

## PRESS RELEASE

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### TRADE POLICY REVIEW: EUROPEAN UNION

### **As key trade liberalization supporter, EU keeps markets open — except for textiles and agriculture**

Pursuing trade liberalization through multilateral, regional and bilateral initiatives, the European Union has maintained its markets largely open — except for textiles and agriculture — says a new WTO report on the trade policies on the EU. The EU's position as the world's leading exporter of goods and the second largest importer is testimony both to the importance of trade to the European consumer and producer, and to the significance of the EU as a market for most WTO Members, notably developing countries, the report adds.

The new WTO report, along with a policy statement by the European Commission, will serve as the basis for the trade policy review of the EU which will take place on 24 and 26 July 2002 in the Trade Policy Review Body of the WTO.

Since its last trade policy review, the EU has maintained the momentum of its internal economic integration agenda, the report says. It has continued to advance towards the completion of its Internal Market by pursuing product and capital market reform, has undertaken the final step towards a single currency in the euro area, largely maintained control of public finances despite lower economic growth, and has actively enforced competition policy.

The report states that maintaining a supportive policy environment for economic operators has been vital to reviving growth prospects of the European economy in 2002. Economic growth in the EU slowed sharply in 2001 (1.7%), down from 3.3% in 2000, mainly as a result of external shocks (higher oil prices, burst of technology bubble, 11 September, etc.). GDP growth in 2002 is expected to be 1.5%, followed by a rebound to 2.9% in 2003. Inflation rose to 2.3% in 2001, from 2.1% in 2000 (the medium-term target by the European Central Bank is 2%). Unemployment continued to decline in most Member States in 2001 despite slower economic growth.

The report notes that the strategic goal for the EU for 2010, set by the Lisbon European Council, is "to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable growth with more and better jobs and greater social cohesion". The 2002 Broad Economic Policy Guidelines for the EU and the Member States emphasize safeguarding macroeconomic stability by fulfilling pledges for budgetary balance made in the Stability and Growth Pact and continued moderation in wage demands.

The single currency facilitates cross-country price comparisons, and thus strengthens the Internal Market, the report notes. Non-EU countries also benefit through lower costs for international trade transactions. The main benefit of Economic and Monetary Union (EMU), however, is the lasting contribution of price stability to the foundations for sustained economic activity, the report adds.

The report states that progress in other areas of the Internal Market has been slower. Political agreement was reached at the Barcelona European Council in March 2002 to open non-household use of electricity and gas to competition as of 2004, and to ensure cross-border electricity interconnectivity of at least 10% of production capacity by 2005. On postal services, the scope of business segments reserved to the incumbent postal operator is to be reduced in 2003 and again in 2006, and a decisive step to full liberalization could take place in 2009.

The EU continues to pursue trade liberalization through multilateral, regional, and bilateral initiatives, the report says. At the multilateral level, the EU played a leading role in building support for the launch of the Doha Development Agenda. At the regional level, new trade agreements were concluded and existing agreements with candidate countries were deepened. Bilateral negotiations on prospective extra-regional agreements also continued. In addition, a new scheme for the grant of preferences to developing countries was adopted, including enhanced preferences for least-developed countries.

The EU grants preferential access to most of its trading partners for some or all imports: in 2002, nine WTO Members are subject to exclusively Most-Favoured-Nation (MFN) treatment in all product categories: Australia; Canada; Chinese Taipei; Hong Kong, China; Japan; Republic of Korea; New Zealand; Singapore; and the United States. These countries accounted for 45.2% of EU's total merchandise imports in 2001. For other trading partners, the most beneficial treatment is granted to Least Developed Countries (LDCs) and the Overseas Countries and Territories, followed by the African Caribbean Pacific (ACP) countries and countries having concluded free-trade agreements with the EU, and then countries under the Generalized System of Preferences (GSP) only.

The report notes that the EU market for non-agricultural products continues to be largely open. Except for textiles and clothing products, where following its WTO commitments, the EU has only lifted restrictions on 20% of products restricted in 1990, leaving the elimination of the remaining 80% of restricted imports "back-loaded" for the final stage at the end of 2004.

The overall simple average MFN tariff is estimated at 6.4% for 2002. The simple average applied tariff on non-agricultural products is 4.1%, slightly lower than at the previous TPR, due to tariff reductions for certain chemicals, textiles, iron and steel products, and toys. The simple average tariff on agricultural products is, at 16.1%, about four times higher than that on non-agricultural products, with above average tariffs on products subject to the Common Agricultural Policy (CAP). Tariff escalation remains, in particular on processed products.

On agriculture, according to the Organisation for Economic Co-operation and Development (OECD), support to producers declined to € 97.9 billion in 2000 from € 107.6 billion in 1999, mainly due to world market prices rising faster than domestic prices, as well as currency movements, rather than significant changes in policy. The report states that opportunity to reform the milk quota or sugar quota regimes was not seized, with extensions adopted instead. Pressures to adapt the CAP to new requirements are arising from enlargement, where the EC has proposed a progressive introduction of direct payments. Decline in consumer confidence in the CAP is due to a number of food safety crises, which the Community is addressing, notably by a new framework for

food safety law. The report notes that funding for the CAP continues to represent the single largest expenditure; 44% of the total budget of € 93 billion in 2000.

The report states that on trade remedies, the EU is the second most frequent user of anti-dumping measures, behind the United States, but some 40% of the anti-dumping investigations initiated by the EU are terminated without measures being taken. Safeguard action was taken in March 2002 on 15 steel products in response to the United States' safeguard action on steel imports. The EU continues to make frequent use of the special safeguard mechanism under the WTO Agreement on Agriculture to impose "snap-back" tariffs.

The EU and the Member States have put in place new regulations for certain products — notably in relation to the safety of products and the disposal of waste — requiring economic operators, including those outside the EU, to adapt. The report notes that certain trading partners of the EU perceive these new product regulations as significant trade barriers, and are concerned with preserving the viability of the international standard-setting process. A controversy exists concerning the placement on the EU market of genetically modified organisms (GMOs) and products that may contain GMOs or GMO derivatives. Amendments to the legislation are under consideration to ensure compliance with WTO rulings.

The report notes that the long-standing proposal for a European company was adopted in October 2001, to be in place by 2004, and will simplify company law requirements for enterprises established in at least two Member States. Foreign companies will also have this option, under certain conditions. The Commission has continued to vigorously enforce the rules on antitrust activities and mergers with a Community dimension, to complement national competition law enforcement.

The report notes that to strengthen intellectual property rights protection, the EU adopted harmonizing directives on resale rights for the author of an original work of art, and copyright and related rights for the digital environment. No agreement has been reached on the EC's proposal to create a unitary Community patent, due to issues of translation as well as jurisdiction.

## Note to Editors

Trade Policy Reviews are an exercise, mandated in the WTO agreements, in which member countries' trade and related policies are examined and evaluated at regular intervals. Significant developments which may have an impact on the global trading system are also monitored. For each review, two documents are prepared: a policy statement by the government of the member under review, and a detailed report written independently by the WTO Secretariat. These two documents are then discussed by the WTO's full membership in the Trade Policy Review Body (TPRB). These documents and the proceedings of the TPRB's meetings are published shortly afterwards. Since 1995, when the WTO came into force, services and trade-related aspects of intellectual property rights have also been covered.

For this review, the WTO's Secretariat report, together with a policy statement prepared by the European Commission, will be discussed by the Trade Policy Review Body on 24 and 26 July 2002. The Secretariat report covers the development of all aspects of the European Union's trade policies, including domestic laws and regulations, the institutional framework, trade policies and practices by measure, and developments in selected sectors.

Attached to this press release are the Summary Observations of the Secretariat report and parts of the government policy statement. The Secretariat and the government reports are available under

the country name in the full list of trade policy reviews at [http://www.wto.org/english/tratop\\_e/tpr\\_e/tp\\_rep\\_e.htm](http://www.wto.org/english/tratop_e/tpr_e/tp_rep_e.htm). These two documents and the minutes of the TPRB's discussion and the Chairman's summing up, will be published in hardback in due course and will be available from the Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

**Since December 1989, the following reports have been completed:** Argentina (1992 and 1999), Australia (1989, 1994 and 1998), Austria (1992), Bahrain (2000) Bangladesh (1992 and 2000), Barbados (2002), Benin (1997), Bolivia (1993 and 1999), Botswana (1998), Brazil (1992, 1996 and 2000), Brunei Darussalam (2001), Burkina Faso (1998), Cameroon (1995 and 2001), Canada (1990, 1992, 1994, 1996, 1998 and 2000), Chile (1991 and 1997), Colombia (1990 and 1996), Costa Rica (1995 and 2001), Côte d'Ivoire (1995), Cyprus (1997), the Czech Republic (1996 and 2001), the Dominican Republic (1996), Egypt (1992 and 1999), El Salvador (1996), the European Communities (1991, 1993, 1995, 1997, 2000 and 2002), Fiji (1997), Finland (1992), Gabon (2001), Ghana (1992 and 2001), Guatemala (2002), Guinea (1999), Haiti (2002), Hong Kong (1990, 1994 and 1998), Hungary (1991 and 1998), Iceland (1994 and 2000), India (1993, 1998 and 2002), Indonesia (1991, 1994 and 1998), Israel (1994 and 1999), Jamaica (1998), Japan (1990, 1992, 1995, 1998 and 2000), Kenya (1993 and 2000), Korea, Rep. of (1992, 1996 and 2001), Lesotho (1998), Macao (1994 and 2001), Madagascar (2001), Malaysia (1993, 1997 and 2001), Malawi (2002), Mali (1998), Mauritius (1995 and 2001), Mexico (1993, 1997 and 2002), Morocco (1989 and 1996), Mozambique (2001), New Zealand (1990 and 1996), Namibia (1998), Nicaragua (1999), Nigeria (1991 and 1998), Norway (1991, 1996 and 2000), OECS (2001), Pakistan (1995 and 2002), Papua New Guinea (1999), Paraguay (1997), Peru (1994 and 2000), the Philippines (1993 and 1999), Poland (1993 and 2000), Romania (1992 and 1999), Senegal (1994), Singapore (1992, 1996 and 2000), Slovak Republic (1995 and 2001), Slovenia (2002), the Solomon Islands (1998), South Africa (1993 and 1998), Sri Lanka (1995), Swaziland (1998), Sweden (1990 and 1994), Switzerland (1991, 1996 and 2000 (jointly with Liechtenstein)), Tanzania (2000), Thailand (1991, 1995 and 1999), Togo (1999), Trinidad and Tobago (1998), Tunisia (1994), Turkey (1994 and 1998), the United States (1989, 1992, 1994, 1996, 1999 and 2001), Uganda (1995 and 2001), Uruguay (1992 and 1998), Venezuela (1996), Zambia (1996) and Zimbabwe (1994).

**TRADE POLICY REVIEW BODY  
EUROPEAN UNION  
Report by the Secretariat — Summary Observations**

The European Union (EU) plays a vital role in the WTO and its support for the rules-based multilateral trading system is crucial to the ability of the system to deliver the benefits from trade to all its Members. The EU's position as the world's leading exporter of goods and the second-largest importer is testimony both to the importance of trade to the European consumer and producer, and to the significance of the EU as a market for most WTO Members, notably developing countries. This interdependence is the result of a longstanding commitment to the multilateral trading system, in addition to an extensive network of regional trade agreements and preferential trade arrangements.

The EU was very important in building support for the launch of the Doha Development Agenda (DDA) in November 2001. The EU, together with its trading partners, worked to rebuild confidence and cooperation within the WTO. It has also sought to improve public understanding of the WTO through greater transparency and interaction with parliamentarians and civil society representatives. The continued commitment of the EU to the WTO and the multilateral trading system will be critical to the success of the DDA.

**Recent Economic Developments**

Since its last Trade Policy Review in mid 2000, the EU has maintained the momentum of its internal economic integration agenda. It has continued to advance towards the completion of its Internal Market by pursuing product and capital market reform, has undertaken the final step towards a single currency in the euro area, largely maintained control of public finances despite lower economic growth, and has actively enforced competition policy, to complement Member State domestic reform. Trade policy developments have been supportive of this agenda, by maintaining largely open markets for non-agricultural products (except for textiles and clothing), proceeding on WTO liberalization commitments, and supporting further deepening of multilateral commitments, while further expanding the extensive system of regional trade agreements.

Maintaining a supportive policy environment for economic operators has been vital to reviving growth prospects of the European economy in 2002. Economic growth in the EU slowed sharply in 2001, with a slight contraction in GDP in the final quarter of the year. Growth was 1.7% in 2001 down from 3.3% in 2000. The slowdown is attributed by the Commission mainly to a sequence of external shocks — higher oil prices, the burst technology bubble, weak external demand, exacerbated by the shock to confidence of the events of 11 September. The Commission's Spring 2002 forecasts are for a recovery to develop in the course of the year, due in part to the strengthened economic prospects of the United States, the EU's main external trade partner. A weaker first half, however, is expected to lead to a decline in the growth rate recorded for 2002 as a whole, to 1.5%, followed by a rebound to 2.9% in 2003.

Inflation in the EU rose to 2.3% in 2001, from 2.1% in 2000 and 1.2% in 1999. Contributing factors in 2000 were higher energy prices and the decline of the euro and, in early 2001, rising food prices. Price pressures eased in mid 2001, but higher food prices and indirect tax increases lifted inflation in early 2002. Although euro area inflation in 2001 was above 2%, the medium-term target set by the European Central Bank (ECB), the Commission expects the target to be met in Q2 2002.

Unemployment rates continued to decline in most Member States in 2001 despite slower economic growth. The Commission expects a slight rise in unemployment in the EU as a whole in 2002, even as the recovery proceeds, due to the lagged nature of employment adjustment to cyclical upturns. A decline to 7.5% is forecast for 2003.

Slower economic growth had a marked impact on external trade developments in 2001. The value of merchandise exports rose by 4% in 2001, compared with 23% in 2000, while imports were 1% lower in value. Merchandise exports were estimated at € 1,051 billion and imports at € 1,020 billion in 2001, reducing the EU's merchandise trade deficit to € 45 billion in 2001, from € 91 billion in 2000.

### Policy Developments

The strategic goal for the EU for 2010, set by the Lisbon European Council, is "to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable growth with more and better jobs and greater social cohesion". The 2002 Broad Economic Policy Guidelines (BEPG) for the EU and the Member States emphasize safeguarding macroeconomic stability by fulfilling pledges for budgetary balance made in the Stability and Growth Pact (SGP), and continued moderation in wage demands. Other objectives include raising productivity through product market reform, fostering entrepreneurship and the knowledge-based economy, and financial market integration. Member States are to reduce labour costs, strengthen incentives for people to take up work and participate in the labour force, and remove barriers to labour mobility. Sustainable development is to be promoted.

The 11 Member States that launched the euro area on 1 January 1999 were joined by Greece on 1 January 2001. Euro banknotes and coins were put into circulation on 1 January 2002, to be used in all transactions. The single currency facilitates cross-country price comparisons, and thus strengthens the Internal Market. Non-EU countries also benefit through lower costs for international trade transactions. The main benefit of Economic and Monetary Union (EMU), however, is the lasting contribution of price stability to the foundations for sustained economic activity.

The ECB conducts monetary policy for the euro area with the core objective of price stability. After progressively tightening monetary policy throughout 2000 in the face of persistent inflationary pressures, the ECB shifted to a more accommodating stance in May 2001 as price pressures eased. After the euro fell below a level that the ECB considered posed a risk to price stability, the ECB intervened to support the euro in September 2000 in a concerted G-7 action, and on its own in November 2000. The euro has since recovered to about US\$0.90, 25% below its level of 1 January 1999.

Following the progress made in 2000 by all Member States, towards the goal of budgetary balance or surplus, slippage occurred in 2001 due to the onset of slower economic growth. Most governments still in deficit position anticipated even greater difficulty in meeting their deficit targets in 2002. To maintain the credibility of the SGP, activation of the early warning system was considered for certain Member States whose deficits were forecast to be close to the 3% "excessive deficit" level, but activation was set aside following pledges to meet agreed balanced budget targets by 2004. Pressures on deficits should ease in 2003 as a result of the anticipated recovery. Other public finance concerns are the relatively high levels of government debt in certain Member States, as well as the substantial pressure of ageing populations on social welfare systems.

Under EMU, structural reforms have assumed a greater importance in fostering the conditions for growth, due to the combination of a strict anti-inflationary monetary policy stance and fiscal policy constraints under the SGP. Since the last Review of the EU in mid 2000, good progress has been made on achieving the goal of fully integrated securities markets by 2003 and financial markets by 2005 under the Financial Services Action Plan (FSAP), and on fostering the “information society” through more competitive markets for telecommunications services and a new framework for e-commerce.

Progress in other areas of the Internal Market has been slower. Political agreement was reached at the Barcelona European Council in March 2002 to open non-household use of electricity and gas to competition as of 2004, and to ensure cross-border electricity interconnectivity of at least 10% of production capacity by 2005. On postal services, the scope of business segments reserved to the incumbent postal operator is to be reduced in 2003 and again in 2006, and a decisive step to full liberalization could take place in 2009.

### Institutional Developments

The Treaty of Nice was agreed in December 2000, to prepare EU institutions for enlargement in the light of the objective of the candidates’ participation in the 2004 elections to the European Parliament. Of particular significance to the WTO is the exclusive Community competence that would apply to negotiations of agreements that concern services (with certain exceptions), and the commercial aspects of intellectual property rights upon ratification by all Member States of the Treaty of Nice (ten had done so by May 2002). To prepare for the next phase of work on the EU treaties in 2004, the Convention on the future of Europe, launched in March 2002, is engaged in a deeper and wider debate about the future of the European Union.

Transparency in the functioning of the EU has been further enhanced during the period under review by a new policy adopted in 2001 to give all persons, regardless of their nationality, access to documents of Community institutions, subject to limits for the protection of public and private interests. The Commission has made increasing use of public consultations to provide input into proposals for Community action, in keeping with the White Paper on European Governance.

### External Trade Relations

The overall objectives of the EU’s trade policies have remained largely the same during the period under review. The EU continues to pursue trade liberalization through multilateral, regional, and bilateral initiatives. At the multilateral level, the EU played a leading role in building support for the launch of the DDA in November 2001. At the regional level, new trade agreements were concluded and existing agreements with candidate countries were deepened. Bilateral negotiations on prospective extra-regional agreements also continued. In addition, a new scheme for the grant of preferences to developing countries was adopted, including enhanced preferences for least-developed countries.

Notable actions undertaken by the EU to build support for the launch of the DDA include: the “Everything-but-arms” (EBA) initiative, adopted in March 2001, to expand market access for least-developed countries (LDCs); supporting the resolution of implementation-related concerns; and providing resources for enhanced levels of trade-related technical assistance, for which the EU and Member States are major donors.

In addition, the EU continues to be an active participant in all the regular activities of the WTO and periodically notifies its trade policy developments to the WTO. The EU is among the leading users of the dispute settlement procedures to enforce the multilateral trade obligations of its trading



partners, and is frequently involved as a respondent. Disputes with the United States continue to be the leading category.

### Preferential trade agreements and arrangements

The EU grants preferential access to most of its trading partners for some or all imports: in 2002, nine WTO Members are subject to exclusively MFN treatment in all product categories: Australia; Canada; Chinese Taipei; Hong Kong, China; Japan; Republic of Korea; New Zealand; Singapore; and the United States. These countries accounted for 45.2% of EU's total merchandise imports in 2001. For other trading partners, the most beneficial treatment is granted to LDCs and the Overseas Countries and Territories (OCT), followed by the ACP and countries having concluded free-trade agreements with the EU, and then GSP-only countries.

The EU expanded its free-trade agreement with Switzerland through the completion of seven bilateral agreements, on land-based transport, air transport, free movement of people, agriculture, research, procurement, and technical barriers to trade, which should enter into force in 2002. With the ten candidates from Central and Eastern Europe (CEEC), protocols on reciprocal tariff concessions on agricultural products raised the share of CEEC duty-free agricultural exports to the EU to 75%, and the share of EU duty-free exports of agricultural products to the CEEC to 61%. Free-trade agreements are also being used as an instrument to integrate the Western Balkans. Stabilisation and Association (SAA) agreements were concluded with the Former Yugoslav Republic of Macedonia (FYROM) and Croatia. Albania and certain countries and territories of the former Yugoslavia — Bosnia-Herzegovina, the Federal Republic of Yugoslavia, including Kosovo — remain under the regime of Autonomous Trade Measures (ATM), which runs until the end of 2005. Further progress was also made on the "Euro-Med" agreements to replace non-reciprocal agreements, and advance the goal of a Euro-Med free-trade area by 2010.

A new Council Decision on the OCT association arrangements was adopted in November 2001 to continue the regime without major modification until the end of 2011. A revised GSP scheme applies for 2002-04, with GSP-plus treatment available to LDCs under the EBA, as well as to countries that combat drug production and trafficking, and to encourage adherence to core labour standards or to environmental standards.

### Trade Policy Measures

The EU market for non-agricultural products (except for textiles and clothing products) continues to be largely open. In addition to tariffs, imported products are subject to value-added tax (VAT) and excise duties in the Member State of destination. The EU has bound 100% of its tariff lines in the WTO, and tariffs applied on products are closely aligned to bound levels.

The overall simple average MFN tariff is estimated at 6.4% for 2002. The simple average applied tariff on non-agricultural products is 4.1%, slightly lower than at the time of the previous Review in mid 2000, due to tariff reductions for certain chemicals, textiles, iron and steel products, and toys. The simple average tariff on agricultural products is, at 16.1%, about four times higher than that on non-agricultural products, with above average tariffs on products subject to the Common Agricultural Policy (CAP). Evidence of tariff escalation remains, in particular on processed products.

Tariffs well above the average also apply to textiles and clothing products. The EU has long maintained restrictions on imports of textile and clothing products from a number of developing countries and transition economies. Following its WTO commitments, the EU integrated a further 18.08% of textiles and clothing products on 1 January 2002, bringing to 51.39% the imports integrated into GATT 1994 since 1995. It involved the lifting of restrictions on 11 product



categories, accounting for 15% of products restricted in 1990. To date, the EU has lifted restrictions on 20% of products restricted in 1990, leaving the elimination of the remaining 80% of restricted imports “back-loaded” for the final stage at the end of 2004.

As of 1 January 2002, the EU had in place definitive anti-dumping measures (duties and/or undertakings) on 175 product categories, down from 192 in 1999. The EU is the second most frequent user of these measures, behind the United States, but some 40% of the anti-dumping investigations initiated by the EU are terminated without measures being taken. Products imported from China are the most frequently affected. The EU also had 16 definitive countervailing measures in place, up from 6 in 1999, with products from India the most frequently affected.

Safeguard action was taken in March 2002 on 15 steel products in response to the United States’ safeguard action on steel imports. Supplementary duties are to be triggered by volumes rising above 2001 levels to prevent diversion of trade from the U.S. market onto the EU market. The Commission also proposed the Council agree additional duties of between 8% and 100% on imported products from the United States as “re-balancing” measures, given the failure of the two parties to agree compensation for the Article XIX measure on steel imposed by the United States. The EU continues to make frequent use of the special safeguard (SSG) mechanism under the WTO Agreement on Agriculture to impose “snap-back” tariffs.

During the period since the last Review in mid 2000, the EU and the Member States have put in place new regulations for certain products — notably in relation to the safety of products and the disposal of waste — requiring economic operators, including those outside the EU, to adapt. Although international standards may be used as the basis for regulations, to facilitate trade, the Commission has stated that “standards cannot replace governmental responsibility to safeguard a high level of protection concerning health, safety and the environment”. Certain trading partners of the EU perceive these new product regulations as significant trade barriers, and are concerned with preserving the viability of the international standard-setting process. Another concern is ensuring that the multilateral processes for consultation on proposed regulations are effective. While proposed regulations are subject to WTO notification requirements to allow concerned Members to comment, participation in the consultations phase, before the Commission issues the proposal, is also desirable should resources permit.

To build consumer confidence in food safety after a number of food scares on the Community market, the EU adopted a new framework for national food law and food safety procedures. Scientific evidence is to underpin food safety policy, with the precautionary principle to be used where appropriate. A new European Food Safety Authority (EFSA) was also established to provide scientific advice to the Commission on food policy matters, as well as to Member States should they so request. A number of Member States have established authorities with mandates at national level to ensure independent scientific advice. New regulatory requirements have also been put into place with respect to labelling of food products of all origins to ensure traceability. One area of reported controversy concerns the placement on the EU market of genetically modified organisms (GMOs) and products that may contain GMOs or GMO derivatives. Although the new legislative framework for authorizations is tighter in a number of respects, certain Member States remain opposed to placement on the market without comprehensive labelling requirements on traceability, currently under consideration. Another area of controversy concerns the ban on the use of hormones as growth promoters, on which the Commission has conducted a risk assessment in recent years. Amendments to the legislation are under consideration to ensure compliance with WTO rulings.

A key objective of the EU is to manage waste more effectively, as a result of which new requirements on producers have been imposed or are under consideration. The EU directive on end-of-life vehicles and the proposed directive on waste electronic and electrical equipment (WEEE) depart from the previous practice of delegating waste management to public authorities by introducing "producer responsibility" for the treatment, recovery, and disposal of products. This is intended as a financial incentive for producers to design their products to facilitate waste management, particularly recycling. Other requirements could also result from the Integrated Product Policy currently under elaboration.

The burden of conformity assessment procedures is reduced for certain non-EU third countries through Mutual Recognition Agreements (MRAs). New MRAs were recently concluded with Japan and Switzerland, and are already in force with Australia, Canada, Israel, New Zealand, and the United States. A similar outcome is secured for the CEEC under concluded Protocols to the Europe Agreements on Conformity Assessment and Acceptance of Industrial Products (PECAs). Although a number of developing countries would also benefit from a reduced burden of conformity assessment as a result of MRAs, the EU has established its own criteria for such agreements to be concluded.

### Measures Affecting Production and Trade

The EU has continued to pursue the objective of a more integrated environment for company activity in the EU, currently segmented into 15 Member State regimes, although harmonized in a number of respects under Community law. The long-standing proposal for a European company was adopted in October 2001, to be in place by 2004, and will simplify company law requirements for enterprises established in at least two Member States. Foreign companies will also have this option, under certain conditions. The Commission plans to propose the consolidation of the tax base for European companies to facilitate their operation. Another significant proposal concerns the use of International Accounting Standards (IAS) by 2005, which will enhance the transparency and comparability of financial statements, currently subject to national reporting standards.

### Competition policy

The Commission has continued to vigorously enforce the rules on antitrust activities and mergers with a Community dimension, to complement national competition law enforcement. To focus its efforts on fighting cartels and other serious infringements of antitrust rules, the Commission has proposed a major simplification of the notification requirements for individual agreements. In 2001, a record number of cartel cases were closed, with fines reaching € 1.8 billion.

Merger activity continued to be high. For mergers of a transnational character, the Commission has cooperated actively with the competition policy authorities of EEA members and, on the basis of bilateral agreements, with those in Canada, the United States, and the CEEC, to promote convergence of decisions and remedies; an agreement with Japan is also expected. To promote convergence on a wider basis, the Commission played a leading role in the launch of the "International Competition Network (ICN)" in late 2001. The EU has long been an advocate of a multilateral agreement on competition.

A development of major significance to consumers in the EU, where car price differentials remain high, is the Commission's proposed new draft block-exemption regulation for motor-vehicle distribution and servicing agreements between carmakers and dealers, to enter into force on 1 October 2002. Foreign carmakers that have not established a distribution system in the EU will also benefit, as most restrictions on multi-brand sales are to be lifted.

## Subsidies

At EU level, funding for the CAP continues to represent the single largest expenditure; 44% of the total budget of € 93 billion in 2000. Structural operations account for 35% of the budget, with research and technological development a distant third.

At Member State level, latest available figures show that State aid was € 80 billion in 1999, amounting to 1% of the EU's GNP. Member States have pledged to reduce levels of state aid by 2003, and to shift the emphasis of subsidies from supporting individual companies or sectors towards tackling horizontal objectives of Community interest, such as employment, regional development, environment and training or research. More generally, Member States are encouraged to increase public and private investment in R&D to promote a knowledge-based European economy.

The Commission has played a supportive role in efforts to advance domestic reform by vigorously enforcing rules on state aid to individual enterprises, in particular for non-notified aid. In July 2001, the Commission launched a large-scale state aid investigation into business taxation schemes, which are said to be less transparent than other forms of assistance, and raise the potential for harmful tax competition.

Also significant is the Commission's decision to firmly abide by state aid rules on airline carriers in the aftermath of the events of 11 September, with the exception of assistance for supplementary insurance. To ensure a more level playing field with non-EU carriers and fill a void in the GATS Agreement, the Commission proposed a new instrument to react against unfair competition from subsidized third-country airlines.

In certain sectors, the Commission has faced greater difficulty. Aid to shipbuilding was to be discontinued but its prolongation has been proposed on a "defensive" basis to pursue a WTO dispute settlement proceeding. Aid to the coal mining industry will continue until 2010. Although most EU mines cannot compete with imported coal, the industry that remains in four Member States has long been assisted on social and regional grounds.

## Intellectual property rights

To strengthen intellectual property rights protection, the EU adopted harmonizing directives on resale rights for the author of an original work of art, and copyright and related rights for the digital environment. A new unitary right on a Community design was created, in addition to the Community trade mark and Community plant variety. No agreement has been reached on the Commission's proposal to create a unitary Community patent (including a centralized court for its enforcement), due to issues of translation as well as jurisdiction. Also outstanding is the proposal to harmonize legislation for patents on software (computer-implemented inventions).

On enforcement, customs authorities reported an increase of one third in seizures from 1999 to 2000 under legislation implementing the TRIPS Agreement at the border. The trend continued in 2001 with a further increase of 27% in the number of cases. The Commission has attributed the rising trend to (a) an increased focus of customs authorities, better targeting and sharing of information; and (b) an increase in and expanded range of counterfeit and pirated goods that are traded. In 2002, the Commission intends to propose a harmonizing directive on enforcement of IPRs, which is said to be stricter than the minimum standards required by the TRIPS Agreement.

## Developments in Selected Sectors

### Agriculture

Since its last Review in mid 2000, the EU has implemented the Agenda 2000 reforms to the CAP agreed in Berlin in March 1999; the opportunity to reform the milk quota or sugar quota regimes was not seized, with extensions adopted instead. Pressures to adapt the CAP to new requirements are arising from enlargement, where the Commission has proposed a progressive introduction of direct payments. Other pressures to adapt the CAP are arising in the context of the ongoing WTO negotiations on agriculture, where the EU has submitted a proposal. Also of potential significance is the decline in consumer confidence in the CAP due to a number of food safety crises, which the Community is addressing, notably by a new framework for food safety law, as noted above. According to the latest publicly available OECD figures, support to producers declined to € 97.9 billion in 2000 from € 107.6 billion in 1999, mainly due to world market prices rising faster than domestic prices, as well as currency movements, rather than significant changes in policy.

### Fisheries

Since its last Review in mid-2000, the EU has been moving towards consideration of possible revisions to the Common Fisheries Policy (CFP), to apply as from 2003, although no concrete proposals had been made as of 1 May 2002. Negotiations on subsidies to fisheries are on the DDA.

The Commission's Green Paper issued in 2001 on the operation of the CFP to date notes the difficulty of reconciling objectives in the sector — supporting fishing activity in regions and areas of the Community where it is of social and economic importance, while attempting to protect increasingly fragile fishery resources. A number of measures were taken by the Community in 2000 and 2001 to address fishery conservation concerns, including lower catches for 2002 to prevent further deterioration of certain stocks. Reaching political agreement on a new fleet management policy has been more difficult, although Commission estimates point to significant excess capacity as one of the causes of resource depletion.

### Financial services

Completion of the FSAP occupies a central role in the Lisbon strategy to lower costs of capital and foster a more entrepreneurial culture. Financial market integration is among the key potential benefits of the euro. Between 2000 and March 2002, the EU adopted 15 legislative measures, including to complete the regulatory frameworks for the banking and insurance sectors through provisions on reorganization and bankruptcy, money laundering, and reducing the cost of cross-border payments in euros. A new "Lamfalussy" approach to securities-market legislation was agreed with the Council and European Parliament to focus legislation on core principles and delegate implementing powers to the European Securities Committee (ESC), chaired by the Commission, and advised by a Committee of European Securities Regulators (CESR). A large number of legislative proposals are under consideration for adoption. The Barcelona European Council agreed in March 2002 that priority attention should be given in 2002 by the Council and the European Parliament to adoption of the proposed Directives on collateral, market abuse, insurance intermediaries, the distance marketing of financial services, financial conglomerates, prospectuses, occupational pension funds, and the IAS Regulation. The Commission also intends to issue a revised proposal for a Takeover Bids Directive (rejected by the European Parliament in mid 2001).

### Telecommunications and information society

Fostering the "information society" is a central plank of the Lisbon strategy. Under the eEurope Action Plan, the local loop unbundling (LLU) regulation was in place as from January 2001, a revised legislative package for electronic communications was adopted in February 2002, to be

transposed by May 2003, and the legislative framework for e-commerce was substantially advanced to build trust and confidence in the Internet.

For the future, the Commission sees substantial benefits for the European economy from extensive use by consumers of high-speed Internet connections and wireless 3G technologies. Although the EU is among the world leaders in mobile communications, household use of the Internet lags that of other OECD countries, although business use is comparable. A new eEurope Action Plan for 2005 is to be adopted at the Sevilla European Council in June 2002.

As from January 2000, all Member States were required to have initiated the process of LLU to foster infrastructure-based competition on the local access network and thereby accelerate the supply of broadband connections. Incumbent telecom operators were required to provide competitors with physical access to local loops, but progress is conceded to have been slow. The new electronic communications package contains changes intended to bring about more competitive licensing conditions and fee structures orientated to cover administrative costs. In addition, a progressive alignment with competition policy is to be achieved in market segments where effective competition has been achieved.

A proposed privacy directive is under consideration. It would require providers of public telecommunication services and networks to guarantee the security of their networks, to ensure the confidentiality of communications and to delete traffic data. Under current legislation, transfers of personal data to a non-EU third country are only permitted when "adequate" protection is determined, or under limited conditions. The Commission has progressively extended the scope for such transfers by recognizing the adequacy of the data protection regimes of Hungarian, Swiss, and U.S. companies participating in the "safe harbour" arrangement, and certain data transfers to Canada.

The e-Commerce Directive, which entered into force on 17 January 2002, establishes that contracts concluded by electronic means are recognized as such, and legal barriers to their conclusion are removed, complementing the e-signatures Directive. In addition, a new regulation on jurisdiction and the enforcement of judgments in civil and commercial matters gives EU consumers the right to sue foreign Internet providers of goods and services in the consumers' local court rather than in the foreign jurisdiction.

In February 2002, the EU adopted a new policy on the value-added taxation of electronic deliveries of information society services (e.g., software, music, video) to consumers in the EU from service providers established outside the EU, which are currently not assessed VAT.

**TRADE POLICY REVIEW BODY  
EUROPEAN UNION  
Report by the Government — Part IV**

## **The EU's trade policy at global level**

### **The EU and the WTO**

#### **Strengthening and promoting the multilateral system**

An open and strong **multilateral trading system** is the best guarantee against the threat of unilateralism and constitutes one of the key tools to manage the process of globalisation. The EU will continue to work to reinforce the WTO, enlarging and improving its system and promoting a more active participation of all its Members, including in the negotiations now underway. The EU has continued and will do so in the future to work assiduously for the earliest possible **accession** on commercially viable terms of all candidates having applied to join the WTO, in particular LDCs. In this respect, the EU very much welcomes the Peoples' Republic of China and Chinese Taipei accession to the WTO during the period covered by this review, after 15 years of long and arduous negotiation. Their accessions constitute a big step towards making the WTO a truly global organisation.

The EU attaches the greatest importance to the correct and timely **implementation of the agreements** to which all WTO members have subscribed as an essential element for a well-functioning multilateral trading system. In this context, the EU welcomes the fact that during the period under review, both before and at Doha, many concerns related to implementation could be resolved, and that agreement was reached on a framework to address the outstanding issues. The EU continues to actively participate in implementation-related discussions, including those related to special and differential treatment, with a view to settling all outstanding issues to the satisfaction of all WTO members, and remains open to considering proposals to readjust agreements as part of the single undertaking.

During the period of this review, the EU has participated actively in the various phases of the WTO negotiations on agriculture and services since the launch of the **built-in-agenda** negotiations in January 2000. In that respect, the EU and other Members have submitted several papers on **agriculture**, including a comprehensive negotiating proposal. Other technical papers submitted cover such issues as export competition and non-trade concerns (labelling and food safety). The EU position, based on Article 20 of the Agreement on Agriculture (AoA), takes into account the need to aim at a balance between trade concerns (market access, export competition, domestic support) and non-trade concerns (the protection of the environment, the sustained vitality of rural communities, food safety and other consumer concerns including animal welfare), which reflect important societal goals. Moreover, the EU considers that further liberalisation and expansion of trade for agricultural products are an important contribution to sustained and continued economic growth, in both developed and developing countries.

On the **services** side, during the period covered by this review the EU played an active part in the work of the Council for Trade in Service, the Special Sessions and their respective subsidiary bodies. The EU has tabled proposals not only on its overall approach to the services negotiations but also for most of the sectors covered by the GATS.

As regards intellectual property rights, the EU has continued to participate in the **TRIPs** built-in agenda and acted as a facilitator in the discussions on TRIPs and health when preparing for the new round. Following the successful decision on TRIPs and Health taken at Doha, the EU is now developing ideas to improve access to medicines for countries without domestic production. The EU continues to be an active user of the **WTO dispute settlement mechanism**. Since the date of the previous report, the EU has requested consultations with other WTO Members on seven occasions. Those procedures are still ongoing.

As a **complainant**, and also as a third party, the EU has been especially active in the field of trade defence (Anti-dumping, Countervailing duties and Safeguards). The dispute settlement activity in this area has significantly contributed to the clarification of key provisions of the relevant agreements. In this regard, the EU would highlight the systemic importance of the case against the 1916 US Anti-dumping Act (DS136), which concerned the use of instruments other than duties against dumping of exports, and the cases on safeguard measures, such as "US-Wheat Gluten" (DS166). The interest of the EU in preventing the misuse of trade defence instruments is broadly shared among WTO Members. The complaint against the US Continued Dumping and Subsidy Offset Act (DS217), which has been brought by 11 co-complainants, best exemplifies this general concern within the WTO Membership. Other important areas where the EU has brought dispute settlement cases are intellectual property and subsidies. In the latter field, the landmark "FSC" case (DS108) on the use of tax breaks as export subsidies provided further evidence of the need to address the sequencing of Articles 21.5 and 22.6 DSU.

Regarding the cases in which the EU was the **defendant**, the EU would like to underscore the results of the "asbestos" case (DS135), which reaffirmed that health protection can be set as an overriding goal of public policy. The EU would also highlight its efforts to achieve mutually satisfactory settlements to trade disputes, which have notably led to a solution that puts an end to the longstanding "banana" dispute (DS27). The EU remains fully committed to the successful resolution of the other cases where the EU is the defendant.

A key EU priority continues to be the full **integration of developing countries**, in particular the least developed countries (LDCs), in the multilateral trading system and the global economy, so as to help them benefit from the opportunities for growth and development. The EU was therefore one of the main proponents of the development-centred round of new negotiations launched in Doha, and in addition to this has taken action autonomously to help developing countries in their efforts to integrate. In particular, the EU adopted in February 2001 the Everything But Arms (EBA) initiative, which grants duty-free and quota-free access for all LDC exports to the EU. The EBA has already taken effect, with only three products — rice, sugar and bananas — subject to a transition to duty -free and quota-free access. The EU welcomes the subsequent commitment by other developed countries to enact similar initiatives in favour of LDCs.

Experience has shown that many countries have difficulties in making use of the trade opportunities offered, and improved market access therefore must be complemented by capacity building measures. The EU supports **trade related assistance and capacity building** in its bilateral programmes and as part of its participation in multilateral co-operation. As regards bilateral programmes, the EU redefined its development policy priorities in 2000, identifying trade as a development priority, and has since then begun to mainstream trade actions in all bilateral and regional programmes, including support for WTO negotiations, rule-making and supply side. At the multilateral level, the EU was the primary contributor to the WTO Doha Development Agenda **Global Trust Fund**, with the European Community and Member States together contributing more than 60% of total pledges made in March 2002. The EU believes that the needs for trade related assistance go beyond the competence of the WTO Secretariat as such and requires increased



efforts and closer co-operation among international organisations, in particular the Bretton Woods institutions, UNCTAD, UNDP and ITC, including in the Integrated Framework for Trade-related Technical Assistance for LDCs and other similar mechanisms.

The access of EU goods and services to markets around the world for the benefit of consumers and business world-wide remains a primary objective for the EU. The EU's **market access strategy** focuses on the elimination of important market access barriers, by using to the full the various multilateral and bilateral instruments and opportunities at its disposal: the WTO dispute settlement procedure, consultation and bilateral agreements with WTO members and others, and the new negotiating round. A new version of the market access database, the operational tool of the strategy, was released on the internet during the period of this review.

The EU retains the option to use, where necessary and appropriate, relevant **trade defence** instruments, in the form of anti-dumping and anti-subsidy measures, to counter unfair injurious trading practices from third countries. Given the importance of its trade flows, the EU is an overall moderate user of such instruments. In its actions, the EU takes care of the concerns of developing countries. It is noteworthy that although EU legislation provides for the possibility to apply safeguard measures, the EU has made very limited use of this instrument since the entry into force of the WTO agreements. Indeed, the EU has only imposed one such measure since 1992. The exceptional measure on imports of steel was taken in 2002 in full conformance with the safeguards agreement. It followed the own US safeguard measures which effectively closed the US steel market. On the contrary, the EU's safeguard measures took the form of generous TRQs, which preserved traditional levels of imports on its market. The EU attaches the greatest importance to all WTO members adhering to effective WTO disciplines in the area of trade defence.

### Preparing and launching a broad and balanced round

Drawing from the lessons of the Seattle Conference, which failed to launch a new round of multilateral trade negotiations, the EU like others adapted its approach to the new round, in particular by recognising that the WTO needed to work in a more inclusive and transparent way vis-à-vis all Members, and improve communication with the outside world. On the substance of the lessons drawn from Seattle, the EU took into account other Members' opinions — especially developing countries — and continued bridge building efforts with trading partners in order to overcome differences. This modified approach was set out in the **EC strategy paper of December 2000** which was generally well-received as a sign of flexibility and creativity. The EU thereafter continued efforts to launch an ambitious round, recognising that only a broad agenda could both reconcile different Members' views and take account of all Member' essential interests. Supported by the EU's extensive consensus building efforts with other WTO Members, in particular developing countries and LDCs, the modified strategy was certainly one element in securing support for the successful launch of a new round of trade negotiations at the 4<sup>th</sup> Ministerial Conference at Doha in November 2001.

The DDA, encompassing both market access and rule making, and driven by a strong development objective, offers a major opportunity to promote global economic growth and sustainable development, and to further strengthen the rules-based multilateral trading system.

The fundamental reasons for a broad round that pertained before Seattle have remained valid in the preparatory period before Doha and beyond. First, as regards **further trade liberalisation**, both developed and developing countries seek improved market access for their products and services, in order to increase international economic growth, to fully participate in the global economy and to restore business confidence at a critical juncture of the world economy. Agriculture, services and non-agricultural tariffs are all therefore key areas for improving market access.

On **agriculture**, the EU was already committed to negotiations under the built-in agenda and recognised that in a new round many participants expected to go beyond Article 20 of the Agreement on Agriculture in terms of the level of ambition. The EU continuously showed its readiness to play its part in these negotiations by setting the pace and gradient of further reform, including a deadline for the conclusion of the negotiations. The EU aimed at Doha to ensure that the outcome would balance its interests in its capacity as a major exporter and importer of agricultural products, while taking account of the non-trade dimension of agricultural policy. The Doha Ministerial brought a satisfactory outcome on agriculture, in confirming the commitment to negotiate on market access, domestic support and all forms of export subsidies, without prejudice to the final outcome, and clearly acknowledging the multifunctional nature of this sector and the need to take fully into account the interest of developing countries.

As far as **services** are concerned, the EU's objective was to make progress in the ongoing GATS 2000 negotiations on liberalisation of international trade in services. Apart from reaching improved market access world-wide for its services exports, the EU encourages an increased participation by developing countries in the negotiations. The EU therefore welcomes the agreement reached in Doha on the dates for the submission of requests and initial offers which are important elements to ensure progress in the negotiations, and hopes to see through the negotiations an increase in the number and quality of market access and national treatment commitments across services sectors and modes of supply, as well as further development of regulatory disciplines. Developing countries in particular are likely to benefit significantly from further liberalisation of services sectors which continue to grow in importance. Liberalisation of the service sector however needs to be accompanied by an appropriate institutional and regulatory framework to ensure competition, to allow governments to pursue non-economic objectives, and to ensure continued access to essential services for the poor. Implementing appropriate institutional and regulatory safeguards is particularly a challenge for many developing countries, which is why the EC and its Member States are putting such emphasis on trade related technical assistance and capacity building (TRTA/CB).

In respect of **non agricultural market access**, the EU in the period under review continued to favour an ambitious mandate that includes the elimination of barriers with a comprehensive product coverage without any a priori exclusions. The EU was therefore pleased that at Doha agreement was reached on a mandate that is more ambitious than those of previous rounds, and more specific in that Members have agreed to reduce or as appropriate eliminate tariff peaks, high tariffs and tariff escalation. As with other elements of the Doha Agenda, negotiations on market access for non-agricultural goods are likely to have more fruitful results if placed within the wider framework of the DDA negotiations aimed at achieving a more transparent and predictable multilateral system of rules.

Regarding **WTO Rules**, the EU's view during the period under review continued to be that the scope of WTO rule making needed to be broadened if the multilateral system were to respond to the effects of globalisation, and if traders and investors world-wide were to enjoy a predictable, transparent and non-discriminatory framework in which to make economic decisions and to compete. Decisions to negotiate multilateral agreements on investment, competition, trade facilitation and public procurement as well as a clarification of the interaction of important trade and environmental issues therefore continued to constitute a key element of the EU agenda for the round. From an EU point of view it has continued to be equally important to seek improvements to existing rules in such areas such as trade defence or technical barriers to trade, and regional trade agreements, in order again to improve transparency and predictability for traders, investors, consumers and governments.

As part of its revised strategy for the new trade Round, the EU in the period under review consciously decided to adjust its negotiating objectives in several key rulemaking areas, to take account of the opinions of other WTO Members. On **investment**, the EU sought simply to put manufacturing investment on the same footing that services FDI already enjoyed in the GATS — an approach with several years of history and with which WTO Members were by then familiar. The EU strongly welcomes therefore the objective set at Doha to establish a multilateral framework aimed at improving the conditions for Foreign Direct Investment world-wide. The result is of high importance for the EU in its capacity as one of the main sources for FDI around the world, but indeed constitutes a golden opportunity for all WTO members to develop a balanced framework of rules that will ensure a level playing field with more stable and predictable investment conditions world-wide and be conducive to sustainable development.

On **competition**, the EU in its revised strategy suggested some basic rules that would help all Members to strengthen their ability to deal with anti-competitive practices. The decision at Doha to work towards a multilateral framework on competition policies, following the current preparatory phase, will contribute towards the more effective application of domestic competition regimes and be of benefit for consumers and EU business operating abroad around the world.. The elements for such a framework agreed at Doha correspond to those proposed by the EU, and reflect a realistic and progressive approach towards the development of competition disciplines at multilateral level, including the need to respond to the particular interests and concerns of developing countries. It was equally important to the EU to seek a WTO agreement on **trade facilitation** aiming at streamlining customs procedures, cutting costs and red tape, which continues to be a major constraint on developing countries' export performance. Such an agreement would imply significant savings by helping governments to improve efficiency of controls and, ultimately, higher revenue intakes. The Doha mandate on trade facilitation reflects the objective shared by many Members of simplifying customs and related trade procedures, including transit measures to boost trade between developing countries in particular. The mandate also reflects the development objectives of trade facilitation, including the notion that assistance to build capacity should be an integral part of the work and be approached in a systematic manner.

Regarding government procurement, the EU had in the period of this review argued in favour of negotiating a set of rules on transparency, as a means to reduce the trade-distorting effect that different procurement practices may have. The EU welcomes the fact that the WTO at Doha recognised the important contribution that procurement makes to the economy and its effect on trade, and launched negotiations. Multilateral rules on **transparency in government procurement** although not requiring the opening up of procurement to WTO Members, will increase knowledge of procurement methods and promote contract opportunities while maintaining existing preferences to domestic suppliers.

On **environment**, an issue of importance for trade predictability but also a domestic sensitive issue for the EU, it was made clear that the EU's agenda was a finite one —the objective was not to change WTO disciplines but to clarify or confirm the existing rules especially as interpreted by recent panels. The EU sought for a mandate on environment that was specific, that the outcome should be clarification, and that it should be non-discriminatory and non-protectionist. The agreement in Doha to begin a negotiation to better frame the interaction between the WTO and environmental issues is thus a significant step for the trading system, and reflects the EU's and other members' calls for increased action in the WTO in favour of sustainable development. Regarding **trade defence rules**, the EU in the period under review was receptive to the proposal for a balanced negotiation on WTO rules to take place that will meet the demands of developing countries and allow them to search for improvements to the existing WTO Agreements without calling into question their basic principles. These objectives have been met in the Doha mandate.

As regards **regional trade agreements**, the EU objective to start negotiations for clear and quite strict rules defining the conditions to be met, for FTAs and regional agreements to be WTO-compatible, was also satisfactorily agreed.

The EU approached Doha with several objectives regarding the **TRIPS agreement**, all of which have been met. The Doha declaration contains a clear provision that negotiations on multilateral register will have to be completed by the 5th WTO Ministerial Conference and refers also to the TRIPs mandate for negotiations on extension of the coverage of geographical indications for the benefit of business and consumers around the world. It also stipulates that the issue of TRIPS/CBD relationship and protection of traditional knowledge be examined and that appropriate action should be taken, reflecting the EU's commitment to take account of developing countries interests in this area.

In addition to helping to launch negotiations on TRIPS within the Doha agenda, the EU also played a crucial bridge-builder role in the adoption of a Declaration on **TRIPs and public health**, that reflects the EU's conviction according to which the TRIPs Agreement can and should be interpreted and implemented in a manner supportive of WTO Members' right to protect public health. This Declaration, which is in line with the position adopted by the EU, is a major achievement, which succeeds both in safeguarding the TRIPs Agreement while recognising the importance of Members being able to pursue their legitimate public health goals.

The EU has played an active role in the **DSU review**. In accordance with the Doha Declaration, the DSU negotiations aim to agree on improvements and clarifications not later than May 2003. The EU has recently submitted a comprehensive contribution to the negotiation process that it hopes will help WTO Members to fulfil the Doha mandate.

In all its considerations regarding the future shape of the negotiating agenda the EU was at pains to ensure that the round included the **interests of developing countries**. This concerns in particular negotiations to improve market access in key sectors like agriculture and textiles, strengthening and tightening of trade defence rules, a review of the development aspects of the subsidies agreements, extension of TRIPS to cover products of importance to developing countries, an across the board review of special and differential treatment provisions, and substantial support to build capacity.

The EU has also remained committed in the past two years to develop a meaningful dialogue, involving in particular the ILO and the WTO, on questions relating to **trade, labour, and social development**. The Commission's communication 18 July 2001 on "Promoting Core Labour Standards and Improving Social Governance in the Context of Globalisation" addressed the issue in a comprehensive manner by suggesting a multi-disciplinary work programme. The EU is committed to help promote the effective application of core labour standards globally, while eschewing the use of trade sanctions to enforce them. Internationally, it recognises the key role of ILO and the need to strengthen ILO instruments for the effective application of core labour standards. All Member States but two have ratified all eight core ILO conventions. In addition, the joint forum between ILO and WTO — which since Seattle has emerged as the preferred way forward — remain a key element of the strategy. In this context, recent ILO developments — notably the creation of the World Commission on the Social Dimension of Globalisation — are very positive. The EU aimed at Doha for a statement reflecting Members's attachment to improving the WTO/ILO dialogue on social development questions. Although the Doha outcome on trade and social development is from an EU point of view too modest, it does still provides a basis to make

progress on the issue, and the EU will work to ensure that WTO does indeed contribute constructively to the ILO process.

Finally, improvements were registered during the period under review regarding **transparency** and the **participation of Civil Society**. Domestically, the EU intensified its efforts at policy dialogue and consultation with representatives of civil society, recognising that it is primarily at the domestic level — within the jurisdiction of each Member — that such consultation and arbitration between different social partners and interests must take place. Within the WTO, the EU consistently encouraged more frequent and structured dialogue with parliaments and civil society representatives, and was pleased that it was possible, both before and at Doha for Members to discuss issues in a constructive way with a civil society which is now playing a fuller role in WTO work than ever before and with no detrimental effect on the essentially — and rightly — intergovernmental nature of the WTO. Fewer in numbers and less prominent in Doha than in Seattle, civil society's influence was nonetheless more clear: the Doha outcome on TRIPs and health for example reflects a commendably prompt and operational WTO response, inter alia to a civil society campaign launched less than two years earlier. The EU will continue to seek improvements to the transparency and effectiveness of the organisation, including possible institutional improvements. In this respect, the Doha declaration, despite not being very specific, clearly provides a mandate for greater transparency, above all vis-à-vis the members of the organisation. In addition, on issues such as consultation and open meetings, the Secretariat will, with its greater autonomy, be able to launch more intensive dialogue with parliaments and civil society. Further thought needs however to be given to WTO reform in order to improve in particular the efficiency of decision-making. Finally, part of the efforts to improve the institutional working of the WTO relates to the ongoing review of the DSU, where the EU favours the introduction in the DSU of sufficient flexibility for parties to decide whether all or parts of the proceeding should be open to the public, as well as a better definition of the framework and conditions for the submission of *amicus curiae* briefs.

In sum, the **far-reaching results** of the Doha Conference reflect very well the EU's overall objectives for the next negotiating round: a fourfold agenda to further liberalise market access, update and improve WTO rules, promote a development agenda and address issues of public concern. The declarations are both faithful to the EU's negotiating mandate and reflect our broad political and economic objectives, the interest of business and civil society as well as the global economic interest, including the needs of developing countries. The emphasis on developing country needs and on sustainable development is particularly welcome.

As the **major systemic gain**, Doha potentially takes the WTO into a new era where its commitment to sustainable development — always central to its mandate — is now made more explicit and more operational. The result of this new round should over time significantly improve the contribution of the WTO to sustainable development and improve international economic governance, policy aims that find their parallel in the EU's own continued construction. Both multilaterally and within the EU, a balance between rule making and progressive liberalisation continue to represent the right policy mix to encourage sustainable development and the better management of economic change. The EU sees its immediate task now to carry out negotiations in a way that reflects the objectives of the Doha Development Agenda and the EU's own goals.

### Bilateral and regional trade relations

In addition to its support for the multilateral trading system the EU is engaged in developing trade relations with other trade partners in the world through a number of preferential trade regimes, free-trade areas and regional initiatives, and other bilateral relations. Many of these relationships reflect the global economic and trade reach of the EU — which remains the major trading partner

for many countries — or are the expression of broader geopolitical objectives. As a matter of trade policy however, the EU's active engagement in a range of regional trade initiatives reflects above all the view that in the right circumstances such relations can — and indeed must — contribute to and strengthen the multilateral system.

### Preferential trade regimes

The new **ACP-EU Partnership Agreement** signed on 23 June 2000 in Cotonou, and whose trade provisions took effect from 1 August 2000, provides for the negotiation of new WTO-compatible arrangements, which progressively remove barriers to trade and enhance co-operation in all trade-related areas, to be concluded and put into effect by the end of 2007. In the meantime, and in order to facilitate the transition, the non-reciprocal trade preferences applied under the 4th Lomé Convention have been maintained and are sanctioned by a waiver obtained at Doha. The Cotonou preferences include duty-free access for all industrial and a large part of agricultural and processed agricultural products as well as preferential tariffs for almost all the remaining agricultural products. The beef and veal and sugar protocols are also maintained during the preparatory period but will be reviewed in the context of the new trading arrangements.

The present regulation governing the EU scheme for Generalised trade preferences, **GSP**, entered into force in 1 January 2002 and will cover the period until the end of 2004. It is based on the guidelines the EU adopted for the period 1995 to 2004. The EU GSP now covers virtually all sectors and fully incorporates the new EBA initiative which was adopted in February 2001 and which grants duty free access to all products from LDCs. The tariff modulation has been simplified with the establishment of two categories of products/sensitivity. Procedures concerning graduation, withdrawal, safeguard and the special incentive arrangements have been harmonised and clarified. The preferential margins that were eroded as a result of progressive trade liberalisation have been restored by reducing ad valorem duties on sensitive products by a flat rate of 3,5 percentage points and specific duties by 30%. The special incentive arrangements have been made more attractive by further reducing ad valorem and specific duties by an additional 5 percentage points and 30% respectively. Finally, the GSP's role as a tool to foster sustainable development has been reinforced, predictability has been enhanced by requiring that graduation and exclusion only occur where the conditions are fulfilled during three consecutive years.

In order to strengthen the political stabilisation and economic development of the region, the EU introduced on 18 September 2000 (amended on 20 November 2000 and 18 December 2001) Autonomous Trade Measures (ATMs) in favour of the **countries of Western Balkans** to be applied until 31 December 2005. Based on a former rather liberal trade regime towards the Western Balkans, the ATMs abolish the remaining tariff ceilings for practically all industrial products with the exception of certain textile products and improve market access for agricultural and fishery products. ATMs are the forerunner to the conclusion of Stabilisation and Association Agreements (SAA), already concluded with the Former Yugoslav Republic of Macedonia (**FYROM**) and **Croatia**. Trade provisions of the EU-FYROM SAA entered into force on 1 June 2001, those of the EU-Croatia SAA on 1 January 2002 by means of an Interim Agreement. They aim at creating a free trade area on goods over a transitional period of ten years for FYROM and six years for Croatia and envisage a progressive and reciprocal liberalisation of trade in services. They also set out obligations in areas such as competition and state aid rules and intellectual and industrial property rights. The three other Western Balkan countries (Bosnia-Herzegovina, Albania and Federal Republic of Yugoslavia) which benefit from the ATMs are eligible for such Agreements as soon as they meet the relevant political and economic criteria.

Under the EC Treaty, since 1958, the **Overseas Countries and Territories** (OCTs) are linked to the Community under a specific Association, the purpose of which is to promote the economic and

social development of these dependent countries and territories, and to establish close economic relations between them and the Community as a whole. In November 2001, the "Overseas Association Decision" was amended to better contribute to these aims and to promote the effective integration of the OCTs in the global economy, as well as developing their trade in both goods and services vis-à-vis regional and world markets. Therefore, in addition to confirming the free access to the EU already provided for OCT goods, the decision seeks to step up liberalisation and co-operation in services and trade-related areas over a ten-year period ending on 31 December 2011.

### Free trade areas

The EU has been linked to all ten **Central and Eastern European countries** by Europe Agreements since 1999. As a result, industrial products are now in free circulation between the signatories and the EU since the beginning of 2001. Restrictions remain in only a few sectors, such as agriculture. The Europe Agreements also contain provisions regarding the free movement of services, payments and capital in respect of trade and investments, free movement of workers, and co-operation in the field of environment, transport and customs. Furthermore, they provide for legislative approximation with EU legislation, particularly in the areas relevant to the internal market, such as competition and protection to intellectual, industrial and commercial property. The Association Agreements with **Cyprus and Malta** cover similar fields. The EU has established a Customs Union with **Turkey** covering industrial products. Steel and coal products are in free circulation, whereas concessions have been exchanged by both parties in trade in agricultural products. Further negotiations started in 2000 to liberalise trade in services and public procurement.

The EU's bilateral trade relations with **Switzerland** are based on the existing agreements: the free-trade agreement of 1972. Since 1994 the EU and Switzerland have been involved in negotiations covering a wide range of specific sectors. Seven new agreements in the sectors of free movement of persons, air and land transport, scientific and technological co-operation, agriculture, conformity assessment and public procurement will enter into force in summer 2002. Since June 2001, negotiations have been underway in the additional areas of statistics, environment, trade in processed agricultural products and co-operation against fraud, while negotiations on the taxation of savings are about to start. In April 2002 the European Commission decided to propose the start of negotiations with Switzerland in four new areas, including the establishment of an FTA on services.

The EU has concluded bilateral association agreements with 8 **Mediterranean countries**. These agreements contain a political component, a trade component, and a co-operation component. The agreements with Tunisia, Morocco and Jordan have entered into force in March 1998, March 2000 and May 2002 respectively. The trade provisions of the agreements with the Palestinian Authority (signed in February 1997) are being applied on an interim basis. Concerning Israel, a new Euro-Med Association agreement entered into force on 1 June 2000. Agreements with Egypt and Algeria have been signed and need still to be ratified. The agreement with Lebanon has been initialled and the parties intend to implement the commercial part on the basis of an Interim agreement. Negotiations are ongoing with Syria. The individual agreements foresee the establishment of a free trade area between each country and the EU for goods and progressive opening of the agricultural markets. In addition, they contain provisions for liberalisation in the area of services, capital movement and competition.

The negotiations between the EU and the Cooperation Council for the Arab States of the Gulf (**GCC**) have also restarted in earnest since the GCC decided to apply a common customs tariff at the latest in 2005 and the adjustment of the original EU negotiating mandate, which dated from 1991.



The EU and **Mexico** Free Trade Agreement entered into force on 1 July 2000. The positive trade performances of both sides demonstrated the potentialities of this agreement: the EU has inverted the tendency to lose market share after the Mexico entry into NAFTA and Mexican products have found new diversified market opportunities in the EU. To favour a better use of the market access opportunities given by the progressive elimination of import duties, parties are now enhancing regular cooperation on non-tariff barriers. The FTA covers trade in goods to be fully completed for the most part by 2003 with limited longer transitional periods for Mexican industrial products until 2007 and for agricultural products until 2010. The FTA also covers services, public procurement, competition and IPR.

Negotiations on an Association Agreement between the EU and **Chile**, which started at a first round of negotiations in April 2000, were finalised on 26 April 2002. The agreement will include a political dialogue, a co-operation pillar and a trade pillar. As for trade, apart from a free trade area in goods, services and government procurement, the future agreement is to include provisions regarding investment, customs and trade facilitation, intellectual property rights, competition and a dispute settlement mechanism. The future agreement is currently under internal adoption procedures.

Negotiations on an Interregional Association Agreement with **Mercosur** started in April 2000. The future agreement is to include a political dialogue, a co-operation pillar and a trade pillar. Negotiations are taking place on a bi-regional basis from customs union to customs union. This reflects one of the key objectives of the EU vis-a-vis Mercosur, notably the strengthening of the Mercosur integration process. The second stage of negotiations was launched in July 2001. By now, most text proposals on the different negotiating items have been exchanged. In addition, both sides have exchanged their tariff offers. The third stage of negotiations is currently being prepared.

Following the conclusion with **South Africa** of a Trade, Development and Co-operation Agreement in 1999, agreements on trade in wine and spirits were signed on 28 January 2002. They have been applied provisionally since then. Negotiations on fisheries have yet to be concluded.

### Regional initiatives

The EU's trade relationship with Asia continues to be an important priority. The Economic Pillar of the **Asia-Europe meeting (ASEM)**, established in 1996, links the EU and the 15 EU Member States with Japan, China, Korea, Thailand, Malaysia, the Philippines, Singapore, Indonesia, Vietnam, and Brunei in a dialogue process aimed at facilitating trade and improving investment between all partners. The most recent Trade Facilitation Action Plan defines a number of objectives intended to reduce and eliminate barriers to trade in areas such as standards and certification, customs, IPR, SPS, and electronic commerce. In trade terms, the Asian ASEM partners accounted for approximately 26% of world exports in 2000 with the EU being their largest partner, and this region is the EU's own second most important destination for its imports.

The EU's relationship with the **San José group** and the **Andean Community** is based on two regional Framework Cooperation Agreements that entered into force 1999 and 1998 respectively. Both regions benefit from the EU's GSP. The Madrid Summit in May 2002 agreed to new initiatives to negotiate political and co-operation Agreements between the EU and the two regions respectively, as well as to intensify bi-regional economic and trade cooperation. The aim is to establish conditions under which, after the completion of the DDA, bi-regional Free Trade Agreements between the EU and each of the two regions could become feasible and mutually beneficial.

### Other bilateral relations

Good trade relations between the EU and the **United States** have traditionally constituted an important element in the overall management of the trading system. During the period under review, close EU-US cooperation was certainly instrumental in achieving a successful outcome at Doha. Bilateral trade relations between the two biggest trade entities in the world have also remained robust marked by the launch in 1995 of the New Transatlantic Agenda (NTA) and by an agreement in 1998 on the Transatlantic Economic Partnership (TEP). Through the establishment of this framework the parties reaffirmed their shared commitment to strengthen the multilateral trading system and agreed to aim at breaking down remaining –mostly regulatory – barriers to trade across the Atlantic while preserving a high level of protection for health, safety, consumers and the environment. This partnership produced substantial results in particular on mutual recognition of certain technical regulations in the area of goods, while negotiations are ongoing in the area of services (architects, engineers, insurance). Moreover, in 2002, the European Commission and the US federal authorities developed a set of Guidelines for Regulatory Co-operation and Transparency and agreed to launch a Positive Economic Agenda designed to expand this co-operative effort to other areas where mutually beneficial arrangements can be found. The EU and the US also agreed in 1999 on a set of principles to provide for an effective Early Warning System designed to prevent a number of disputes from escalating by facilitating their resolution at an early stage. However, some disputes remain and among these our two major disagreements concern the US safeguard measures on steel and the lack of progress by the US in complying with WTO rulings on Foreign Sales Corporations (FSC/ETI). Both sides continue to seek ways to conclude an agreement on trade in wines. Discussions on an agreement are also ongoing to replace the current withdrawal of concessions in the ‘hormones’ case by compensation.

Trade relations with **Canada** are marked by the EU-Canada Joint Declaration and Action Plan of December 1996. Furthermore, the EU and Canada agreed to undertake the EU-Canada Trade Initiative (ECTI), which is a comprehensive programme covering multilateral and bilateral trade areas. This framework of co-operation bore early fruit with the conclusion of agreements on Mutual Recognition of Conformity Assessment, Veterinary equivalence, Customs co-operation and co-operation regarding competition matters. Negotiations towards the conclusion of an agreement on trade in wines and spirits are ongoing. In addition, Canada and the EU are currently engaged in an assessment of future measures to enhance their trade and investment relationship. This assessment would start with the examination of the results of an on-going business survey on existing barriers to EU-Canada trade and investment. Finally, the Canadian Government and the European Commission have recently agreed to initiate a new regulatory co-operation dialogue.

The EU and **Japan** share a strong commitment to the Multilateral Trading System. The close EU-Japan co-operation contributed to the adoption of the DDA. The EU has put the emphasis of its bilateral economic dialogue on facilitating market access for goods and services and improving the investment climate in Japan through structural reform. A two-way deregulation dialogue was launched in 1994 in the framework of which the EU and Japan exchange an annual list of proposals for regulatory reform in their partner’s respective markets. On 1 January 2002 a Mutual Recognition Agreement (MRA) entered into force which permits acceptance of conformity assessment conducted in one party according to the regulations of the other in four product areas.

This marks an important step in facilitating market access. On 8 December 2001, the EU-Japan Summit launched a decade of co-operation by adopting the “EU-Japan Action Plan”, which includes the objective of strengthening the EU-Japan economic and trade partnership.

Joint declarations on bilateral relations with **Australia** (1997) and with **New Zealand** (1999) strengthen the dialogue for further liberalization of trade in goods and services. Mutual Recognition

Agreements in relation to conformity assessments for goods have also been concluded with each of these countries, and agreement was reached on a veterinary agreement with New Zealand. A strengthening of trade relations between **China** and the EU is happening at both the multilateral and the bilateral level. The EU, which has been a keen advocate of China's accession to the WTO, has a three-fold strategy vis-à-vis China: monitoring the implementation by China of her commitments made in the context of her WTO accession; supporting this implementation and China's economic and trade reforms through partnership, in particular by offering EU expertise through a range of co-operation programmes; developing cooperation with China on the DDA and engaging constructively in the new multilateral negotiations. Bilaterally, the EU is addressing trade issues through its dialogue with China, the main forum for which are the EC-China Joint Committee and its subordinate bodies.

The current relationship between **Korea** and the EU is founded on increasingly shared political values, strong economic links, and support for South Korea's "sunshine" policy of engagement with the North. A notable sign of the progress in EU relations with Korea was the entry into force, on 1 April 2001, of the Framework Agreement for Co-operation and Trade. This Agreement commits both parties to work towards fostering growth of two-way trade and investment, while providing a better framework for economic co-operation.

EU relations with **Russia and other countries of the CIS** are based on the Partnership and Co-operation Agreements (PCAs) concluded over the last decade. Preliminary discussions have taken place between the EU and Russia to explore the concept of a "Common European Economic Space", which the two sides launched at the EU-Russia Summit in May 2001. The focus of this initiative is in the regulatory field. Stable relations with Russia and with the other CIS countries will remain critical for the EU, particularly as the next EU Enlargement will bring a number of Central and Eastern European Countries into the Union. Trade and economic issues will remain an important element of the EU's overall relationship with them. In addition, the EU has continued and will do so in the future to work for the early accession to the WTO on appropriate terms of Russia and other CIS countries that are not yet members, as this will promote the closer integration of these countries into the global economy.

The EU and **India** continue to deepen their bilateral trade reflecting the potential of the two sides, to strengthen their development and economic cooperation and to improve the quality of the economic and trade links. Both sides continue to engage in a close "High level Economic Dialogue" and its sub-commissions where regular consultations on trade and others issues are held. At the 28 June 2000 Summit both sides agreed to establish a regular high level dialogue on WTO issues. The EU-India summit in autumn 2001 adopted the "Joint Initiative on enhancing trade and investment" with key joint recommendations.

Regarding EU-**Pakistan** relations, a number of actions have been prepared, including the signature of a 3<sup>rd</sup> Generation Co-operation Agreement in November 2001. A comprehensive package of trade preferences was agreed by the Council. Measures include a quota increase of 15% for textiles and clothing products and zero duty imports of clothing products under the GSP drug regime for the period 2002-2004. In May 2002, the European Commission adopted a five year strategy (2002-2006) for its cooperation with Pakistan. Priorities set in this Country Strategy Paper include the development of trade.

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