

Financial Times (London)

May 6, 2003, Tuesday

Cautious EU rules are 'bar to trade', say US companies

By: EDWARD ALDEN

The European Union has moved towards a cautious regulatory system that poses a barrier to trade with the US and developing countries, according to a report being released today by a coalition of large US exporting companies.

The report, based on an analysis of more than a dozen existing or proposed EU regulations, says Europe has invoked the so-called "precautionary principle" to justify measures that are trade-distorting.

"By doing so, it has effectively banned US and other non-EU exports of products deemed hazardous, stifled scientific and industrial innovation and advancement," says the study by the **National Foreign Trade Council**.

The clash over environmental and consumer risk regulations is emerging as one of the biggest sources of economic tension in the world's largest trading relationship. The US has threatened to launch a World Trade Organisation case over the EU moratorium on genetically modified foods, but US companies are equally concerned about other regulations pending in such sectors as chemicals and electronics.

The EU is increasingly devising measures to reduce health and environmental risks even where scientific evidence of a threat may be absent or ambiguous, the report says. The US has tended to regulate more narrowly against scientifically demonstrated hazards.

While European companies face more onerous regulations than their US competitors as a result, US companies charge that the difference is producing a significant trade advantage for European business. US and other foreign companies that want to sell into the European market are forced to adopt EU standards, giving an edge to European companies already working within that regulatory regime.

William Reinsch, president of the NFTC, says the effect of most of these regulations "is to sanction EU production processes and penalise non-EU processes".

The US and Europe are competing to sign free trade agreements with developing countries that in effect lock those countries into either the US or European regulatory models.

So far, Europe appears to have the upper hand. Some African and Asian countries have embraced European-style restrictions on genetically modified foods, and Brazil last week passed a law that will require labelling of such products.

The report argues that the US and Europe will have to find a way to harmonise their regulatory systems and adopt a common approach.

The US is stepping up efforts to persuade developing countries that their interests are being hurt by the EU regulatory scheme. The NFTC report argues that they should oppose such measures because their exporters cannot afford the compliance costs. www.nftc.org.