restrictiveness. The GATS differentiates between commitments where a member on the one hand agrees to bind a measure without any qualification (entry “none”) as the least restrictive option and on the other hand exempts the service from any binding commitment (entry “unbound”) or does not make a commitment at all as the most restrictive option. Consequently, Hoekman gives weights of 1 for the former and 0 for the latter option. In between are commitments which are bound but where either specific restrictions are maintained or where specific reference is made to restrictions holding for all services listed as horizontal commitments. These commitments range between 1 and 0 and, as they cannot be further quantified, are given the weight of 0.5. It is this in-between category which can be particularly questioned as there is no distinction between a negligible restriction

which has a minor impact on trade and a restriction which comes close to a trade restrictive “unbound” entry (Warren, Findlay 2000: 63). Furthermore, the general caveat applies that frequency measures must not necessarily correlate with incidence measures such as the effects of trade barriers upon prices. However, in the absence of direct incidence measures, the inventory of frequency measures can be a first step to translate qualitative concessions into indicators which are easy to construct and to compare for all WTO member states without being systematically distorted.

Weighted shares of concessions offered by the EU (including specific requests of EU member states) as a share of maximum possible are shown for all modes of supply in Table 1. Concessions cover 113 of 155 sectors possible for which the EU list of offers contains entries. The last line shows the EU average in which EU member states’ regulations are weighted with the share of the states in the EU gross national income.

The findings suggest that first the EU is still far from offering unrestricted commitments in all sectors. At best, the deviation from this maximum benchmark amounts to about ten percent in mode 2 and 3, almost fifty percent in cross-border supply (mode 1) and more than ninetyfive per cent in mode 4. Second, the EU offers the most far reaching commitments in mode 2, consumption abroad, and it is also in this mode where differences among EU member states are the smallest. Hence, one could argue that in this mode the EU



Table 1: Specific Concessions of EU and EU Member States in Services Offered in the Doha Round, by Modes of Supply, February 2003<sup>a</sup>

	Limitations on Market Access (MA)				Limitations on National Treatment (NT)				MA + NT			
	1	2	3	4	1	2	3	4	1	2	3	4
Belgium	57.1	89.4	84.5	0.4	56.6	90.3	86.7	2.2	56.9	89.8	85.6	1.3
Denmark	60.2	89.4	85.8	2.7	59.3	90.3	84.5	4.4	59.7	89.8	85.2	3.5
Germany	56.6	87.6	81.9	1.8	55.3	88.5	85.0	2.2	56.0	88.1	83.4	2.0
Greece	55.8	89.4	83.6	4.9	54.9	90.3	85.8	0.9	55.3	89.8	84.7	2.9
Spain	57.5	89.8	78.3	1.3	57.5	90.3	86.7	1.3	57.5	90.0	82.5	1.3
France	51.8	88.5	79.2	9.7	54.0	90.3	84.5	2.7	52.9	89.4	81.9	6.2
Ireland	56.6	89.8	85.8	0.0	55.8	90.3	86.7	0.9	56.2	90.0	86.3	0.4
Italy	50.4	88.9	77.0	5.3	49.1	90.3	85.4	9.3	49.8	89.6	81.2	7.3
Luxembourg	61.5	89.8	86.7	0.4	60.2	90.3	86.7	0.9	60.8	90.0	86.7	0.7
Netherlands	59.7	89.8	86.7	0.0	58.4	90.3	86.7	0.9	59.1	90.0	86.7	0.4
Austria	65.5	87.2	82.3	6.2	62.4	88.1	85.0	1.8	63.9	87.6	83.6	4.0
Portugal	54.0	89.8	74.8	2.7	53.1	90.3	84.1	6.6	53.5	90.0	79.4	4.6
Finland	58.8	77.0	74.3	0.9	58.8	78.3	75.2	57.1	58.8	77.7	74.8	29.0
Sweden	57.5	80.5	74.3	1.3	56.6	81.4	74.8	3.1	57.1	81.0	74.6	2.2
United Kingdom	60.6	89.8	86.7	3.5	59.3	90.3	86.7	0.9	60.0	90.0	86.7	2.2
EU <sup>b</sup>	56.2	88.4	81.4	3.9	55.6	89.4	85.1	3.8	55.9	88.9	83.3	3.8

<sup>a</sup> Sectors - modes as a share of maximum possible, weighted by openness or binding factors (0; 0.5; 1).

<sup>b</sup> Average weighted with member state share in EU Gross National Income in 2000.

Modes of supply:

1 Cross-border supply

2 Consumption abroad

3 Commercial presence

4 Presence of natural persons

Source: GATS (2003). Own calculations.

comes closest to a customs union. This is not surprising as mode 2 is known to be the least disputed mode of delivery because vested interests of domestic suppliers seeking to be protected against foreign supply are negligible. So are barriers against consumers entering a country for buying a service such as in the tourist and travel sector. Third, in three out of four modes (except for mode 4) differences between EU member states are relatively small. Interestingly, the two scandinavian countries Finland and Sweden which acceded to the Union in 1995 seem to have maintained the largest number of country-specific

regulations if offers concerning market access and national treatment are taken together (again except mode 4). Fourth, most important, concessions offered for mode 4 display how restrictive the EU in total treats this mode. Concessions offered are miniscule relative to those for other modes. Again, this is not surprising given the fear that unskilled labor could use liberal service trade regulations in mode 4 to circumvent restrictive migration policies. Such obvious discrimination against labor movement to deliver services is common to all WTO members states, industrial and developing countries alike (Langhammer 2003). Most EU member states made only unbound offers in services requiring labor movement, Finland in first place, however, was much more prepared to bind its offers concerning national treatment but given its low weight in EU growth income made little impact on the Eu average. Furthermore, differences between concessions covering national treatment and market access are not systematic. Finnish offers went relatively far in national treatment but exempted market access whereas member states like France, Greece or Austria opened access to service markets more than offering non-discriminatory treatment to foreign suppliers once they were in the market.

At this level of aggregation, the high heterogeneity of services prevents more insight into the structure of EU offers. This is why Table 2 breaks down to the

Table 2 — Specific Concessions of EU and EU Member States in Services Offered in the Doha Round, by Service Categories<sup>a</sup> and Modes of Supply, February 2003<sup>b/c</sup>

	Mode of supply	Belgium	Denmark	Germany	Greece	Spain	France	Ireland	Italy	Luxembourg	Netherlands	Austria	Portugal	Finland	Sweden	UK	EU (weighted average)	
<i>Business Services</i>	1	64.1	70.8	62.0	59.9	66.7	59.4	62.5	50.0	72.9	68.8	75.0	56.3	65.6	71.4	70.8	63.0	
	2	91.1	91.7	87.5	91.1	91.7	90.6	91.7	91.7	91.7	91.7	87.0	91.7	76.0	84.9	91.7	89.9	
	3	89.6	87.0	83.9	90.6	83.3	82.8	90.1	82.3	91.1	91.1	80.2	77.6	76.0	79.7	90.6	85.0	
	4	2.1	4.7	3.6	1.6	1.0	7.8	0.0	10.9	0.5	0.0	6.8	8.9	38.0	3.1	3.6	5.5	
<i>Communication Services</i>	1	97.7	97.7	97.7	97.7	97.7	97.7	97.7	97.7	97.7	97.7	97.7	97.7	93.2	97.7	97.7	97.7	
	2	97.7	97.7	97.7	97.7	97.7	97.7	97.7	97.7	97.7	97.7	97.7	97.7	93.2	97.7	97.7	97.7	
	3	97.7	97.7	97.7	97.7	97.7	95.5	97.7	97.7	97.7	97.7	97.7	93.2	93.2	97.7	97.7	97.2	
	4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.1	0.0	0.0	0.1	
<i>Distribution Services</i>	1	75.0	75.0	75.0	75.0	68.8	37.5	75.0	68.8	75.0	75.0	100.0	68.8	100.0	100.0	75.0	69.0	
	2	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
	3	93.8	93.8	100.0	100.0	87.5	87.5	87.5	87.5	100.0	100.0	100.0	87.5	100.0	93.8	100.0	94.5	
	4	0.0	0.0	0.0	0.0	0.0	18.8	0.0	0.0	0.0	0.0	0.0	0.0	50.0	0.0	0.0	3.9	
<i>Educational Services</i>	1	100.0	100.0	100.0	100.0	100.0	81.3	100.0	81.3	100.0	100.0	75.0	100.0	0.0	0.0	100.0	89.3	
	2	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	75.0	100.0	0.0	0.0	100.0	95.0	
	3	100.0	100.0	100.0	75.0	93.8	100.0	100.0	100.0	93.8	100.0	100.0	75.0	100.0	0.0	0.0	100.0	93.3
	4	0.0	6.3	0.0	12.5	0.0	18.8	0.0	18.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.0	
<i>Environmental Services</i>	1	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	62.5	25.0	25.0	25.6	
	2	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
	3	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	96.9	100.0	99.9	
	4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	37.5	0.0	0.0	0.6	
<i>Financial Services</i>	1	87.5	87.5	87.5	100.0	75.0	87.5	87.5	75.0	100.0	100.0	75.0	100.0	87.5	87.5	100.0	87.8	
	2	100.0	87.5	87.5	100.0	100.0	87.5	100.0	75.0	100.0	100.0	75.0	100.0	100.0	100.0	100.0	90.7	
	3	87.5	87.5	87.5	75.0	75.0	87.5	87.5	62.5	87.5	87.5	75.0	75.0	75.0	50.0	87.5	81.3	
	4	0.0	12.5	0.0	25.0	12.5	12.5	0.0	25.0	0.0	0.0	12.5	0.0	0.0	0.0	0.0	7.3	
<i>Health + Social Services</i>	1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	2	66.7	66.7	66.7	66.7	66.7	66.7	66.7	66.7	66.7	66.7	100.0	66.7	0.0	0.0	66.7	64.5	
	3	58.3	66.7	66.7	66.7	58.3	50.0	66.7	58.3	58.3	58.3	91.7	58.3	0.0	0.0	66.7	59.0	
	4	0.0	0.0	0.0	8.3	0.0	16.7	0.0	0.0	0.0	0.0	8.3	0.0	0.0	0.0	0.0	3.1	
<i>Tourism + Travel Related Services</i>	1	66.7	66.7	66.7	66.7	66.7	66.7	66.7	66.7	66.7	66.7	66.7	66.7	100.0	58.3	66.7	66.9	
	2	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
	3	91.7	100.0	100.0	91.7	91.7	100.0	100.0	91.7	91.7	100.0	100.0	83.3	91.7	91.7	100.0	97.3	
	4	0.0	0.0	0.0	16.7	8.3	8.3	0.0	8.3	0.0	0.0	0.0	8.3	33.3	0.0	0.0	4.0	
<i>Recreational Services</i>	1	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	100.0	50.0	50.0	75.0	50.0	51.9	
	2	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	100.0	75.0	75.0	75.0	75.0	75.6	
	3	75.0	75.0	75.0	75.0	75.0	62.5	75.0	62.5	75.0	75.0	100.0	68.8	75.0	62.5	75.0	71.4	
	4	0.0	0.0	0.0	0.0	0.0	6.3	0.0	12.5	0.0	0.0	6.3	0.0	25.0	0.0	0.0	3.3	
<i>Transport Services</i>	1	33.3	33.3	33.3	33.3	33.3	33.3	33.3	33.3	33.3	33.3	42.9	33.3	38.1	33.3	33.3	33.6	
	2	95.2	95.2	95.2	95.2	95.2	95.2	95.2	95.2	95.2	95.2	76.2	95.2	95.2	90.5	95.2	94.6	
	3	81.0	82.1	78.6	78.6	82.1	81.0	82.1	81.0	81.0	81.0	71.4	82.1	83.3	78.6	81.0	80.2	
	4	2.4	6.0	2.4	3.6	2.4	2.4	2.4	4.8	2.4	2.4	2.4	3.6	28.6	4.8	2.4	3.3	
<i>Other Services</i>	1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	75.0	0.0	0.0	0.0	0.0	1.8	
	3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	75.0	0.0	0.0	0.0	0.0	1.8	
	4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	

<sup>a</sup> Except construction with one sub- category concession only. <sup>b</sup> See Footnote (a) in Table 1. <sup>c</sup> Concessions on market access and national treatment are taken together.

Source: See Table 1.

level of eleven service sub-categories (Table 2).<sup>1</sup> Though the sub-categorization of services reduces the intransparency of concessions somewhat, there still remains a high degree of heterogeneity at the one-digit disaggregation level. What all sub-categories have in common is again the striking discrepancy between concessions offered for modes 1 to 3 and the virtual neglect or the high restrictiveness of offers for mode 4. Second, differences between sub-categories are large. Consumer services such as health and social services deviate more from maximum possible concessions than business services. Third, differences between mode 1 to 3 are also large. In general, more offers or less restrictive offers are given for modes 2 and 3 relative to mode 1, cross-border trade. This may not only be caused by technical impossibilities to deliver services vis-à-vis cross-border trade such as in some health services. It may also be due to policies of EU member states to protect consumers against services which are supplied anonymously via trade rather than via direct personal contacts. Fourth, lack of restrictions (entry “none”) is found basically in mode 2 with few discrepancies among EU member states only. Discrepancies seem to become larger, if the general degree of restrictiveness of EU offers rises. Fifth, few country-specific “outliers” deserve attention, for instance, the high degree of restrictiveness of French offers in distribution services relative to other EU member states, or

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<sup>1</sup> One sub-category has been omitted, construction services, because the EU restricted its offer to one activity only. Business services accounted for 42 per cent of all offers followed by transport services (19 per cent) and communication services (10 per cent).

Austrain low offers in transport services supplied through mode 2. Yet, in general, one cannot escape the conclusion that both in restrictive and less restrictive offers there is a solid ground of uniformity in EU member states' offers, including restrictiveness toward mode 4 concessions.

## **II. Characteristics of EU Member States Specific Concessions in Service Trade**

Table 2 has shown that some EU member states are more or less prepared to bind their offers or to make offers at all relative to other member states. In particular, they use three major instruments.

One instrument of national policy occasionally used by member states is the economic needs test. Through such a test, Belgium, Denmark, France, Italy and Portugal, in wholesale and retail service trade, for instance, set a limit to the number of department stores in order to prevent "ruinous" competition, to facilitate transport infrastructure planning and to regulate the spatial distribution of stores. Similar restrictions exist for hospital services where a number of member states submit liberalization of trade in hospital services to health plans regulating the number of beds. Both objectives and shortcomings of such needs test are well known (Low, Mattoo, 2000). Objectives are to discourage trade restrictive practices of dominant suppliers which, for instance, are believed to establish barriers to market access against new competitors. The major shortcoming is that the regulations usually do not address of issue of market failure (natural monopolies, externalities and/or asymmetric information).

Furthermore, they tend to be more trade-restrictive than is necessary to meet those domestic political and social targets which governments fear to be endangered in the absence of regulation. Unavoidably, such needs tests are based on ex post data and underrate the speed of structural change, incentives and market-based responses. As concerns EU external trade, economic needs tests in wholesale and retail trade services can be instrumental to close the traditional mode of delivery (commercial presence) and to give incentives to explore new modes (such as internet pharmacies) which again would meet restrictive measures by member states because of consumer protection purposes. New entrants, for instance, retail chains from the US, would either be deterred to supply services at all or invest in these new modes. In short, the economic needs test can be instrumental to accelerate search for new modes of supply if a traditional mode would be closed to non-EU entrants. Since some EU member states do not insist on such tests, intra-EU trade in services is also impeded as the supply of services via less restrictive member states through other modes would also face constraints as it is currently the case with internet pharmacies.

Another set of member state-specific measures which prevail in professional services are a nationality condition for all modes of supply, the ban against services supplied under specific company laws under mode 3 and the exclusive supply of person-related services by natural persons only under the same mode. This group of measures creates different conditions of establishment among EU member states and prevents options for non-EU-originating suppliers to use one

EU member state market as a stepping stone for access to another one without the need to change the legal status of the supplier.

Thirdly, EU member states differ in their concessions offered by residence criteria. Such criteria hold for natural persons as well as for companies. The latter, for instance, are restricted in supplying specific insurance services through mode 1 only if the head office is based in the EU or the European Economic Area, respectively. Alternatively, member states like Germany or Sweden authorize branches established and licensed in the member state as sole supplier of that service rather than other branches of a company. The underlying motive seems to protect consumers by creating a home bias of supply close to the consumer. Residence criteria are also applied to natural persons if they act in a responsible position on behalf of the company (founder, CEO, board of directors, supervisory council). Such restrictions are frequently found in offers for trade in financial services other than insurance services.

To what extent EU member state-specific restrictions raise transaction costs of supplying the EU market for non-EU members relative to EU members is the essential indicator of discrimination and trade diversion. Given the lack of data, this indicator cannot be quantified. Unlike in trade in goods where interested third parties such as the US Trade Representative can easily commission studies to approximate nullification or impairment of WTO benefits due to EU policies, such impact studies mostly escape quantification in services especially in trade through factor movements (modes 3 and 4). In the EU case, quantification even

proves more difficult because of the non-fulfillment of the customs union principle.

### **III. Implications for the Doha Negotiation Process and Issues for Further Research**

The large amount of EU member states specifics in trade in services suggests that the coordination process within the EU is time-consuming and cumbersome. This process has to run ahead of the negotiations of the EU Commission in the Doha Round. The February 2003 offer is a first step which will be revised time and again. Interestingly, prior to that date, the pressure to improve the EU offer beyond what had already been discussed with WTO member states since year 2000, has led already to the dismantling of many EU member state-specific restrictions. As a result, by February 2003, the EU has already been closer to the status of a customs union in services than before. It is therefore likely that some if not many of the still existing national restrictions will be dismantled in the course of the negotiations so that the process toward a customs union for services is likely to be driven more by the multilateral negotiations than by the permanent process of integration deepening. This is not a new phenomenon. A similar process occurred when between 1958 and 1968 the EEC became a free trade area in industrial goods and when this process coincided with the GATT negotiations (the Dillon Round and the Kennedy Round) promoting the formation of the EEC as a customs union in these goods.



A major barrier against a rapid conclusion of the customs union, however, is the average standard of restrictions to be maintained. Unlike in goods, tariff levels are not available to fix this average for services. Moreover, many of the national measures are deeply rooted in the history, culture and other peculiarities of the member states, for instance in different degrees of fiscal federalism with different competences for services supplied either under federal or sub-federal responsibility. The fear that labor-intensive services could face adjustment pressure from foreign suppliers once more restrictions are dropped seems to be as unevenly distributed among member states as the inflows of migrants. Another disintegrating element is the discrepancy between EU member state governments concerning the perception of Anglosaxon dominance in some services, e.g. in audiovisual services. Where this dominance is not seen as shock to the cultural identity, a customs union will be seen less as a threat than elsewhere. A helpful principle for agreeing to a customs union would be to extend the famous principle of the Cassis de Dijon Case (mutual recognition of national standards once the good or service has been orderly supplied on the home market for long time) to selected third countries, preferably other OECD countries. Further research must concentrate on going beyond frequency indices to quantify the impact of restrictions in trade in services in general and on finding an appropriate numerical benchmark for an EU customs union which is truly complete.

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