EU Unilateral Power to Regulate the Global Trade Markets: The Brussels Effect

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ABSTRACT

This paper examines the unprecedented and heavily underrated global power that the EU exerts through its legal institutions and standards, and how it successfully transports that influence to the rest of the world. It pays particular attention to Prof Anu Bradford’s examples and some of the relevant agreements and negotiations that has been used to achieve this feat.

Keywords: Brussels Effect, EU, Global Trade Market, WTO.

I. INTRODUCTION

It is no longer news that the EU determines the percentage of chemical components present in toys made in China, the pop-ups about cookies that we receive while browsing on the Internet as well as the software we use on our computers, the makeup women apply in the morning on their faces, the cereal we eat for breakfast, the safety devices installed in cars manufactured in Japan, the privacy settings we adjust on our twitter and facebook pages, and whether or not two United States (US) companies can successfully merge. For context, the commission in 2001 took a decision to block the merger between General Electric & Honeywell that had been approved by the US department of Justice. Do you know it even dictates why children across the world no longer see soft plastic toys in their McDonald’s Happy meal? Thus, whether directly or indirectly the EU has established itself as a global regulatory hegemon. They do this by singlehandedly/independently adopting stringent regulatory standards and policies for its own internal market. By so doing, it influences and shapes the global regulatory environment. Thus in order to gain and maintain access to the large European consumer market, most multinational companies are indirectly forced to act in accordance with EU standards and often expand such compliance across their world-wide production. Without employing the services of international institutions or even attempting to pursue the cooperation of other nations, the EU has a strong and growing ability to promulgate regulations that become entrenched in the legal frameworks of developed and developing markets alike, leading to a notable "Europeanization" of many important aspects of global commerce.

In view of this, this paper analyses the unprecedented and heavily underrated global power that the EU exert through its legal institutions and standards, and how it successfully transports that influence to the rest of the world. It pays particular attention to Prof Anu Bradford’s examples and some of the relevant agreements and negotiations that has been used to achieve this.

II. UNDERSTANDING THE BRUSSELS EFFECT

The origins of the EU’s power stems from its Brussels-based institutions where the rules and regulations emanating from the single state has affected many aspect of economic life within and outside Europe through the process of unilaterally regulatory globalization.

For context, unilateral regulatory globalization comes to play when a single state is able to externalize its laws and regulations outside its borders through market mechanisms, resulting in the globalization of standards. Thus in a nutshell, it is a situation where the laws of one jurisdiction finds its way into another
in the absence of the former actively imposing it or the latter willingly adopting it. Thus it comes across as the unintended consequence of the process of European integration driven by EU regulation. It should be differentiated from political globalization of regulatory standards where regulatory convergence results from negotiated standards, including international treaties, or agreements among states or regulatory authorities and also from unilateral coercion, where one jurisdiction attempts to impose its rules on others through threats or sanctions. For example the United State has imposed sanctions in order to compel countries to adopt stricter rules and punishment in areas such as antiterrorism just to deter offenders.

Many have argued whether there is anything like the phenomenon of the Brussels Effect but As succinctly said by Anu Bradford, 'The Brussels Effect exists whether one likes it or not, and ultimately, I leave it for the reader to decide whether the Brussels Effect is a phenomenon that advances the state of the world or presents a cause for concern’.

To appreciate Bradford’s conception of Brussels Effect as an explanation for the global spread of European data protection norms, it is important first to encapsulate early explanations for this development. Bradford’s analysis whether directly or implicitly is based on these explanations. Notably, previous authors were reluctant to adopt one explanatory theory for the diffusion of the spread of data protection standards all over the world, they also carefully avoided dwelling or focusing on “Europeisation” of these standards.

Colin Bennett’s in his work found extensive transnational convergence with respect to data protection laws’ core principles, but considerable divergence with respect to the monitoring and enforcement regimes that the laws established. Bennett suggested five hypotheses for discussion: the first is the similarity of perceived technological threats, which forced policy makers to adopt similar solutions; the second is the desire on the part of policy makers to draw lessons from, and emulate, policies adopted earlier in other countries; third is the agreement amongst a small, cross-national network of experts as to appropriate data protection policy; the fourth hypothesis is harmonization efforts of international organizations, particularly the CoE and the Organization for Economic Co-operation and Development (OECD); and finally the ‘penetration’ (a process in which countries are forced to adopt certain policies because of the actions of other countries).

In a subtle analysis, Bennett found that none of these hypotheses on its own adequately explained the policy convergence but that they had considerable explanatory utility in combination with each other. Consequently, Bennett found that no one theory or hypothesis sufficed to explain national divergence in how these principles were implemented. Yet, he envisaged that the forces of convergence were likely to become stronger in the long run and that the dominant force for most countries is most likely to be a penetrative one. These predictions have shown to be fairly accurate.

Since Bennett’s analysis, there has been an extraordinary expansion in the number of countries adopting data protection laws with the bulk adopting the European model as shown in the DPP and Convention 108. Graham Greenleaf who has also closely charted this course posits that something referred, as “European Standard” data protection laws are becoming the norm in many parts of the world with data privacy laws noting that 120 countries have enacted ‘EU-style’ data protection laws.

Other scholars in their quest for an extensive explanation of the predominance of European policy preferences in setting data protection standards in non-European regions have attempted to identify two main causes: the first is the large size and international attractiveness of the EU’s internal market while the second is the EU’s special preoccupation with maintaining high levels of data protection. Jack Goldsmith and Tim Wu claims that the EU’s international traction is as a result of an ‘unusual combination of Europe’s enormous market power and its unusual concern for its citizens’ privacy. Newman and Bach on the other hand argued that the large and attractive scale of the EU’s internal market is an inevitable but not enough condition for the EU’s international regulatory clout; they insist that the EU’s superior ‘regulatory capacity’ is also necessary is the grand scheme.

Adding to the above submission, Newman and Bach hypothesis is that the EU’s regulatory capacity is as a result of the rise of the ‘regulatory state’ formulated by the EU to promote and oversee realization of its internal market. The institutions (i.e. European Commission, Parliament, Council, the pan-European network of national data protection authorities (DPAs) etc.) insist that ‘state’ also furnish the EU with the requisite capacity to ‘translate’ market size into regulatory influence beyond Europe. In a nutshell, they argued that ‘Europe’s ability to promote its preferred policies internationally depends centrally on its internal regulatory institutions.

Consequently, Bradford’s work on the ‘Brussels Effect’ builds on the above hypotheses but attempts to provide a comprehensive theory as to how and why this ‘Europeisation’ of norms plays out. The scholar described it as a process of unilateral regulatory globalization.
III. THE DYNAMICS OF THE BRUSSELS EFFECT IN THE GLOBAL CONTEXT

This section focuses on the conditions under which a single country can externalize its regulations on other countries. The writer aligns its argument with Ann Bradford, which argues that the following conditions are vital and must be met for a jurisdiction to dictate rules for global commerce. The first condition is that the said jurisdiction must have a large domestic market in order to successfully globalize the jurisdiction internal rules. The second condition to be met is the capacity to have a stringent regulatory framework that would be integrated across European countries. Bradford argues that stringent regulations have the prospect of becoming the world standard because complying with these regulations guarantees access to all markets including those that have weaker regulatory standards. The third is the readiness to enforce strict rules over inelastic targets (e.g., consumer markets) as opposed to elastic targets (e.g., capital).

Note that those products sold to the EU are inelastic targets because the location of the consumer does not change and thus it determines how the EU laws apply. Bradford also noted that the benefit of having a uniform global standard across board outweighs the benefit of adopting multiple including laxer regulatory standards. Thus multinational companies must be non-divisible hence they should be discouraged from dividing the world to regulatory regions and imposing their products to each of the individual states i.e., When these companies conduct or production is non-divisible, the implication is that it is not economically viable or technologically feasible, or legally, for the firm to maintain different standards in different markets.

Let’s even for a second consider the concept of non-divisibility. The first is that production process that is subject to increasing returns to scale would compel multinational producers to sell standardized goods & product. Second, is that technological feasibility would make it difficult to clearly differentiate production lines to ensure compliance with different standards while global mergers have to be sanctioned by the most stringent jurisdiction.

A. Practical Examples of the Brussels Effect

The EU boasts of the world’s largest internal market, and this is made possible by powerful regulatory institutions. Thus foreign companies who want to trade in or with the EU must be willing to adjust their conduct or production to accommodate the EU standards, which in many cases represent the most stringent standards. Anybody not willing to adhere must forget about the EU market entirely. This, in a nutshell explains why the EU has become the predominant regulator of global commerce, and why the EU can successfully export certain norms and not others.

As presently structured, it should be noted herein that it is practically impossible for companies to undermine the EU rules by moving regulatory targets to some other jurisdiction because the EU primarily regulates inelastic consumer markets as opposed to more elastic capital markets. Although the EU only regulates its internal market, however multinational companies are now involuntary made to adopt an incentive to standardize their production globally and adhere to the single rule. This ultimately makes the EU rule into a global rule—“de facto Brussels Effect”. In return these multinational companies whose business is also domiciled in their home countries then goes ahead to lobby their domestic government to adopt the same stringent standards in a bid to level the playing ground against their domestic/non-export oriented competitors—“de jure Brussels Effect”.

Moving forward, the first practical example of the Brussels Effect as posited by Bradford is the EU competition law and the Antitrust Laws. The Union Competition policy encourages companies to offer consumers goods and services on the most favourable terms. It encourages efficiency and innovation and reduces prices. To be effective, competition requires companies to act independently of each other, and subject to the pressure exerted by their competitors. Thus it was no surprise when the commission took a decision to block the proposed merger between General Electric & Honeywell even after the US Department of Justice had approved same citing the anti competitive effect it would have on the market. This is a practical case of the impact of the Brussels Effect. Interestingly China has borrowed the EU Competition Law by enacting its own China Anti-Monopoly Law 2008.

The second practical case study is on Data protection in the digital economy. The EU General Data Protection Regulation (GDPR) has been dubbed to be the toughest privacy and security law in the World has it considers privacy right to be a fundamental human right. The regulation, which came into effect on The 25th May 2018, imposes obligations on any organization anywhere in the world so long as they collect data relating people living in the EU and levies hefty fines against those who violates its privacy policy and security standards with penalties ranging into tens of millions of Euros. Thus through this regulation the Union projects this fundamental human right to all jurisdiction in the world. Also the commission took a firm stance on online hate speech and this has ultimately influenced leading IT companies in the world into taking a definite stand on the issue. In fact social media giants like Facebook and twitter now have the power to review and whenever necessary delete any messages that it deems as hate speech or fake news.
The next typical example of the Brussels Effect is on the protection of consumer health and safety in the region. The EU has become the predominant global regulator of the chemical industry. The Union established an agency called REACH. REACH; which came into effect on the 1st of June 2007 stands for Registration, Evaluation, Authorization and Restriction of Chemicals. It is a regulation of the EU that was adopted to ameliorate & improve the protection of human health and the environment from the hazardous risk as a result of the chemicals while also increasing the competitive nature of the EU chemical industry. In reality, REACH affects all chemical substances; not only those used in industrial processes but also in our day-to-day lives, for instance in cleaning products, paints as well as in articles such as clothes, furniture and electrical appliances. Thus, the regulation has an impact on most companies across the EU and beyond. Interestingly, REACH places the burden of proof on manufacturers and importers as opposed to regulators. Thus if you manufacture chemicals either for personal use or to supply to others or you purchase anything outside the EU/EEA, then you likely have a responsibility under REACH because you are obligated to gather information on the impact their substances have on human health and the environment and supply this information to the agency.

REACH impacts on a wide range of companies across many sectors, even those who may not think of themselves as being involved with chemicals. Notwithstanding, the global impact of REACH has been met with heavy resistance at the International level. Some scholars have insisted that REACH imposes serious production cost on manufacturers and importers particularly as regards to the supply chain, sales and procurement. Others say the regulation is going to hamper innovation and the development of new substances because of fear that they would not meet the stringent EU requirements. However despite the resistance and the heavy criticism from some quarters, the “de facto Brussels Effect” has made sure REACH is impacting change at a global level. For instance, big firms like Mattel, Lego & Ikea have announced their global production to be PVC free. Dow Chemical has followed suit by saying that their production is consistent with REACH requirements whether it is sold in Europe or anywhere in the world. Cosmetic manufacturers like L’Oreal, Revlon & Unilever have all updated their product to be in compliance with REACH. Foreign chemicals producers that export their produce to the EU are now switching to REACH standard to avoid being left out from the large and lucrative EU market. Consequently the “de jure Brussels Effect” comes to play because REACH has now triggered international adoption of the REACH-style laws by prompting manufacturers outside the EU who have already adopted the REACH standard in order to export to the EU to mount pressure on their home government to increase their domestic regulations to the level of REACH. Progressively, REACH-style regulation has now been adopted in countries like Russia, Canada, South Korea, Australia etc.

Another aspect of protection of consumer health and safety in the EU is on Genetically modify organisms (GMO). The EU has built its regulatory capacity that allows it to influence the regulation of GMO’s. GMO’s are also covered within the Brussels Effect and falls under the category of inelastic product because its regulation cannot be circumvented by moving the regulatory targets (i.e. the consumers) to another jurisdiction. Thus they are non-divisible in practice. And so, the EU subjects these GMOs to rigorous regulation based on their potential adverse health effects and the precautionary principle of scientific uncertainty. The GMOs have to go through an extensive approval process, which involves an evaluation of the potential risk the GMOs could pose to human health and the environment. It also demands that food products containing over 0.9% GMO’s must be labeled. Consequently, countries like Japan, China, Australia and a number of others have all followed the EU’s lead of mandatory food labeling requirements for GMO’s products. Notably the US has a different view on the issue of GMO from the EU. The writer intends to discuss this area further in the latter part of the work.

Moving forward, the next typical example of the Brussels effect is on Environmental protection. The EU achieves this by regulating the hazardous substance and electronic waste in the region. Thus the 2003 Restriction of Hazardous substance directive was aimed at banning the release of hazardous substance into the environment especially when household appliances, computers, electrical or electronic products reach the end of their useful life. Consequently the directive has been adopted by other jurisdiction through de facto Brussels Effect & de jure Brussels Effect. Foreign manufacturers of these products now prefer to adhere to these standards in order to export product into the EU. This in turn has led to a global turn around in the designing and production of electronic products. To add, many other jurisdictions like South Korea, Japan and China have adopted EU strict Electronic waste regulation standard. Some have even incorporated it into their domestic laws. For example, California enacted the Cal RoHS,” Act 2003 & expressly incorporated EU standards into its laws. Accordingly any electronic product banned in the EU by default is also banned in these outside jurisdiction. Another aspect of environmental protection is on Emission Trading system (ETS). The ETS make up a fundamental aspect of the EU’s climate change policy and has also incorporated the aviation system into this aspect. In a nutshell, all Airlines whether domestic or foreign now have to acquire emission permits for all their flight that land or take off from the region although they would be exempted from ETS in respect to their flight landing in the EU if they are subjected to the same
measures in their home country while taking off. Thus any foreign airline that refuses to comply may be subject to a fine of even a more stringent punishment like a ban from European Airports. In a landmark decision, the European Court of Justice on the 21st of December 2011 upheld the extension to International aviation activities of the greenhouse gas ETS of the EU against a claim that it violates various international agreement and the principles of customary international law. The court held that the “application of the emissions trading scheme to aircraft operators neither infringes the principle of territoriality nor the sovereignty of third States”. The EU court in its ruling stressed that an aircraft is only subject to ETS when it lands or takes off from any airport in the region and not when its flying over the high seas.

It is very likely that the EU’s Unilateral stand will make countries to either adopt tougher domestic climate change regulations or consider adopting international measures. It is also very likely that airlines would begin to design all aircrafts with improved fuel efficiency and in compliance with the EU tight standards and not only aircrafts that fly over the region thereby triggering the Brussels Effect.

IV. DOES THE WTO LAW AMPLIFY OR LIMIT THE BRUSSELS EFFECT?

The writers in this section examines whether or not the WTO regime has amplified or limited the Brussels Effect. In so doing, particular focus is on GMO, one of the five cases Bradford presented in analyzing the Brussels Effect. As stated earlier, the US and the EU have taken divergent views has regards the regulation of GMO. The US considers GMO’s products similar to the products grown using traditional production methods. Thus GMO’s products are cultivated & sold in the US without subjecting them into any precautionary safety study or the need to put a label on them. This divergent view is not farfetched from the fact that the US is the world largest producers of GMO whereas it is rarely cultivated in the EU. The US exercises its competitive prowess in the export market by the invention of biotechnology whereas the EU’s focus is on small-scale farming and remains doubtful of mass production farming technologies.

In 2006 the United State won a trade dispute when it challenged the EU regulatory stance on GMO before the WTO. Bradford argues that the “negative” ruling has done little or nothing to affect the EU regulation on GMO. She insists that despite the judgment, the EU has refused to comply and that transatlantic trade that concerns the GMO is still restricted. Thus US manufacturers of GMO species continue to feel the impact of the Brussels Effect because they are unable to completely ignore the EU lucrative market. However, the US department of Agricultural statistics shows that the EU market account for just 8% of US agricultural exports and is ranked 4th for the US export market. The implication to this is that producers can afford to forget the EU market and move their trade to another jurisdiction outside the EU.

The GMO offers interesting test for the phenomenon Brussels effect however the writers submits that in considering the ruling of the WTO, the WTO poses some limits to some extent on the power of the EU to impose its standards on other countries however in practice, the actual effect was something different. What we have seen is that in cases where there are no relevant WTO laws, the Brussels effect is more likely to take center stage.

V. CONCLUSION

This work succeeded in amplifying Anu Bradford’s innovative expository of the Union’s regulatory power. It found that the EU muscles its way to become a force to reckon with, through its legal institutions and standards and equally exports the said standard to the entire world via the Brussels Effect. Although, it also found that one country, which poses a threat to the EU Brussels effect and unilateralism, is the US. The US has had divergent views on a number of issues. For instance the US challenged the EU on their stance on ETS claiming that the purported regulation was against international laws and demanded that the EU ETS should not apply to the US when the both parties met to discuss their bilateral aviation treaty. In another vein, it also challenged the EU’s GMO position and won. As a matter of fact, the US attempted to push their views on other countries and tried to convince them to support GMO. For example, the United States Department of Agriculture ("USDA") stated that one of its goals was "to facilitate the marketing of bioengineered products in both the domestic and international markets. This led to some EU countries like Spain to start cultivating GMO’s crops. Overall, transatlantic trade in GMOs remains very limited in the region, and the European Union is making it even more limited.

Conclusively, when the chips are down and power is defined in terms of the actual influence that a country can wield, the EU’s ability to make inroads into vast areas of global commerce cannot be swept under the carpet. Contrary to traditional notion that the EU global power is underestimated, the Brussels Effect shows a phenomenon where the EU does not have to do anything other than regulate its own market to exercise global regulatory power.
REFERENCES


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