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**TRADE POLICY REVIEW**  
**EUROPEAN UNION**  
**Report by the Government**

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 the European Commission is attached.

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



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## I. INTRODUCTION

1. The last two years have witnessed continued international debate about the benefits, implications and potentially negative impact of economic globalisation, and about how to manage globalisation in a way that supports sustainable development. For the EU, and for EU Member States, this debate has likewise been reflected in both its internal and external economic policies over the past two years, whether this be the deepening of its relations with countries in the process of accession to the EU, the introduction of the Euro, the further consolidation of the EU's internal market, or the promotion of sustainable development at the multilateral level.

2. Recognising that trade policy, like other fields of economic policy, is a means to the end of providing for economic prosperity, and providing the economic underpinning for the chosen level of social provision societies consider appropriate, the EU's approach to trade policy in the period under review has continued to reflect its fundamental commitment to an open and dynamic market economy, supporting appropriate levels of social provision and protection, and conducive to sustainable development.

3. The open multilateral trading system principally embodied in the WTO Agreement remains the central plank of this wider trade policy agenda. The WTO's system of rules, negotiated market access commitments, and its commitment to future progressive liberalisation and strengthened rules constitutes, in a sense, an external framework for agreement on and implementation of the right economic policies, comparable to the EU's own internal market programme, its own experience in international cooperation and rule making, and its commitment to sustainable development.

4. This **sixth review** covers a period in which the EU has been at the forefront of efforts to launch a new round of multilateral trade negotiations. A substantial part of the EU's trade policy activities in the period under review has therefore naturally focussed on working both within the Union and with trading partners to define the future multilateral agenda, and to build consensus in favour of a comprehensive trade round that would offer benefits to all WTO members. The EU considers international economic cooperation through the WTO to be both necessary and one of the most effective ways to reconcile the varying demands of economic growth, the equitable integration of developing countries into the global economy, and improved environmental protection and social development, in order to better to harness the process of globalisation.

5. The **successful launch of the new negotiations** at Doha constitutes, therefore, a significant step towards restoring confidence in the multilateral system and strengthening international economic governance. The Doha Development agenda opens the way for negotiations leading to further improvements in market access for goods and services as well as strengthening and expansion of trade rules, with the overall objective of sustainable development. The Declarations adopted at Doha above all reflect the interests of developing and least-developed countries in enhancing their integration into the global economy.

6. Within the EU itself, a number of **key developments** have taken place since the last review, the main step forward being the successful introduction of the euro coins and banknotes on 1 January 2002. The enlargement process has also made remarkable progress, underpinned by internal reforms within the EU Institutions. Important steps have been taken towards further liberalisation, economic and structural reform that will contribute to the EU's international competitiveness and be supportive to stronger integration into world markets from a solid domestic basis. Further progress has also been made in completing the Single Market with notable successes, in particular after the Lisbon European Council in March 2000 which gave an important stimulus to economic and social renewal.

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## II. KEY DEVELOPMENTS IN THE EU (2000-2002)

### (1) POLITICAL/INSTITUTIONAL DEVELOPMENTS

7. There has been considerable progress in pursuing the four strategic objectives set out by the Commission in January 2000 at the start of its five year mandate: enlargement, sustainable growth, subsidiarity and improved governance.

8. Particular attention has been paid to both **internal reforms** within the EU Institutions, and the broader reforms being carried out in **preparation for enlargement** of the Union, now that negotiations with a number of applicant countries are at an advanced stage. This process of reform was taken forward by the **Treaty of Nice** in December 2000, still in the process of ratification, and which adapts current structures in order to prepare for enlargement. Beyond Nice however, a more far-reaching reflection on the future of an enlarged Union has also been launched by the creation in early 2002 of a **Convention** to identify options for future Treaty changes to be considered in the next Inter-Governmental Conference. In parallel, a broad reflection on how to improve the functioning of the Union was launched through the **Commission's White Paper on European Governance** in Summer 2001. This has placed stress on improving the regulatory environment and on greater involvement of all stakeholders in the European policy-making process, objectives the EU has also sought internationally.

9. The European Union has continued to pursue the **strategy for economic and social renewal** adopted by the European Council in Lisbon in March 2000, chalking up some notable successes to improve the Internal Market's performance. These successes have maintained momentum behind key structural reforms, while also maintaining a focus on research, skills, training and innovation within an emerging European Knowledge Area. This strategy has been completed by subsequent European Councils, notably by the addition of a **Social Policy Agenda** in December 2000 and the setting out of a comprehensive approach **to sustainable development** in June 2001.

10. The **enlargement** process has moved forward steadily and now entered a crucially important stage. The Gothenburg and Laeken European Councils have drawn up important guidelines for the final steps of the process. The aim is to conclude negotiations with those candidate countries that are ready by the end of 2002, so that they can take part in European Parliament elections in 2004 as members. For those countries with which negotiations cannot be concluded by then, the European Commission will propose an enhanced pre-accession strategy and a precise road map with the objective to further speed up the negotiations. The pre-accession strategy for Turkey has moved into a new stage, with the detailed scrutiny of Turkey's legislation and preparation for alignment with the *acquis*.

### (2) DEVELOPMENTS IN THE INTERNAL MARKET

11. Further progress on the internal market has been accomplished during the last two years, with the introduction of the euro as the major achievement.

12. The successful **introduction of the euro** banknotes and coins in January 2002 marked the completion of the monetary union process in the twelve EU Member States which have adopted the euro (Greece having joining the eurozone on 1 January 2000). Three Member States, namely Denmark, Sweden and the United Kingdom, are not part of the euro area, as they have not yet decided to join it or have not fulfilled all the conditions to do so.

13. The introduction of the euro banknotes and coins was the largest-ever currency changeover operation in history, and was carried out in each participating country according to national plans. Euro banknotes and coins were distributed as of 1 January 2002, though some euro coins were put on sale from mid-December. All countries experienced a period of dual circulation when both legacy currencies and the euro held legal tender status. The period of dual circulation ended on 28 February, though some countries (the Netherlands, France and Ireland) had set shorter periods of dual circulation. Germany was the only country where the legacy currency lost legal tender status as of 31 December 2001; nonetheless, retailers accepted Deutsche marks until 28 February 2002.

14. The euro has produced tangible benefits for the euro area economy: a macroeconomic policy framework that ensures stability; low inflation and low interest rates; progress in the development and integration of national financial markets and more resilience to external shocks. The physical introduction of the euro has brought additional benefits, notably increased price transparency which will strengthen competition in the EU single market.

15. The Lisbon European Council in March 2000 recognised the importance of a **fully integrated Internal Market** as a key element of the economic and structural reform needed to boost the EU's international competitiveness. Important steps have been taken in these two years to improve the Internal Market's performance - for example, further liberalisation of postal services, a Directive establishing the legal framework for e-commerce, a new telecommunications package which will encourage greater competition and protect consumers, the European Company Statute which will allow companies to organise themselves efficiently across borders, and some important items of legislation foreseen in the Commission's Financial Services Action Plan (eg. UCITs Directive or the International Accounting Standards Regulation). Also, the Directive on the harmonisation of certain aspects of copyright and related rights in the information society has been adopted. This will allow ratification of the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty by the EC and its Member States.

16. The Barcelona European Council of March 2002 cleared the way for further progress, particularly in network industries (energy, transport, telecommunications) and financial services, where eight items of draft legislation are currently awaiting adoption in the Council or the European Parliament. Agreement is also expected soon on the Regulation for a Community Patent - which will offer firms a cost-effective means of protecting their inventions and exploiting their intellectual property rights - and the public procurement package - which will update the Community's legal framework to take account of new technologies, such as e-procurement. In addition, the Commission is pressing ahead with its strategy for removing barriers to the Internal Market in services and the modernisation of the Community's competition rules. To ensure that progress is maintained, the Commission's **Internal Market Strategy** - a five-year process which is reviewed annually - provides a framework for setting priorities, monitoring the speed with which they are achieved and making adjustments as necessary. A more effective Internal Market will contribute to faster European growth which will also of course benefit those countries trading with the EU.

17. Norway, Iceland and Liechtenstein are closely linked to the Internal Market through the Agreement on the **European Economic Area (EEA)**. The European Commission and the EFTA Surveillance Authority ensure uniform application of the common rules, while the EU Court of Justice and the EFTA Court exert judicial control. The level of transposition of Internal Market rules is already high. In the period under review, Norway and Iceland have considerably further reduced their transposition deficits and Liechtenstein is making steady progress.

### (3) DEVELOPMENTS IN TRADE

18. In 2001, **the EU-15 trade deficit shrank** by about 50 percent, from EUR 91 bio in 2000 to EUR 46 bio in 2001. EU-15 trade flows with its major partners were mixed, with falls recorded in imports from Japan (-13%), from the USA (-3%) and from Norway (-1%), and in exports to Turkey (-33%). On average, EU imports increased by 12% annually from 1996-2001, whereas EU exports only rose 9% annually over the same period. The highest EU trade deficit in 2001 was recorded with China (EUR -45.7 bio). The highest surplus was registered with the USA. The latter increased to EUR +43.6 bio in 2001 from EUR +33.5 bio in 2000. EU15 trade with Japan showed a decrease in the EU deficit (EUR -30.8 bio in 2001 compared to EUR -42.1 bio in 2000). The EU's largest suppliers are the U.S.A., China, Japan, Switzerland, and Russia. The EU's largest export markets are the U.S.A., Switzerland, Japan, Poland and China.

19. The largest relative increases in imports in 2001 were from the Czech Republic (+16%), Turkey (+15%) and Poland (+14%). About three quarters of EU imports are composed of primary products, machinery, and other manufactured products, in roughly equal shares. The most notable increases were in exports to Russia (+39%), China (+17%) and the Czech Republic (+14%). About 87% of EU exports are manufactured products, primarily machinery (30%), transportation materials (17%), and chemical products (14%). The energy deficit stabilised (EUR -117.9 bio in 2001 compared to EUR -118.1 bio in 2000), while the surplus for machinery and vehicles increased (EUR +79.0 bio in 2001 compared with EUR +45.4 bio in 2000).

20. In 2001, the EU liberalised its **trade with Least Developed Countries** (LDCs) under the Everything But Arms (EBA) initiative. Although only implemented towards the end of the year, imports from these countries nevertheless considerably increased in 2001 bringing the EU's trade deficit with LDCs to EUR -1.2 bio. Further increases can be expected in the near future as LDCs exploit their preferential access.

21. The **EU is the world's largest importer of services** with 24% of total world services imports. The EU maintains only a small surplus in its services balance (EUR +5.2 bio in 2000). EU services' imports come overwhelmingly from the U.S.A. (over 40% of total). Much of the rest is imported from Asia (17.2%), the Mediterranean (8.5%) and the EU accession candidate countries (5.7%). About one half of EU services trade consist of travel and transportation, in roughly equal shares. Other business services account for about another quarter. The fastest import growth in recent years has been in computer and information services, which grew by 24% annually from 1994 to 2000.

22. The **EU accounts for almost half of all world outward FDI flows**. In 2000, EU FDI outflows exceeded inflows by EUR 186 bio. On average, more than half of EU FDI outflows go to the U.S.A., 12% to the LATAM 20 countries, 5% to the candidate countries, and 7% to Asia. From 1997-2000, EU outward FDI flows to the U.S.A. increased by 53%, and flows to Japan grew by close to 84% per year. EU FDI flows to Korea also advanced rapidly (by on average 138%). Flows to China, to the candidate countries, and to Latin America all increased by roughly 30% annually.

### III. THE EU TRADE POLICY FRAMEWORK

23. The **formulation and implementation of trade policy in the EU** takes place in an efficient, transparent and democratically accountable manner. Article 133 of the EC Treaty is the legal basis for EU 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. The Commission ensures the

uniform representation of EU trade policy views at both bilateral and multilateral level, assisted by a consultative Committee (Article 133 Committee) composed of representatives of the Member States. The day-to-day running of EU trade policy is the task of the Commission's Directorate General for Trade. The European Parliament is kept informed and is consulted on a regular basis. In addition, the Commission implements a policy of transparency and broad, open dialogue with stakeholders, inter alia by organising regular meetings sessions with representatives of interest groups and civil society, including representatives from industry, the social partners and the NGO community.

24. The **Treaty of Nice** introduced a substantial reform of Article 133 of the EC Treaty. It aims at adjusting Article 133 to the reality of modern trade policy, which covers a growing number of related policy areas. The new text therefore ensures the application of uniform rules and procedures regarding the conclusion by the EC of agreements in the field of trade in services and the trade aspects of intellectual property. The EC and its Member States will continue to act together with regard to the issues for which they share competence, such as social, cultural, educational and health services. In this way, the revised Article 133 will improve the formulation and implementation of trade policy in the European Community by means of a clarification of powers and procedures and enhanced uniformity and flexibility in the decision-making mechanisms.

25. The EU's trade policy should be seen in the context of the overarching objective of **sustainable development** set out in Article 2 of the Treaty on European Union, as well as Article 6 which requires environmental concerns to be integrated into all EU policies - including trade policy. It flows from this that the EU seeks to ensure that trade is sustainable and that its trade policy as a whole aims to be supportive of sustainable development. The EU therefore plays a leading role in international fora addressing trade and sustainable development issues, and remains particularly supportive of increased action at multilateral level, including through the WTO, in favour of sustainable development.

26. This commitment to promoting sustainable trade has been reflected in the EU's approach to the new negotiating round, in particular its firm support for the overarching goal of sustainable development reaffirmed by WTO members in Doha. The EU is also committed to carrying out **Sustainability Impact Assessments (SIAs)** of both its multilateral and bilateral trade negotiations. A general SIA of the EU's negotiating mandate was carried out before the launch of the new round, with further sectoral assessments now being carried out. SIA's are an important tool for policy makers since they can illustrate how to maximise benefits of trade liberalisation and show where flanking measures might be needed to optimise outcomes or offset negative side effects.

#### **IV. THE EU'S TRADE POLICY AT GLOBAL LEVEL**

##### **(1) THE EU AND THE WTO**

###### **(i) Strengthening and promoting the multilateral system**

27. 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.

28. 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.

29. 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.

30. 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.

31. 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.

32. 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.

33. 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.

34. 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.

35. 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.

36. 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.

37. 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.

38. 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.

**(ii) Preparing and launching a broad and balanced round**

39. 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.

40. 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.

41. 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.

42. 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.

43. 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).

44. 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.

45. 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.

46. 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.

47. 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

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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.

48. 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.

49. 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.

50. 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.

51. 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.

52. 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.

53. 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.

54. 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.

55. 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.

56. 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.

57. 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.

58. 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.

59. 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.

## (2) BILATERAL AND REGIONAL TRADE RELATIONS

60. 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.

### (i) Preferential trade regimes

61. 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.

62. 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.

63. 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.

64. 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.

#### (ii) Free trade areas

65. 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.

66. 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.

67. 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.

68. 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.

69. 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.

70. 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.

71. 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 were 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.

72. 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.

### (iii) Regional initiatives

73. 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 for 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.

74. 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.

### (iv) Other bilateral relations

75. 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.

76. 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.

77. 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.

78. 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.

79. 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.

80. 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.

81. 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.

82. 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.

83. 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.

## V. FUTURE POLICY MAKING

84. During the period under review, the EU's policy has had a strong focus on the preparations of the WTO new round. Future policy making will continue to reflect the EU's approach which is to assume its responsibilities within the WTO, in particular to maintain a flexible approach in the multilateral trade fora, to contribute in a constructive and active manner to the current negotiating round and to ensure its successful conclusion. On the trade and development side, the EU is committed to make substantial efforts in order to address the concerns of developing countries at both bilateral and multilateral level. On the bilateral side, the EU will concentrate its work on new initiatives, notably the Economic Partnership Agreements (EPA) with the ACP countries.

### (1) THE DDA NEGOTIATIONS

85. The EU pushed hard for the new round, and was pleased that the decision on the DDA in Doha resulted in the launch of a truly comprehensive round, one which will enable the rules of the

WTO to be strengthened and updated to reflect the economic realities of today and which will be able to address, in a balanced way, the core interests of all WTO members. It seems evident that it will only be possible to conclude the round if it is equally balanced and responsive to the interests of the whole of the WTO's membership. To achieve this goal remains the EU's primary multilateral trade policy objective for the next years.

86. The EU is therefore pleased to note that the decisions taken for the organisation of the DDA have ensured parity in treatment for all the DDA subjects, whether they are subjects for which negotiations have started already now or whether they are subjects for which negotiations will only start after the 5<sup>th</sup> Ministerial Conference. It reflects the recognition that each of the components of the DDA is a key factor in achieving an overall balanced result.

87. The EU also welcomes the fact that since Doha work under the DDA on substance progresses well. Many WTO members have already produced substantive submissions on the various subjects under the DDA and the EU intends to continue itself to submit papers across the board of the DDA.

88. The EU considers it crucial to ensure comparable and substantial progress on all issues up to the 5<sup>th</sup> WTO Ministerial in Mexico, since this will constitute an important staging post on the road to concluding a Single Undertaking in time for the 1 January 2005 deadline. In view of the EU, it will be perfectly feasible for the WTO membership to conclude the negotiations in time, if the political will is there and if we make sufficient progress in order to ensure the success of the 5<sup>th</sup> Ministerial Conference.

89. The EU intends to work together with all WTO members, who consider the conclusion of the DDA as a priority for strengthening the multilateral trading system, enhancing the prospects for global economic growth and for contributing to world-wide sustainable development.

## (2) TRADE AND DEVELOPMENT

90. In addition to the efforts in the context of the DDA work programme, the EU is committed to a broader strategy to help developing countries integrate in the multilateral trading system and the global economy. **Trade-related technical assistance and capacity building** are key components of this EU trade and development strategy.

91. In the year 2000, the Development Council and the European Commission adopted a Joint Declaration on the European Community's Development Policy, and identified six priority areas for assistance. Linking Trade and Development figures as one of the six priorities, and is being complemented by priorities for Institutional Capacity Building, Transport, and support for Sound Macro-Economic Policies. Since then the European Commission has, and will continue to integrate trade capacity building, including supply side development, in its development assistance programmes, mainly through the process of Country and Regional Strategy Papers. The allocation of specific funding for TRTA/CB is expected to be substantial and will be done through National and Regional Indicative Programmes. Several initiatives have already been taken by the Commission, notably for the ACP group of countries: a €10 million TA programme for ACP participation and application of the WTO Agreements, and a €20 million TA programme for TA related to the EPA process. Furthermore the Commission will be organising seminars and workshops for negotiators and administrators from all developing countries.

92. EU efforts towards more and better TRTA / CB at bilateral and multilateral levels should be seen in the overall context of a strategy for **improved governance globally** to support the integration of developing countries in the global economy for poverty reduction and sustainable development.

93. At a multilateral level the European Union contributed in the year 2002 around 60% of the value of the DDA Global Trust Fund. The European Union strongly supports the revamped Integrated Framework (IF) for Least Developed Countries, and participates actively in the IF bilateral donors meetings and the IF Steering Committee meetings. Contributions to the Integrated Framework Trust Fund amounted to more than 50% of the total as of February 2002. The European Commission has pledged to be lead donor for two IF countries in Africa.

94. The European Commission maintains intensive contacts with international institutions like the World bank, the IMF, UNCTAD, UNDP, ITC, WCO, etc and intends to do so in the future.

95. The EU's support for the new multilateral trade negotiations is but one element of broader efforts for improved governance globally. The EU sees Doha as part of a process which also comprises the Monterrey Conference in March 2002 on financing for development, which defined a partnership for development financing, building on increased assistance for better domestic policies; as well as the WSSD in Johannesburg in August 2002, which is expected to add to that global partnership the building blocks for sustainable development. The EU remains committed to this process, which builds on the Millennium Summit outcome and the Brussels 2001 Conference for the least-developed countries.

### (3) NEW BILATERAL INITIATIVES

96. In the Cotonou Agreement, the ACP countries and the EU agreed to conclude new WTO compatible trading arrangements, removing progressively barriers of trade between them and enhancing cooperation in all areas relevant to trade. It was agreed that **Economic Partnership Agreements (EPAs)** would be negotiated from September 2002 and would enter into force in 2008. EPA negotiations will take a comprehensive approach towards tackling the development challenges in ACP countries. They will build on regional integration initiatives existing within the ACPs, at a level and in accordance with procedures agreed by the ACPs. EPA arrangements shall take account of the level of development and socio-economic impact of trade measures on ACP countries, and their capacity to adapt to the liberalisation process. EPAs will include Free Trade Agreements in line with Art. XXIV GATT between the EU and ACP countries. Negotiations will be as flexible as possible regarding the duration of a sufficient transitional period, the final product coverage, taking into account sensitive sectors, and the degree of asymmetry in terms of timetable for tariff dismantlement - while remaining in conformity with WTO rules. EPAs will cover a comprehensive economic co-operation which includes co-operation in trade-related areas such as competition policy, standardisation and certification, protection of IPR, sanitary and phytosanitary measures, trade and labour standards, consumer policy and -health. They will be prepared and accompanied by development co-operation. For example a 20 m€ programme for the pre-negotiation and preparatory phase has been put in place to help the ACPs to prepare for negotiations.

## VI. CONCLUSION

97. The EU remains committed to supporting, strengthening and further improving and developing the multilateral trading system as it firmly believes in multilateralism and in the positive impact it can have on economic growth, distribution of wealth, poverty reduction, sustainable development and a better integration of poorer countries in the global economy.

98. Further trade and investment liberalisation and rule making, as well as the improvement of the functioning of the WTO system in order to make it work better for all members and all citizens, will all remain priorities for the EU's future trade policy agenda. The EU therefore continues to work hard

internally and with its trading partners to ensure the successful conclusion of an ambitious negotiating round within the 3-year timeframe. At the same time the EU is committed to give substance to the commitments made in Doha on the development side of the agenda, in particular on trade-related technical assistance and capacity building measures to help developing countries to fully participate in the multilateral trading system and to benefit from its positive impacts.

99. As one of the world's major trading powers, the EU can exercise considerable influence on global trade and investment, but it is clear to the EU that this needs to be done together and in close co-operation with all of its other trading partners. The EU therefore continues to coordinate its activities with its trading partners in order to promote open and fair trade not only at a multilateral but also at a bilateral or regional level. The EU is convinced, however, that regional free trade agreements develop their full potential only where they build on commitments to basic international principles such as those embodied in the WTO. Increasingly, the EU's approach to FTA's will extend beyond goods and services liberalisation to more comprehensive rule-making engagements.

100. On the domestic side, the EU has opted for a combination of market opening with the necessary regulation in the economic, social and environmental field, and accompanied by a degree of redistribution of the gains of openness. Substantial progress has been made in this respect. The next big step ahead for the EU is to successfully manage a smooth enlargement process which will no doubt have its impacts at global level.

101. Europe's growing influence in a globalised world has led it to focus on building political support for institutions and their rules, with the objective of strengthening and rebalancing the various pillars of global governance and promoting coherence between them. The WTO is a key pillar of the international economic system and the Doha agenda now offers an unprecedented opportunity – which all must seize – to strengthen that pillar. More generally, however, the EU will in the months and years ahead devote all its tools of external policy (trade, development, political dialogue and diplomacy) to efforts to better harness globalisation, to promote sustainable development and to forge a global partnership with developing countries, Doha, Monterrey and Johannesburg are all key staging posts in fulfilling these objectives.

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