

**WORLD TRADE
ORGANIZATION**

RESTRICTED
WT/TPR/G/177
22 January 2007

(07-0237)

Trade Policy Review Body

Original: English

TRADE POLICY REVIEW

Report by

THE EUROPEAN COMMUNITIES

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by the European Communities is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on the European Communities.

CONTENTS

	<i>Page</i>
I. INTRODUCTION	5
II. KEY DEVELOPMENTS IN THE EC (2004-06)	5
(1) INSTITUTIONAL DEVELOPMENTS	5
(2) DEVELOPMENTS IN THE INTERNAL MARKET AND CENTRAL POLICY AREAS	6
(3) ECONOMIC PERFORMANCE, INCLUDING TRADE	9
III. KEY DEVELOPMENTS IN THE EC'S TRADE POLICY (2004-06)	10
(1) MAIN TRADE POLICY OBJECTIVES	10
(2) INSTITUTIONAL SET-UP FOR TRADE POLICY-MAKING	12
(3) MAIN COMPONENTS OF EC TRADE POLICY	12
(i) The EC and the WTO	12
(ii) Bilateral, bi-regional and autonomous trade policy initiatives	15
IV. THE EC'S COMMITMENT TO SUSTAINABILITY AND DEVELOPMENT (2004-2006)	19
V. CONCLUSION	21

I. INTRODUCTION

1. The last Trade Policy Review of the European Communities (EC) in the WTO took place in October 2004. The beginning of the reference period for this Trade Policy Review, late 2004, coincided with a new European Commission (the EC's Executive organ) taking up office for a five-year period. This junction provided an opportunity to confirm and also, in some cases, redefine the EC's overall policy objectives, including for trade policy.

2. Trade policy is one of the EC's major common policies and reflects the external dimension of the EC's customs union and Internal Market. Furthermore, it holds a key role for accomplishing the EC's wider objective of pursuing sustainable development, both at home and abroad, with the EC accounting for roughly one fifth of all global merchandise trade and almost one third of global services trade. As before, the EC continued to follow the multilateral approach via the WTO as its primary trade policy route. The EC firmly believes in the need for further multilateral liberalisation and a strengthening of the multilateral trade policy rule book as the only guarantor of true development for all WTO Members. Consequently, the EC has acted as one of the main motors behind the Doha Development Agenda (DDA) negotiations during the last few years. The EC continued to subordinate its other trade policy instruments and measures to the priority granted to the multilateral route. Only where appropriate and necessary, new bilateral or bi-regional initiatives were used as complements.

3. Among the most important trade-related accomplishments during the reference period, apart from the leadership demonstrated in the DDA, were further steps toward the completion of the Internal Market following the EC's enlargement of May 2004, the continuation of the reform of the Common Agricultural Policy, the further development and reform of the EC's Generalised System of Preferences, a clear commitment to policy coherence for development, and the pledge for significantly increased contributions of Trade-related assistance for developing countries.

II. KEY DEVELOPMENTS IN THE EC (2004-06)

(1) INSTITUTIONAL DEVELOPMENTS

4. Following the accession of ten new Member States in May 2004, the EU successfully started to operate as an entity of 25. This enlargement has been the most ambitious in the history of the EU; it was the largest ever in terms of number of countries and population acceding to the EU, and the most complex, as it brought in ten countries which had experienced very diverse economic, social and political developments. After two years, this enlargement has proved a clear success not only in terms of its political and strategic implications for reunifying Europe – namely by extending peace, stability, security, human rights and the rule of law across Europe – but also economically. The stability provided by accession helped to multiply trade and investment between the EC-15 and the EC-10 as well as within the EC-10, creating a win-win situation for all involved by contributing to growth and employment in the EC-10; opening new opportunities for firms in the EC-15, thereby strengthening their competitiveness; and having a favourable impact on consumers across the EC, who can benefit from a wider choice. In addition, the EC's trading partners also largely gained from this enlargement, as the average tariff applied by the EC-10 to imports from third countries decreased significantly when they joined the EC's Common External Tariff and through new opportunities for trade in services and investment. Following the enlargement, the EC carried forward the necessary WTO procedures under GATT Article XXIV.6 in 2006 and launched the necessary WTO procedures under GATS Article V.

5. The period has also been marked by preparations for the next enlargement to Bulgaria and Romania, which both joined the EU in January 2007 as foreseen by the European Council and their Treaty on Accession of April 2005. As had been the case for the previous enlargement, this enlargement had also been prepared by so-called Europe Agreements with Bulgaria and Romania, providing for progressive integration into the EC, through co-operation in many policy areas as well as legislative convergence with EC legislation, in particular in the areas relevant to the Internal Market, such as standardisation, competition, public procurement and protection of intellectual, industrial and commercial property. Bulgaria and Romania also benefited from significant assistance under the PHARE programme during the pre-accession period. In line with WTO provisions, the EC notified this next enlargement to the WTO following a final positive assessment by the Commission in September 2006. EU accession negotiations were launched with Turkey and Croatia during 2005, and the Former Yugoslav Republic of Macedonia was accorded candidate status.

6. The new European Commission which took office in the autumn of 2004 identified growth and jobs as the most urgent issues facing Europe. The new Commission thus focused its strategic objectives for the period 2005-09 on three core principles: prosperity, solidarity and security for the enlarged EU. Economic and social reforms and a thriving knowledge economy would have to be the foundations on which Europe could return to the path for long-term prosperity. Externally, the EU would strive to live up to its commitment to meet the Millennium Development Goals and make the EU a leading global partner for global justice, sustainable development, growth and prosperity, including through its trade policy.

7. In June 2004, the European Council agreed on the text for an EU Constitution, which represented the most significant revision of the existing treaties in the history of the EC, implying also changes for the conduct of the EC's external trade policy. Since then, the ratification process by the Member States has started and continues. Two Member States have, however, not been able to ratify. In June 2006, the European Council started an internal consultation process on how to continue the reform process, it being understood that progress must be made during the second semester of 2008 at the latest.

(2) DEVELOPMENTS IN THE INTERNAL MARKET AND CENTRAL POLICY AREAS

8. In early 2005, a package of measures was launched to give new impetus to the Lisbon agenda, the ten year program to reform and renew the European economy, with, under the new European Commission, a new focus on growth and employment. An integrated industrial policy was proposed, comprising sectoral and cross-cutting initiatives for the coming years. Complementary to this, the Commission proposed a modern SME Policy, which will provide a coherent framework for action. This modern policy is built on the Lisbon framework: key actions include promoting entrepreneurship, improving access to markets, cutting red tape, improving SMEs' growth potential and strengthening dialogue and consultation.

9. To support the reform agenda of the EC, an initiative was launched aimed at better regulation in the EC, placing it within the growth and jobs Lisbon agenda. The initiative includes using impact assessments in drafting new legislation, reviewing all legislative proposals pending before the legislator since before 2004, withdrawing those no longer relevant, and setting out a simplification agenda (for example, in 2005, legislation on mutual recognition of qualifications was simplified).

10. The Stability and Growth Pact aims at ensuring sound and sustainable public finances through a set of rules which focus on the avoidance of an excessive budgetary deficit and the attainment of appropriate medium-term budgetary objectives. In early 2005, it was reviewed and transformed into a better and more balanced framework. Improved design of the rules increases their economic rationale,

enhances their preventive role and allows for a better reflection of the economic realities in the 25 Member States. They also better incorporate the need to face long term sustainability challenges mainly stemming from the budgetary impact of an ageing population. At the same time, there is a reinforced commitment of Member States to pursue sound budgetary policies throughout the economic cycle. Finally, it can reinforce the momentum for economic reform, since the new rules ensure greater consistency between the objectives of fiscal discipline and implementation of the reforms called by the Lisbon agenda.

11. Further progress was also made with advancing the employment and social dimension of the relaunched Lisbon strategy for more and better jobs and growth. This includes improved implementation of the European Employment Strategy and a new framework for the EC social protection and social inclusion process. The EC is also intensifying its efforts for combining flexibility and security with the involvement of social partners. Within the EC, a new initiative was taken to help reintegrate into the labour market workers made redundant due to changing global trade patterns. Under the European Globalisation Fund, €500 million will be available each year, starting in January 2007. While the already existing EC Structural Funds support the anticipation and management of change with a strategic and long-term perspective, the new Fund will provide one-off, time limited individual support geared to helping workers who are 'severely and personally affected by trade-adjustment redundancies', it being understood that the Fund cannot be used to subsidize ailing industries. This initiative in the EC demonstrates Community action to help Member States' economies adjust to major structural changes in world trade patterns. The EC has also been strengthening its contribution to promoting decent work internally and externally. Decent work, as defined by the ILO, covers employment, rights at work, social protection, social dialogue and gender mainstreaming. The UN Summit of September 2005 endorsed the need for fair globalisation and resolved to include the promotion of productive employment and decent work for all among the objectives of national and international policies. Following up on this, the European Commission issued a Communication in May 2006 on 'Promoting decent work for all', which identifies certain actions that will be developed both in internal and external policies including in the framework of EU enlargement, European neighbourhood policy, regional, bilateral and multilateral relations, development cooperation, external aid and trade policy.

12. Several measures were taken towards consolidation of the Internal Market, which further improved the European business environment, to the benefit of economic operators both from the Member States and third countries. During the reference period, important steps included the adoption of the Services Directive in December 2006, which, once transposed and implemented, will remove the remaining obstacles to the free circulation of services in the EC. Further important accomplishments were a White Paper for Financial Services (2005-10), a supervisory framework for reinsurance companies and proposals for a simple and reliable legal framework that will bring down existing barriers to a Single Payments Area across the EC by 2010. A new Directive on cross-border mergers made it much easier for companies established in different EC countries to cooperate and restructure themselves within the Single Market, and proposals on cross-border shareholders' rights will enable investors to get relevant information on time and vote without encountering unnecessary obstacles, wherever they are in the EC. Strengthening the credibility of financial reporting and enhancing the EC's protection against financial crime was also a key achievement. The Statutory Audit Directive injected more rigour into the audit process, while all listed companies have now started to apply the International Accounting Standards system. In addition, the 3rd Money Laundering Directive will further improve the stability and reputation of the financial sector and boost the fight against terrorist financing and organised crime. The EC regulatory framework for electronic communications took effect in July 2003 and aims at establishing a harmonized regime across Member States, promoting more competitive markets and technology-neutral regulation, while guaranteeing basic consumer interests. An important aspect of the regulatory package has been the

obligation for Member States to conduct market reviews to determine whether or not they are competitive and to impose adequate remedies if a market is not found competitive. Currently, the European Commission is in the process of reviewing the functioning of the electronic communications framework.

13. The consolidation of the Internal Market has now come very far but gaps still remain. In the coming period, more emphasis on ensuring the proper implementation and enforcement of all Single Market rules across the EC will be necessary, as well as identifying areas in which further approximation of national regulations is needed.

14. Since the last EC TPR, further steps were taken in the field of intellectual property with relevance for external trade. In May 2006, the EC adopted a Regulation on compulsory licensing of patents relating to the manufacture of pharmaceutical products for export to countries with public health problems, thereby creating a legal basis for the granting of compulsory licences for export purposes, as foreseen by the WTO General Council Decisions on TRIPS and public health of 30 August 2003 and 6 December 2005. Being a market that traditionally invests in creativity, research, design and quality, and receiving considerable added-value for this effort, the EC is particularly affected by poor enforcement of intellectual property rights, not least in third countries. The European Commission therefore continued to work towards the improvement of enforcement, both within the EC and at its external borders. To efficiently fight against acts of counterfeiting and piracy, it also stepped up co-operation with its trading partners. The EC's public procurement regime was further refined during the reporting period, with the main objectives of simplifying the legal framework, making it more flexible and adapting it to the electronic era. Public procurement in the EC is conducted in a transparent and non-discriminatory manner.

15. The far-reaching reform of the Common Agricultural Policy (CAP) which was launched in September 2003 continued. The revised CAP introduced the principle of "full decoupling", which implies that farmers will be free to decide whether they will produce or not, and what they will produce, allowing them to gear their production to market signals. Member States only have the possibility to maintain a limited link on well-defined terms so as to prevent certain forms of production being abandoned. The aim of this 'decoupling' is to increase the competitiveness of Europe's farmers while assuring them a stable income and eliminating trade distortions. The new system of payments will strengthen Community policies in favour of rural development and be linked to the observance of environmental, food safety and animal welfare standards. The single payment scheme entered into force in 2005. The CAP reform has also been the basis from which it was possible for the EC to make a far-reaching offer in the agricultural negotiations under the DDA in terms of reductions of aggregate levels of support, conditional upon a satisfactory outcome of the DDA negotiations in all areas of the Single Undertaking.

16. In February 2006, a thorough reform of agricultural support policy for sugar was decided upon and became operational in July 2006. For tobacco, olives, cotton and hops, reforms had already been decided upon in 2004 and have also entered into force since then; similar reforms of wine and fruits and vegetables will now be the next steps.

17. Reform of the Common Fisheries Policy (CFP) had already started in 2002 and included strict capacity management measures implying that the capacity of the EC fleet will decrease steadily over time. The reform of the CFP also put an end to public aid for the renewal of the fishing fleet and for the export of capacity to third countries. The new capacity management regime has been in application for more than three years and is judged to be successful. The EC aims at a progressive implementation of an ecosystem-based approach to fisheries management, which contributes to efficient fishing activities within an economically viable and competitive fisheries industry, while

minimising the impact of fishing on marine ecosystems. During the reference period, further steps towards this objective were taken.

18. In June 2006, the Commission launched the first step towards an integrated maritime policy for the EC, which would develop a thriving maritime economy and the full potential of sea-based activity in an environmentally sustainable manner. A Green paper on a European vision for the oceans and seas highlighted the interconnections and interdependence of different policy areas and instruments. This includes, for example, the development of port infrastructure, which has to be weighed against the protection of local ecosystems, the promotion of coastal aquaculture versus tourism development, and also the benefits of economic growth through foreign trade.

19. In the period since the last EC TPR in 2004, the EC has also devoted significant attention to the development of a more comprehensive energy policy. At the strategic level, a Green Paper from the Commission of March 2006 identified the three main policy aims, namely the completion of a fully competitive internal market by 2007, assuring the security of energy supply, and achieving environmentally sustainable, clean and efficient energy supply and use. Specific measures to achieve these objectives will also include greater emphasis on external activities, including the trade-related aspects that can contribute to diversifying source, supply and transit. In October 2006, in a Communication on the external aspects of competitiveness, the Commission proposed to seek to improve transparency, governance and trade and investment in the energy sector in third countries through non-discriminatory conditions of transit and third party access to export pipeline infrastructure; and by helping to improve production and export capacities and develop energy transportation infrastructure.

(3) ECONOMIC PERFORMANCE, INCLUDING TRADE

20. During the reference period and in particular in 2006, the European economies have performed markedly better than expected, despite oil prices rising by 80% since the beginning of 2005. Real GDP growth accelerated from 1.7% in the EC and 1.4% in the euro area in 2005 and is expected to reach 2.8% and 2.6% respectively in 2006, bringing the pace of growth well above potential.

21. This robust acceleration reflected an increase in the resilience of the European economies and a greater ability to rely on domestic demand. Compared to the previous period, the economic recovery appeared more broadbased, with domestic demand gaining momentum. The recovery was underpinned by an acceleration of investment (4.9% higher than during 2005), while private consumption rose more moderately. Growth differences across Member States, although remaining sizeable, narrowed in the first half of 2006, particularly for euro-area Member States. However, differences between the recently acceded Member States and the EU-15 continue to be pronounced, largely due to the former's ongoing catching-up process in terms of GDP per capita. Among the larger Member States in the euro area, Spain posted the highest average quarterly growth rate in the first half of 2006 (0.9%), followed by Germany, France and the Netherlands (0.8%) and Italy (0.6%). Overall, the external conditions remain supportive to economic growth in the euro area and the EU, with the projections for GDP growth in 2007-2008 at 2.4% for the EU; for the euro area, growth is forecast to reach 2.1% in 2007 and 2.2% in 2008. The economic recovery has also reached the labour market, leading to a strong upturn in employment growth to 1.4% in 2006. This is the highest rate since 2000 and corresponds to 2.9 million new jobs in the EU.

22. The EC's volume of external merchandise trade (excluding intra-EC trade) continued to grow in 2004 and 2005, reaching €2,2 trillion in 2005, which represented roughly one fifth of the global total trade flows. By comparison, intra-EC trade is almost twice as large. With total merchandise

imports exceeding total exports, the EC continued to run a trade deficit, amounting to €116 billion in 2005. The US was again the biggest single merchandise trading partner in 2005, providing around 14% of the EC's total imports and receiving around 24% of the EC's total exports. In 2005, China became almost as important as the US as a source of EC imports (13%), followed by Russia (9%) and Japan (6%). In addition to the US, other major destinations for the EC's exports were Switzerland (8%), and Russia and China (both around 5%). The EC is the world's largest importer and exporter of agricultural products, with agricultural products accounting for 7% of total EC imports and 6% of total EC exports. As most of the EC's exports are directed to countries that grant MFN rather than preferential treatment, upholding the multilateral system is of the utmost significance for the EC.

23. In 2005, about 45% of all EC imports came from developing countries, and for agricultural and textiles, they accounted for almost 70% of all imports. Of total exports from the least developed countries (LDCs), the EC absorbed 62% which was more than double the volume of corresponding imports of the US, China, Japan and Canada combined. Looking at the composition of LDCs' exports, the EC received almost 60% of their agricultural goods. The EC's favourable conditions for imports from the poorest countries under the Everything-But-Arms scheme and the Cotonou Agreement meant that more than 90% of EC imports from the African LDCs entered the EC free of duties and quotas.

24. Services are the cornerstone of the EC economy. They represent 77% of GDP and employment, an area of European comparative advantage with the greatest potential for growth in EC exports. During the reference period, the EC remained the world's largest trader of services with a share of 26% in total global trade in 2004 and a total volume of roughly €650 billion and a surplus of €37 billion. A significant part of this trade took place in the GATS framework rather than under preferential conditions, with the US and Canada being the main suppliers and recipients of EC services trade, followed by the EFTA countries and Japan.

25. Between 2002 and 2004, the EC accounted for roughly one third of global Foreign Direct Investment (FDI) flows, with a share of 32% of total global outflows and 27% of inflows. As for trade, the US also remained the EC's largest partner for FDI, accounting for 40% of total EC inflows and 24% of total outflows. The single main other FDI partners were Canada, Japan and China.

III. KEY DEVELOPMENTS IN THE EC'S TRADE POLICY (2004-2006)

(1) MAIN TRADE POLICY OBJECTIVES

26. The EC's main trade policy objectives, as redefined at the occasion of the new Commission's taking up office in autumn 2004, are to promote prosperity, social justice and sustainable development through open, rules-based trade, including the peaceful settlement of disputes. The benefits of free and fair trade should be extended to all, especially the poorest. In the conduct of its trade policy, the EC accords priority to the multilateral route and the WTO. The EC continued to subordinate its other trade policy instruments and measures to this priority granted to the multilateral route. Only where appropriate and necessary, new bilateral or bi-regional initiatives were used as complements.

27. These guiding principles were further refined and set in the context of the EC's overall focus on the Lisbon agenda, growth and competitiveness in October 2006 in a Communication from the Commission (Global Europe – competing in the world). Most importantly, this Communication commits Europe to ensuring that its own markets remain open, arguing that in a global market, with global supply chains, Europe needs to import to export. At the same time, it sets out a strategy for opening new markets abroad for EC companies to trade and ensuring that European companies are able to compete fairly in those markets. Creating and strengthening new areas of growth will require a

sharper focus on market opening and stronger rules in new trade areas of economic importance to the EC, notably intellectual property (IPR), services, investment, public procurement and competition. From autumn 2006 and through 2007, the Commission will set out the competitiveness agenda for EC trade policy with a series of linked initiatives.

28. First and foremost, the EC remains entirely committed to the WTO and the multilateral trading system is its first priority. Given its own success and experience with multilateral cooperation based on common rules, the EC views the multilateral approach as its preferred instrument. In particular in trade policy, the benefits of the multilateral approach are clearly manifested in the size of economic gains, which dwarf what bilateral agreements could achieve, and the predictability created by common rules. The EC will work to resume and conclude negotiations in the Doha Development Agenda as early as possible. In parallel, the Commission proposed a new generation of bilateral free trade agreements with key partners to build on WTO rules by tackling issues which are not ready for multilateral discussion and by preparing the ground for the next level of multilateral liberalisation. The key economic criteria for new FTAs should be market potential - particularly the emerging markets of Asia. The launching of these new negotiations will complement the DDA and not interfere with it; the expected results are a "topping up" of the substantial liberalisation the DDA will achieve and not an alternative to it.

29. As concerns individual aspects of trade policy, and building on what has been done so far, the Commission will launch the next stage of its global strategy for protecting intellectual property rights, with tougher benchmarks for cracking down on counterfeiting and new cooperation with key partners. The Commission will further renew its Market Access Strategy to focus on non-tariff barriers and ask EC industry to identify key sectors and priority problems. These may include, for example, the services or other sectors or particular markets as well as issues related to norms and standards, procurement rules, restrictions on competition, and other regulatory issues. In addition, restrictions on access to resources such as energy, metals and scrap, and primary raw materials including certain agricultural materials, hides and skins must be a high priority. Measures taken by some of our biggest trading partners to restrict access to their supplies of these inputs are causing some EC industries major problems. Unless justified for security or environmental reasons, restrictions on access to resources should be removed. The Commission will also produce a new strategy for ensuring better access for EC companies to major public procurement markets. The Commission plans to conduct a public consultation to help the EC reflect on the EC's anti-dumping and other trade defence instruments.

30. The pursuit of economic growth through trade can have environmental implications, particularly for biodiversity and our climate. Therefore, EC is committed to ensuring mutual supportiveness of the environment and trade policies through promoting the integration of the environmental dimension into international trade. The EC will continue efforts to achieve its commitment to halter biodiversity loss by 2010, through inter alia mitigating the possible negative impacts trade can have on biodiversity in developing countries and in the EC by increasing demands on natural resources. In relation to climate change, the EC's external competitiveness policies will need to encourage energy efficiency, the use of renewable energies including bio fuels, low emission technology and the rational use of energy in Europe and globally, both to reduce the growth in global energy demand and strengthen security of supply and to limit harmful effects on the environment. The EC has shown continued leadership in the area of climate change over the last few years, and the links between trade policy and climate change in particular will continue to be kept under examination by the EC so as to ensure that trade policy instruments positively contribute to the fight against climate change.

(2) INSTITUTIONAL SET-UP FOR TRADE POLICY-MAKING

31. Since the last EC TPR in 2004, there have been no changes in the procedures and institutional set-up for the formulation of the EC's common commercial policy. Article 133 of the EC Treaty forms the basis for EC trade policy, according to which any measure to be taken within the Common Commercial Policy is proposed by the European Commission and decided by the Council of Ministers. The Commission ensures the uniform representation and exercise of EC trade policy at both bilateral and multilateral level, assisted by a consultative Committee (Article 133 Committee) composed of representatives of the Member States, which meets every Friday. The two new Member States who joined the EC in 2007 began to participate fully in the work of this Committee already in April 2005. The day to day management of EC trade policy is the task of the Commission's Directorate General for Trade, serving to the Trade Commissioner. The European Parliament is kept informed of trade policy developments, is consulted on a regular basis and also regularly debates trade policy issues.

32. Over the reporting period, the EC's structured dialogue civil society on trade policy matters has matured further. A broad range of organisations from business associations, chambers of commerce, trade unions, NGOs, etc. participate in the process and regularly participate in targeted sessions, which allow them to be kept updated on trade policy developments and interact directly with policy makers and negotiators. Seminars on trade policy-making were held in the new Member States to encourage a strengthened participation of civil society organisations from these countries in the dialogue. In 2006, an evaluation of the dialogue has been launched to take stock of the process since its inception in 1998 and to strengthen it further. Such a system of regular dialogue can provide an important contribution to ensuring the openness of the trading system and may serve as a model for other countries. The EC also co-funded the WTO Public Symposium in 2006, which gathered civil society organisations from all over the world.

(3) MAIN COMPONENTS OF EC TRADE POLICY

(i) The EC and the WTO

33. Since the last EC TPR in 2004, the EC continued to follow the multilateral approach via the WTO as its primary trade policy route. The EC firmly believes in the need for further multilateral liberalisation and a strengthening of the multilateral trade policy rule book as the only guarantor of stability for business and of true development for all WTO Members. Consequently, the EC has acted as one of the main motors behind the Doha Development Agenda negotiations during the last few years. Throughout the course of the negotiations, the EC tabled comprehensive proposals in all areas. In parallel, the EC has also continued to be the WTO's most active player in all ongoing WTO business.

34. Market access – for goods and services – is one of the WTO's main *raison d'être*, and securing further market-access worldwide in this framework is vital to foster global economic growth, in particular also for developing countries, by promoting their integration into the world trading system. Industrial goods, agriculture and services are all key areas. For goods, the DDA provides a unique opportunity to extend duty-free, quota-free access for the least developed countries (LDCs) to the markets of the developed and those developing countries in a position to offer it.

35. On non-agricultural goods, the EC's objectives have been threefold: cutting peaks and high tariffs in developed and developing countries' markets; adjusting contributions to the capacity of Members so that weak and vulnerable economies undertake lesser contributions than more advanced, competitive developing countries and excluding the weakest Members such as LDCs from any

reduction commitments. One of the underlying reasons for the EC's position in the negotiations has been to facilitate South-South trade, since developing Members face the highest market access barriers in other developing countries' markets. Over 75% of tariffs paid by developing countries are paid to other developing countries. After tabling a proposal to eliminate tariff peaks and high tariffs, and significantly reduce tariff escalation, the EC supported the proposal of a Swiss formula with separate coefficients for developed and developing countries. The EC supports the idea of flexibility for developing Members, which must be negotiated in an integrated fashion with the formula coefficient for developing countries. The EC also tabled a proposal for all WTO Members to reduce tariffs on textiles, clothing, and footwear, as close to zero as possible. It has tabled horizontal and sectoral initiatives on non-tariff barriers (NTBs) as well as bilateral requests. As regards horizontal initiatives, the EC requests the creation of disciplines for export taxes which have an increasingly distortive effect, on many developing countries, including on the possibilities for LDCs to climb the ladder of value added by importing inputs at an affordable price. The EC has also tabled a proposal for a horizontal mechanism to redress non-tariff barriers without escalating to a dispute settlement procedure. As regards sectoral initiatives, it has also tabled several submissions more specifically on textiles and clothing, electronics and electrical equipment, and automotive.

36. The EC has remained the world's largest agricultural trader and the EC also being the world largest importer of agricultural goods from developing countries and LDCs. The significant reform of the EC's agricultural policy, on its way since 2003, has allowed the EC to make ambitious and founded contributions to the agricultural negotiations. In October 2005, the EC made a far-reaching offer including the complete elimination of export subsidies and a 70% reduction of trade distorting domestic subsidies. As to market access, the EC offered average cuts of 39% on import tariffs and proposed a limited number of sensitive products. In line with the July framework, even for those products, substantial new market access would be created, inter alia through the expansion of tariff rate quotas. Subsequently, the EC also accepted 2013 as end date for all export subsidies at the Hong Kong Ministerial, conditioned on the parallel elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect and, of course, on the overall success of the Round. The EC's particular interests in the agricultural negotiations are the elimination of all other forms of export subsidies (in respect of food aid, export credits, and State-trading enterprises), a significant reduction in US trade-distorting domestic support, extended protection for products designated by geographical names, as well as an end to the abuse of those names by copycat producers; improved market access is also of particular interest to European farmers and the food industry.

37. As the world's leading importer and exporter of services, the EC has a key stake in the current GATS negotiations. The EC's approach to services combines openness to both domestic and foreign competition, with regulations to achieve public-interest objectives, such as protection of the less well-off, consumers, cultural diversity, health, safety and the environment. In the first semester of 2006, the EC participated actively in the plurilateral negotiations on services mandated by WTO Members' Ministers at the Hong-Kong Summit. These negotiations allowed to identify and promote negotiating objectives shared by groups of WTO Members for market access and removal of barriers in specific services sectors and modes of supply. The EC co-sponsored collective requests on professional services (legal, architectural and engineering services); computer services; construction services; distribution services; postal and courier services; telecommunication services; environmental services; financial services; maritime transport services; air transport and energy services and on mode 3 (commercial presence). The EC has made ambitious initial and revised offers in the negotiations, covering access to the EC market in sectors such as financial services, telecommunications, computer services, construction, transport, distribution, tourism and professional services. The EC has sought to offer commitments of interest to developing countries, such as the temporary admission of foreign skilled personnel to provide services in the EC (mode 4). The 2005 revised offer covers for the first

time the 25 EC Member States. The EC has been an active supporter of a communication on the mechanism to assess the granting of special priority to sectors and modes of supply of interest to Least Developed Countries (LDCs) in the services offers of non-LDC Members. At the horizontal level, the EC has actively supported the negotiations on Services Domestic Regulations and Government Procurement in Services. It has also contributed to the discussion on subsidies and on the question of an emergency safeguard mechanism.

38. The EC's approach to the multilateral trade negotiations has been to complement further market opening with stronger rules and disciplines. One of the most beneficial outcomes of the DDA may be a comprehensive agreement on Trade Facilitation, both in terms of economic gains and the stability and predictability offered by common rules at the multilateral level. It is to be expected that the reduction in transaction costs for all WTO Members stemming from such an agreement will be on par, or even beyond, the benefits from further market access commitments.

39. As for the market-access aspects of the DDA negotiations, the EC has also been one of the most active supporters and driving force behind the different other rules negotiations, with numerous submissions and proposals contributed in all areas. The EC favours amendments to the Anti-Dumping Agreement so as to clarify existing rules and thereby prevent protectionist abuse; the EC equally supports amendments to the Agreement on Subsidies and Countervailing Duties so as to strengthen current rules on three very substantial areas, namely dual-pricing of gas, local content subsidies and long term financing below costs. In addition, the EC supports WTO discipline on fisheries subsidies. For Regional Trade Agreements, the EC has actively contributed on the establishment of a transparency mechanism and the clarification of existing rules. Geographical Indications are part of the Single Undertaking. The EC has supported the implementation of the multilateral register on wines and spirits decided during the Uruguay Round. The EC also supports the extension of the protection given by the register to products other than wines and spirits, and, for a limited number of well-known GIs, a prohibition of their use by others than the right holders, regardless of the exceptions provided for in Article 24 of the TRIPS Agreement. On Trade and Environment, the EC actively contributed to the negotiations with a view to ensuring that trade liberalisation and the protection of the environment are mutually supportive.

40. The EC deeply regretted the suspension of the DDA negotiations in July 2006. At this stage, negotiations had already advanced far, and much was already on offer, including real cuts in tariffs in industry and agriculture in developed countries and thus a major boost to world trade, Duty Free Quota Free access for the LDCs to the markets of developed and developing countries in a position to do so, greater investment, and choice in the provision of services, which are the backbone of modern economies; an ambitious agreement on trade facilitation, and the consolidation of fundamental reform programmes of farm subsidies in developed countries - something that ultimately only the WTO can deliver.

41. Beyond these individual issues, the possible failure of the DDA could have important political and systemic implications for the multilateral trading system and the cause of multilateralism at large. The EC thus remains fully committed to the DDA and will continue to strive for a result that would deliver real cuts in tariffs, effective cuts in subsidies, improved market access for services and real new trade flows. The EC hopes that all WTO Members share this ambition and a final deal will become possible very soon. This will obviously depend on a proportional contribution from all developed countries as well as emerging developing countries. In the meantime, the EC aims to ensure that the poorest developing countries do not fall victim of the current impasse and hopes that a comprehensive development package to their benefit can be secured despite the standstill in the DDA negotiations.

42. Apart from its exemplary commitment to and participation in the DDA negotiations, the EC has also remained one of the most active and supportive Members in all other areas of WTO activity. In this sense, the EC continued to devote significant attention to the ongoing WTO accession negotiations, based on the belief that the largest possible number of countries should be integrated into the WTO system in order to maximise the benefits for all. Over the past years, the EC has been instrumental in advancing the accession negotiations of inter alia Russia, Ukraine, and Vietnam.

43. Further, the EC attached the greatest importance to the timely implementation and compliance with all WTO agreements, including also the plurilateral agreements on civil aircraft and Government Procurement (GPA). For this, the EC has focused on strict coherence between the rules governing its Internal Market and the relevant WTO agreements, including, for example, the TBT, SPS and TRIPS agreements. In the past, third countries have been concerned with some of the EC's legislative initiatives, for example on chemicals, genetically modified organisms, waste electrical and electronic equipment, and wine labelling, fearing possible trade implications. These measures have, however, the legitimate aim of ensuring a high level of protection of health and the environment and are by no means intended to impede circulation of goods in the Internal Market or external trade. In the framework of the ongoing review of GPA, the EC played a very active role by tabling several substantial submissions on the text to the GPA Committee as well as an ambitious and comprehensive initial offer.

44. Finally, the EC has actively participated in the WTO's dispute settlement system, as a defendant, a complainant and as a respondent, with preference given to negotiated settlements, whenever possible. The EC followed up on Dispute Settlement Understanding (DSU) Panel and Appellate Body rulings in a timely fashion, based on its belief that the opportunity for the peaceful settlement of trade disputes offered by the WTO system represents one of its great assets. In addition, the EC has actively participated in the negotiations related to the improvement of the DSU, based on the Doha mandate.

(ii) Bilateral, bi-regional and autonomous trade policy initiatives

45. Living up to its convictions, the EC continued to pursue its bilateral, bi-regional and other trade policy instruments and measures in a complementary manner to the priority granted to the multilateral route. The broad geographical coverage of the EC's existing preferential trade arrangements reflects the global economic and trade reach of the EC. In total, the EC has concluded 22 RTAs with 24 countries and territories. With the very generous market access offered to its trading partners, the EC is one of the most open economies in the world, in particular vis-à-vis developing countries, which also benefit from the EC's Generalised System of Preferences and, in the case of the Least Developed Countries, the "Everything-but-Arms" initiative. In many instances, the EC's bilateral and bi-regional agreements extend significantly beyond the scope of the WTO's liberalization and rule-making agenda; many also pay tribute to the EC's ambitions for sustainable development, including environmental and social development concerns.

Geographical vicinity of the EC

46. A number of European countries are closely linked to the EC, including through trade arrangements. Norway, Iceland and Liechtenstein are associated to the EC's Internal Market through the European Economic Area (EEA). Beyond a trade agreement, the EC has entered into seven sectoral agreements with Switzerland, amongst others on free movement of persons, air and land transport, scientific and technological co-operation, agriculture, conformity assessment and public procurement, and co-operation against fraud and taxation on savings. The EC also has customs unions with Andorra and San Marino and a Trade Agreement with the Faroe Islands.

47. While the last two enlargements of the EC of 2004 and 2007 had been prepared by so-called Europe Agreements, a similar process is now underway with the candidate countries Croatia and the Former Yugoslav Republic of Macedonia through Stabilisation and Association Agreements (SAA). Other countries in the Western Balkans either have such agreements in place already as well (Albania – pending the ratification of the Agreement, an Interim Agreement on the trade aspects entered into force in December 2006) or are currently negotiating them (Bosnia and Herzegovina, Montenegro and Serbia). The Western Balkan countries also benefit from autonomous trade preferences granted by the EC, which will be in place until 2010. The countries will eventually participate in a zone of diagonal cumulation linking them to the EC, which is currently under preparation. Complementary to the deepening of its own trade relations with the Western Balkan countries, the EC has also acted as the motor of further regional integration through the 'Stability Pact for South Eastern Europe' and thereafter the creation of the new Central European Free Trade Area (CEFTA), combining the individual bilateral FTAs in a single one.

48. Candidate country Turkey has been closely linked to the EC through a customs union since 1995 already, which covers industrial products and processed agricultural goods. It also foresees progressive liberalisation of agricultural goods, and the integration of coal and steel products is equally on the agenda for the near future. The products covered by the customs union agreement benefit from the pan-Euro-Mediterranean system of (diagonal) cumulation of origin linking the EC, Turkey and other European and Mediterranean partner countries with which both the EC and Turkey have free trade agreements allowing such cumulation.

49. During the reference period, the EC continued to develop its European Neighbourhood Policy (ENP). In May 2004, a Communication from the Commission set out how the ENP would be implemented. Geographically, the ENP covers the Mediterranean countries (Maghreb, Mashrek and Israel), the three Western NIS countries (Ukraine, Moldova and Belarus) and the Caucasus (Georgia, Armenia, Azerbaijan). The trade and economic aspects of the ENP are ambitious, aimed at closer integration, eventually to the point of the partner countries sharing the EC's Internal Market. Along with deepening of trade relations, regulatory convergence is highlighted to enable partner countries to make the most of their proximity to the Single Market. Since then, a number of country-specific Action Plans have been developed and adopted.

50. While the ENP will lead to yet deeper integration of the concerned countries with the EC, the Mediterranean countries are already closely linked to the EC through the Euro-Med agreements, the trade parts of which are very comprehensive Association Agreements. They are in force with eight Mediterranean partners (Tunisia, Morocco, Jordan, Egypt, Lebanon, Algeria, Israel and the Palestinian Authority), the Agreement with Syria is not yet in force. The Agreements foresee the progressive liberalisation also of services, and in March 2006, negotiations on services and the right of establishment were formally launched. In addition, it was decided to start new negotiations on reciprocal and asymmetrical liberalisation in agricultural trade and to strengthen the rules of procedures in the Association Agreements by negotiating a dispute settlement mechanism.

51. The EC is linked to Russia and Ukraine as well as to Armenia Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova and Uzbekistan through Partnership and Co-operation Agreements. With Belarus and Turkmenistan, such Agreements are signed but not in force; with Mongolia, a Trade and Cooperation Agreement is in force. One of the main objectives of the Partnership and Co-operation Agreements is the promotion of trade and investment as well as the development of harmonious economic relations between the parties. The EU-Russia Summit of May 2005 agreed Action Plans on the Four Spaces to develop jointly. Of these, the Common Economic Space Action Plan covers a range of trade-related areas and has an overarching objective of enhancing regulatory convergence to the EC acquis. The priority areas include investments, intellectual property

rights, public procurement, trade facilitation, etc. With Ukraine, the EC seeks to further develop trade relations through a comprehensive deep integration trade and economic agreement after Ukraine's accession to the WTO.

Developing countries

52. The EC's relations with the 77 African, Caribbean and Pacific countries (ACP) are governed by the Cotonou Agreement of June 2000, concluded for a period of 20 years. As foreseen by the Cotonou Agreement, the ACP countries and the EC are negotiating Economic Partnership Agreements (EPAs), scheduled to enter into force by 1 January 2008. The EPAs will be WTO-compatible trading arrangements promoting the gradual integration of the ACP countries into the world economy. As such, their main aim is to serve as tools for the development of the ACP economies.

53. EPA negotiations started in September 2002 with discussions on the level of all ACPs. The subsequent regional phase focussed on market building issues in the six EPA regions (West Africa, Central Africa, Eastern and Southern Africa, the southern African Development Community, the Caribbean and the Pacific) Technical negotiations are ongoing, focussing on the text of the agreements and the approach to liberalisation in goods and services. Relations with South Africa continue to develop on the basis of the Agreement on Trade, Development and Co-operation of 1999.

54. Apart from the EPAs, the EC has also promoted the region-to-region approach in other agreements with developing countries. Based on its own experience of deep regional integration, the EC believes that such an approach can bring important additional benefits, with large internal markets governed by common rules presenting bigger and better opportunities than small ones. Negotiations between the EC and MERCOSUR were launched in June 2000 with the aim of achieving a greater level of political and economic co-operation and integration, including, for trade, the substantial liberalisation of all trade in goods and services. Negotiations are to be concluded as soon as it is politically and technically feasible. Over the last few years, also the Central American region and the Community of Andean Nations manifested their strong interest in bi-regional Free Trade Agreements with the EC. After carefully assessing these requests, the intention to launch negotiations with Central America, was declared by both sides at the EU-Latin American and Caribbean summit in Vienna in May 2006. With the Community of Andean Nations, preparations to officially launch negotiations are ongoing. With Mexico and Chile, comprehensive Free Trade Agreements are already in place. Since the last EC TPR, negotiations with Mexico started under the Agreement's review clause on agriculture, services and investment. The bi-regional approach has also been applied to the negotiations between the EC and the Cooperation Council for the Arab States of the Gulf (GCC); over the last years, negotiations advanced on an ambitious FTA, covering also a number of regulatory issues. Negotiations for a Trade and Cooperation Agreement with Iraq were launched in November 2006. With Iran, the last round of the negotiations for a Trade and Cooperation Agreement, which were launched in December 2002, took place in July 2005.

Autonomous EC preferences

55. Many developing countries are linked to the EC on a contractual basis. In addition to this, or, for those developing countries who do not have agreements with the EC, the EC's Generalised System of Preferences (GSP) offers generous access to the EC's market on an autonomous basis. In 2005, a new GSP Regulation was approved for the period 2006-2008, improving market access for export products from developing countries and economies in transition. Besides a general arrangement granted to all listed beneficiary countries, a new special incentive arrangement for sustainable development and good governance ("GSP+") provides further extended duty preferences to 15

vulnerable countries. As a third pillar, the already existing "Everything-but-Arms" initiative, under which Least Developed Countries have duty-free-quota-free access across the board, was fully integrated into the GSP system.

Relations with other partners

56. In addition to the FTA, regional or autonomous initiatives described above, the EC has also established frameworks with a number of developed countries for continued dialogue on trade issues, and certain more specific bilateral initiatives related to trade facilitation. The focus of co-operation with a number of developed countries has largely been on tackling remaining regulatory barriers while preserving a high level of protection for health, safety, consumers and the environment. Mutual Recognition Agreements on product testing and certification requirements, agreements or co-operation in SPS and veterinary matters, and co-operation on customs and competition issues have all proven to be helpful instruments to remove barriers or to prevent their creation. The EC has also sought to use such bilateral frameworks for preventing disputes. Co-operation with key industrialised country partners encompasses both bilateral and multilateral issues, and reflects the shared commitment to strengthen the multilateral trading system and to improve the bilateral regulatory environment.

57. With the United States, trade by-and-large takes place under MFN conditions, with tariffs posing only relatively few market access problems, in areas of US tariff peaks. Co-operation and co-ordination on issues of relevance also for trade already takes place in a variety of bilateral fora, including the New Transatlantic Agenda, the Transatlantic Partnership and the Positive Economic Agenda. In 2005, a new EC-US Economic Integration and Growth Initiative was launched, which includes a high-level Regulatory Co-operation Forum, intended to tackle remaining barriers in investment, public procurement, and services. At the end of November 2005, an EC-US IPR Working Group was set up resulting in the adoption in June 2006 of an Action Strategy on IPR enforcement in third countries. With Canada, negotiations for a new type of bilateral agreement – the Trade and Investment Enhancement Agreement or TIEA – were launched in May 2005. Focusing on the main challenges of the EC-Canada bilateral trade relationship and thereby reflecting the decreasing importance of tariff barriers between these two open trade economies, the TIEA intends to leave aside "classical" market access discussions and address the growing importance of barriers of a regulatory nature and the significant role of "two way" investment in the transatlantic relationship. The negotiations were put on hold in May 2006 pending the outcome of the Doha Round.

58. Bilateral relations with Australia were further refined during the last years, in particular through negotiations over a new wine agreement and amendments to the already existing Mutual Recognition Agreement to simplify its operation and remove origin restrictions from the core of the Agreement. With New Zealand, agreements for mutual recognition and veterinary matters exist already, and the former is undergoing the same changes as in the case of Australia. Negotiations for a wine agreement are due to start shortly. With both countries, trade in goods and services is well developed.

59. The EC already has well established dialogues with Japan, including on regulatory issues, as well as IPR and public procurement. The EC and Japan are also linked by a Mutual Recognition Agreement and an Agreement on Co-operation on Anti-competitive Activities. With Korea, similar co-operation exists on the basis of the Framework Agreement for Co-operation and Trade. The EU-Korea Summit of September 2006 noted ongoing exploratory talks on a possible EC-Korea FTA.

60. Throughout the reference period, the EC continued its policy of constructive engagement with China to help its smooth integration into the world trading system. In October 2006, the Commission

issued a Communication on a comprehensive approach toward China, including trade policy. As concerns trade in textiles, following the abolition of WTO textiles quotas at the end of 2004, the EC and the Chinese authorities agreed in June and September 2005 to ensuring a smooth transition towards free trade in textiles as from January 2008; for the interim, agreed levels were set. This allows the European industry to restructure while at the same time, the Chinese side benefits from a fair increase of exports during that period. In the same vein of constructive cooperation, a working group to improve the enforcement of intellectual property rights was established. Preparations are ongoing for the negotiation of a new framework agreement with China which will be instrumental for shaping the EC's future relations with this important partner. The EC also attaches great importance to economic and commercial relations with Chinese Taipei and Hong Kong, and contacts and exchanges are frequent.

61. Relations with other Asian trading partners were also advanced. The European Trade Commissioner and ASEAN trade ministers agreed in 2005 to examine the feasibility of an EC-ASEAN FTA and a joint study group of senior officials recommended to establish such an FTA. The EU-India Summit of September 2005 adopted an Action Plan with an ambitious trade chapter, intended to look at all ways to improve trade in goods and services between the EC and India. In October 2006, the EU-India summit considered the possibility to launch negotiations on a broad-based trade and investment agreement.

IV. THE EC'S COMMITMENT TO SUSTAINABILITY AND DEVELOPMENT (2004-06)

Sustainability

62. The EU Treaty and the so-called 'Cardiff process' call for the integration of sustainable development objectives in all EC policies. As to trade, the EC's deep commitment to the promotion of sustainable development through its trade policy manifests itself in all of the EC's trade measures, at multilateral and bilateral level and in its autonomous initiatives. For this, the EC can also draw on its own experience, whereby the creation of the EC's Internal Market and important joint economic reforms to foster growth and prosperity for all EC citizens have gone hand in hand with the development of ever higher environmental and social protection standards.

63. Environmental and social considerations are thus key issues for the EC, both internally and externally. In the EC's trade policy in particular, they have been pursued at the multilateral and bilateral levels as appropriate. The EC has thus been an important proponent of the DDA negotiations on Trade and Environment, and has also taken account of environmental objectives in bilateral trade policy initiatives. Concerning social development, a number of initiatives have been pursued, including through bilateral agreements and technical assistance. The EC also supports closer cooperation between the WTO and the ILO. Furthermore, as mentioned above, the European Commission's recent Communication on promoting decent work also foresees further initiatives in the area of trade policy. In addition, the reform of the EC's GSP system has provided an additional boost to the pursuit of sustainable development objectives in trade policy, as the new special incentive arrangement is directly linked to the respect for international standards on sustainable development and good governance.

64. To ensure the objectives of fostering sustainable development are met in the trade policy-making process, the European Commission has carried out Trade Sustainability Impact Assessments (SIAs) for all major trade negotiations it is involved in since 1999, both multilateral and bilateral or bi-regional. These studies which are conducted during trade negotiations aim to identify potential economic, social and environmental impacts and look at the potential effects both in the EC and in the countries or regions with which the EC is conducting negotiations. They are circulated widely to all

concerned in the public, private and not-for-profit sectors both in the EC and the partner countries during the different drafting phases of the studies. The findings can help to integrate sustainability into trade policy more effectively and may also provide material to design possible accompanying measures to maximise the positive effects and to mitigate any negative consequences of the future agreements. Trade SIAs are carried out by independent external consultants and therefore do not engage the European Commission but once the studies are delivered, it drafts a paper setting out its reactions. For example, as a result of a comprehensive Trade SIA on forestry in the DDA negotiations, the European Commission has recently published a position paper on this study.

Trade and development

65. Trade and development is one of the nine priority areas for EC aid as defined in the European Consensus on Development. At the multilateral level, development concerns have been reflected in all of the EC's submissions to the DDA negotiations, often in the form of special and differential treatment. The positive outcome of the Hong Kong Ministerial of December 2005, and in particular the decisions related to duty-free and quota-free market access for the least-developed countries, Aid for Trade, and intellectual property and public health, was largely inspired and pushed for by EC initiatives, e.g. the EC's Everything But Arms initiative and the Commission President's successful pledge for additional commitments on Aid for Trade to the amount of €2 billion by the EC and Member States.

66. The EC has been a major promoter of the concept of policy coherence for development, and has supported such coherence also in and between fora other than the WTO, such as the United Nations, UNCTAD, the ILO or the Bretton Woods institutions. At the policy level this implies the adoption of strategies for sustainable development aimed at reconciling economic growth, social cohesion and environmental protection.

67. In its bilateral relations, the EC, in partnership with developing and least-developed countries, seeks greater consistency and synergies between trade and development initiatives. Efforts to assist the developing countries in achieving growth, alleviating poverty and improving social equality within a framework of sustainable development have to be undertaken through a range of policy tracks, including trade policy. In terms of trade policy as such, carefully managed, progressive market opening and stronger multilateral rules can support development and also provide an impetus to the domestic reform process. With the reform of its GSP system in 2005, the EC has taken a further important step by directly supporting sustainable development and good governance in the partner countries through the "GSP+"-track.

68. Strengthening the trading capacities of developing countries can significantly contribute to growth and sustainable development by enhancing the export earnings of developing countries, promoting the level of their industrialisation, and encouraging the diversification of their economies. However, it is but one instrument in the development tool box. The possibilities for reaping the maximum benefits from the different provisions and areas of co-operation of the EC's bilateral agreements are often hampered by the lack of institutional capacities or infrastructure. In many cases, the EC thus couples its agreements with significant financial assistance to the partner countries to help with the implementation, including trade-related assistance. In parallel, the EC has engaged in substantive dialogue with the private sector, encouraging corporate social responsibility and the voluntary integration of social and environmental concerns in business activities world-wide. Since the last TPR, the European Commission has also further refined its online Help Desk for exporters, in particular from developing countries. This free service provides assistance to take better advantage of existing and future market access opportunities offered by the EC.

69. During the period of 2001-05, the EC delivered around €4.3 billion in financial assistance of relevance to trade. About one third of the total value amount can be considered as assistance under the narrower category of support to trade policy/regulation while the remaining two thirds went toward trade development and trade-related support for the private sector. In terms of activities the EC has financed, support through the whole spectrum of trade policy/regulation and trade development categories was provided, ranging from supporting the preparation of countries for accession to WTO, to the compliance with quality standards, the development of export capacities and small and medium enterprises, trade facilitation and the implementation of international trade agreements. For its next cycle of development assistance, the EC plans to include a yet more significant trade component.

70. At the multilateral level, the EC and its Member States are strong supporters of the Integrated Framework on Trade Related Technical Assistance. Several Member States and the EC are Donors of the IF. The EC also supports the results of the work of the task force for Aid for Trade, which were presented in October 2006, will actively contribute to the follow-up and strive to deliver on its pledges made at the Hong Kong Ministerial.

V. CONCLUSION

71. As demonstrated by the review of the main developments in the EC during the reference period 2004-06, trade policy is a key instrument for the EC to achieve sustainability and growth at home and abroad.

72. The EC continued its exemplary commitment to the multilateral approach, which it complemented with bilateral, bi-regional and other initiatives only when necessary and appropriate. The EC has and will remain a strong supporter of the developing countries and their advancement; in the area of trade, this commitment is also reinforced by the EC's resolve to significantly increase its trade-related assistance in the coming period.

73. The EU is now facing a triple challenge of equipping Europe for globalisation, dealing with enlargement and preparing for a new round of institutional reform. Trade policy is a crucial tool for meeting the first of these three challenges. While globalisation has been highly beneficial to the EC in the past, and can continue to be so, it needs to be managed carefully. Through and also beyond the DDA, the main focus of the EC's trade policy for the coming years will be on boosting the EC's competitiveness in a sustainable way and therewith that of all its trading partners.
