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TRADE POLICY REVIEW

Report by

EUROPEAN COMMUNITIES

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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.

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I. INTRODUCTION

1. This Trade Policy Review of the European Communities (EC) refers to the period 2007-08, which was a time of several major anniversaries in the context of the European integration process. Rather than just looking back and celebrating past achievements, these anniversaries were used to reinvigorate on-going efforts and launch new initiatives in the various areas of EC activity, including trade policy, that aim to consolidate, and build upon these significant earlier accomplishments as well as to respond to evolving priorities and the ever changing global environment.

2. The EC is the largest actor in international trade, accounting for nearly a fifth of the global goods market and close to a third of the global services exchange. This makes its trade policy one of the key instruments for the achievement of prosperity in Europe. It also means that the rest of the trading world has a stake in what the EC does in the trade field. Against this background, the EC aims to formulate and implement its trade policy in ways that support sustainable development at home and abroad, and contribute to an open, balanced and well-functioning international trade regime. Its approach is thus characterized by a clear prioritization of multilateralism, while action at other levels is undertaken when and insofar it is compatible with, and can complement multilateral solutions.

3. The single most important trade policy activity for the EC over the last years has been its participation in the DDA negotiations, where the EC continued to provide leadership and facilitate consensus. Other key trade-related developments and achievements during the reference period addressed in this report include: progress in implementing the Global Europe Strategy particularly, *inter alia*, the renewal of our Market Access Strategy, the launch of negotiations on a new generation of FTAs and the move to a new level of engagement with key bilateral partners; the new initiative on IPR enforcement; in the area of trade and development, headway in EPA negotiations; the adoption of a revised GSP scheme for the period 2009-11; formulation of a EU Aid for Trade Strategy and the good progress achieved towards meeting the financial pledges made with regard to trade-related assistance; further steps to consolidate the Single Market; continued customs modernization; formulation of progressive new energy and climate change policies and adjustments made to the 2003 CAP reform based on the "Health Check".

II. KEY DEVELOPMENTS IN THE EC

(1) INSTITUTIONAL DEVELOPMENTS

4. 2007 marked fifty years since the signing of the Treaty of Rome, which established the European Economic Community (EEC), thereby setting the ground for an ambitious process of integration in Europe. In 1992, the European Economic Community was renamed the European Community (EC). The Maastricht Treaty introduced a new structure, the European Union based on three "pillars" (the European Community pillar, the Common Foreign and Security Policy and the Justice and Home Affairs cooperation). For its part, the European Commission celebrated its 50th anniversary in 2008.

5. In January 2007, the European Union grew to 27 Member States as Bulgaria and Romania joined, completing the fifth and largest wave of enlargement which started in May 2004 with the accession of eight other Central and Eastern European Countries as well as Cyprus and Malta. Following the notification to WTO of the Accession of Bulgaria and Romania, the EC launched the necessary WTO procedures under GATT Article XXIV.6 and under GATS Article XXI with several WTO Members.

6. Enlargement remains high on the agenda. Accession negotiations are under way with Croatia and Turkey. Provided that Croatia fulfils all the necessary conditions, it should be possible to bring

these to the final stage by the end of 2009. The former Yugoslav Republic of Macedonia has been granted the status of a candidate country, but negotiations have not yet begun. All other Western Balkan countries are potential candidates for EU membership.

7. Four of the new Member States of the EU, which joined in 2004, have recently also adopted the Euro: Slovenia did so in January 2007, Cyprus and Malta in January 2008 and Slovakia with the start of 2009.

8. In March 2007, after a period of reflection and consultation, EU leaders committed to relaunch the internal institutional reform process, which had been put on hold due to setbacks in the ratification process of the 2004 draft EU Constitution. This paved the way for the agreement on the Treaty of Lisbon, signed by the EU Member States on 13 December 2007.

9. This new treaty would bring about a series of improvements, which also affect the area of trade policy, including optimized working methods, more efficient decision-making processes, and enhanced democracy through a greater role for the European Parliament and national parliaments and more coherence in the EU's external activities. More specifically, in some aspects of trade policy, the Lisbon Treaty gives the European Parliament the same degree of legislative power as held by the EU Council of Ministers, and requires European Parliament's assent for all related international agreements. It extends the scope of the Common Commercial Policy to include foreign direct investment and simplifies the provision of uniform protection of intellectual property rights throughout the Union. It furthermore strengthens the position of the EU as a global actor in two concrete ways: firstly, by introducing a single legal personality for the Union which will enable the EU to conclude international agreements and join international organizations; and secondly, by integrating more closely the different strands of external policy. In order to enter into force, the Treaty of Lisbon has to be ratified by all 27 Member States. By the end of 2008, the parliaments of 25 Member States had already approved the Treaty of Lisbon.

10. On 30 June 2007, the Council of the World Customs Organization (WCO) decided to accept the request of the EC to join the WCO as of 1 July 2007. This decision grants to the EC rights and obligations on an interim basis akin to those enjoyed by WCO Members. Full accession will be possible once an amendment to the Convention establishing a Customs Cooperation Council, allowing economic and customs unions to join is ratified by the 174 current Members of the Organisation. The EC membership paves the way for the EC to contribute to, and influence WCO decision-making in key areas for EC, such as security, IPR, trade facilitation and capacity building, Customs in the 21st Century as well as more traditional activities of the WCO in customs areas.

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

11. In 2008, the EC celebrated the 40th anniversary of its Customs Union. Over the past four decades, customs have played a crucial role in allowing the Single Market to function effectively. The EC is determined to continue improving the functioning of EC Customs with a view to modernising customs procedures, to ensure they can face the challenges of the 21st century.

12. Two key developments characterized the significant progress made in the field of customs procedures. The Modernized Community Customs Code (MCC) entered into force in June 2008, introducing a thorough reform of community customs rules and procedures, making them simpler and electronic. The MCC will become operational once its implementing provisions are ready and applicable, and no later than June 2013. The Decision on a paperless environment for customs and trade, the so-called "Electronic Customs Decision", was adopted in January 2008. The Decision aims at establishing secure, interoperable electronic customs systems for the exchange of the data to

improve and facilitate customs procedures by 2014. This initial phase of the electronic customs initiative will be fully developed in the framework of the implementation of the MCC. Both the MCC and the Electronic Customs Decisions are envisaged to benefit both traders and customs authorities, as they will significantly reduce the cost of doing business in the EC and enhance the efficiency of customs services.

13. Since the launch of the Single Market programme 16 years ago, much has been achieved. By bringing down barriers to the free movement of goods, services, capital and people, and by strengthening competition, the Single Market has raised Europe's output by well over 2% and created 2.75 million additional jobs. During the period of review, important steps have been taken in order to further consolidate the Single Market. The Commission's Communication, "A Single Market for 21st Century Europe", published in November 2007, sets out a number of initiatives and actions to improve the functioning of the internal market, in particular to empower consumers, improve the environment for small businesses, stimulate innovation, improve the management of the Single Market and make the EC better equipped for globalization. Under this framework, the "Small Business Act" for Europe was adopted in June 2008 and strives to place the needs of SMEs at the forefront of the EC's policy. It is based upon the "Think Small First" principle in policy-making and supports SMEs' growth. In early 2008, a new Postal Directive was adopted in order to fully accomplish the internal market of Community postal services. This new Directive represents the final step in a long reform process that has already seen large areas of EC postal markets open to competition. In the field of public procurement, in November 2007, a Directive reviewing the rules on remedies was adopted. The new Remedies Directive improves the rights of rejected bidders. It introduces a mandatory ten days stand-still period between the award of the contract and its signature and it provides a mechanism to render illegally awarded contracts ineffective.

14. The Enterprise Europe Network was launched in 2008. It is aimed at providing a single point of contact for businesses seeking information about, or participating in EC activities and stimulating innovation through information exchange and partnership. It is a key instrument of the Competitiveness and Innovation Framework Programme (CIP), which focuses on supporting SMEs in their growth and innovation activities. Policy guidance for the Network is provided by the Commission's Directorate-General for Enterprise and Industry while the day-to-day management, including training, communication, information, contract management, quality control and reporting, is in the hands of the new Executive Agency for Competitiveness and Innovation (EACI).

15. The 2007 Spring European Council committed to transform Europe into a low carbon economy with secure, sustainable and competitive energy. It agreed ambitious targets to cut greenhouse gas emissions, increase energy efficiency and boost the use of renewable energy by 2020 (a 20% reduction in greenhouse gas emissions, a 20% share for renewables in final energy consumption and a 20% saving in future energy demand by 2020 compared to the baseline projection). The challenge ahead is to put the framework and instruments in place to deliver these targets and to build up international consensus for ambitious action within the UN framework. A number of Commission proposals were tabled during 2007 and 2008 to address these challenges. The third internal energy market package presented by the Commission in September 2007 included proposals to further open up the EC's internal energy market. This was followed by the energy and climate package in January 2008, encompassing proposals on emissions trading and renewables as well as Carbon Capture and Sequestration. Following a historic agreement reached by the European Council, this package was finally adopted by the European Parliament on 17 December 2008. A Strategic Energy Technology Plan was presented in November 2007 to accelerate the development and implementation of low carbon energy technologies. Measures to improve the energy efficiency of consumer goods were also proposed.

16. A second Strategic Energy Review was presented on 13 November 2008 with a view to giving a new boost to energy security in Europe, further supporting the 20-20-20 climate change proposals fostering energy solidarity within Europe, and putting forward a new policy on energy networks to stimulate investment in more efficient, low-carbon energy networks. In addition, a package of energy efficiency proposals aims to make energy savings in key areas, such as reinforcing energy efficiency legislation on buildings and energy-using products, and enhancing the role of energy performance certificates as well as inspection reports for heating and air-conditioning systems.

17. On 10 October 2007, the Commission tabled its proposal for an Integrated Maritime Policy for the EC, which was welcomed by the European Council on 14 December 2007. The Integrated Maritime Policy is aimed at enhancing Europe's capacity to face the challenges of globalization and competitiveness, climate change, degradation of the marine environment, maritime safety and security, and energy security and sustainability. This policy is based on excellence in marine research, technology and innovation, and it is foreseen in the Lisbon agenda for jobs and growth, as well as the Gothenburg agenda for sustainability. During the first year of its implementation, a good number of major new initiatives have been put in place in areas as varied as border surveillance, sustainable tourism, maritime transport strategy, climate change, marine and maritime research strategy, or maritime governance.

18. The 2002 reform of the Common Fisheries Policy (CFP) included a "Community's Action Plan for the eradication of illegal unreported and unregulated (IUU) fishing". In October 2007 the Commission issued a Communication on "A new strategy for the Community to prevent, deter and eliminate IUU fishing" while at the same time tabling a proposal for a Council Regulation establishing a "Community system to prevent, deter and eliminate IUU fishing". Council adopted the proposed regime in September 2008. The new regime puts in place a system intended to halt the import of fisheries products stemming from IUU fishing activities into the Community market and improves the monitoring of landings in Community ports and of transshipments. The action by the Community, in line with the FAO's international plan of action to fight IUU fishing, is targeted primarily at activities falling under the definition of IUU fishing and causing serious damage to the marine environment, the sustainability of fish stocks and the socio-economic situation of fishermen abiding by the rules on conservation and management of fisheries resources.

(3) ECONOMIC PERFORMANCE AND CHALLENGES AHEAD

19. In 2007, the first part of the reference period for this review, the EC economy continued the strong upturn of the previous year. Real output growth in EC-27 reached 2.9% in 2007. It was driven primarily by strong private investment and favourable global demand conditions. A great majority of countries that joined the EU in the most recent enlargement (2004/07), performed well beyond the average, achieving growth rates of 6% or more. This is consistent with their 'catching-up' process in terms of GDP per capita. Between 2006 and 2007 overall unemployment was brought down by more than a percentage point from 8.2% to 7.1%, even if the range between the lowest and the highest recorded unemployment rate in individual Member States remained wide.

20. EC-27 external merchandise trade (excluding intra-EC trade) grew both in 2006 and 2007, by 15.3% and 6% respectively. It reached a value of €2,642 trillion in 2007 which represented 17.2% of the total world trade in goods, keeping the EC firmly in the position of the largest global merchandise trader. The EC continued to run a trade deficit of about €153 billion in 2007.

21. In 2007, the US remained by far the largest market for EC merchandise exports, absorbing about 21% of the total. In comparison, Switzerland and Russia, which came second and third respectively among the major European export destinations, took much smaller shares of between

7-8% each. However, on the import side, China in 2007 already overtook the United States as the main source of goods imports into the EC. It accounted for over 16% of all goods imported into the EC, while a little less than 13 % of imported merchandise came from the United States, Russia (just over 10%), followed by Japan and Switzerland (both approximately 5.5%) completed the list of top five EC's import partners in 2007 which together were the source of as much as half of all its goods imports. China's importance as a destination for EC goods exports also rose further, as reflected in its 5.8% share.

22. Developing countries as a group increased their share in EC imports to 50% in 2007, entirely dominating imports in the textiles (more than three quarters of the total) and agricultural sector (about two thirds). The EC has continued to import more agricultural goods from developing countries than all other WTO Members combined.

23. Its 27% share of the global trade in commercial services in 2007 illustrates that the EC continues to hold a solid lead position in the global services market. EC services trade performed strongly in 2006-07, amounting to €10.6 and €97.6 billion respectively, representing an increase of 10.7%. Exports were increasing faster than imports resulting in a surplus of €2.9 billion in 2007. EC services trade remained more concentrated towards other industrialised economies. The United States was the main partner on both the supplying and the receiving side, followed by EFTA countries, Japan, China, Russia, and Canada.

24. According to the latest available data, the EC is the world's biggest investor and the principal host. FDI flows, both from and into the EC, were up significantly in 2006-07, from €443.9 to €739.1 billion, representing an increase by 66.5%. Excluding intra-EC flows, the EC accounted for 43.7% of global FDI outflows and was the recipient of 32.4% of the global inward FDI in 2007. The main destinations of EC FDI outflows were the United States (€12.6 billion), Canada (€8.3 billion) and Switzerland (€4 billion), followed by Russia, India, and Brazil. On the other hand, EC FDI inflows originated from the United States (€144.5 billion), Switzerland (€28.6 billion) and Japan (€17.8 billion) followed by India, Canada and Brazil. EC's higher ratios of inward and outward FDI to GDP than most other developed countries are an indication of its comparatively greater openness to foreign investment and its willingness to invest abroad.

Outlook following the escalation of the financial crisis

25. In 2008, the economic picture in the EC, as in the rest of the world, deteriorated significantly. In the first half of the year soaring energy prices were a main factor behind the weakening growth. However, since the autumn of 2008, it has been the escalating financial crisis that has been taking the major toll on the economy. As the financial turmoil hit hard European banking institutions, the financing conditions for firms and households tightened considerably. This, coupled with pronounced housing market corrections in several Member States and in the context of a general loss of confidence, weakened domestic demand at the same time when external demand started to fade rapidly. Private investment has been faced with a particularly sharp slowdown. As a result, the EC economy contracted by 0.2% in the third quarter of 2008 and ended the year in technical recession. In November 2008, the Commission forecast for GDP growth in 2008 was cut to 1.4% (0.6 percentage points lower compared with the spring forecast). For 2009, it forecasted a standstill for the EC economies, after a contraction during the winter. Unemployment rate is expected to increase over 2009-10 by about one percentage point to 7.8%. On the positive side, inflation should have peaked in 2008 and is expected to fall below 2.5% in 2009. A recovery of the economic activity is still expected to gather pace in 2010, with the Commission forecast pointing to a growth rate of 1.1 %.

26. As regards trade, the data available for the first three quarters of 2008 show a deterioration in the EC trade balance due to the acceleration of import growth as energy prices escalated in the first semester. Export growth held up well but started to weaken in the third quarter, partly due to the strength of the Euro. According to the Commission's November 2008 forecast, import growth in 2009 will slow down sharply to 0.9% due to the pronounced strong fall in energy and commodity prices and the weak domestic demand. Exports are also set to slow down but by a lesser extent (1.5%). While the increase of net exports would contribute to stabilizing GDP rates, an overall growth in trade flows - both imports and exports - will be important for the EC in order to reactivate its economy. The looming economic downturn we are currently experiencing makes the case for further market opening which can create new economic opportunities and contribute to output creation. Expansion of trade is an essential instrument in overcoming economic stagnation making it imperative to keep global markets open and avoid attempts to resort to protectionism.

EC response to tackle the financial turmoil and the economic slowdown

27. The EU reacted to the financial turmoil in a rapid and concerted manner, involving all levels from national governments to the European Central Bank (ECB) and the Commission, in order to stabilize the financial system as well as to put in place more long-term measures that address the shortcomings in financial regulation exposed by the crisis. In mid October 2008, European leaders at an emergency Summit in Paris agreed on a detailed program of action to be taken by Member States to restore liquidity, recapitalize the banking system (including through government's acquisition of shares in banks where appropriate) and protect savers' deposits. A key element of the package was a set of common principles to underpin all national action which aim to ensure not only that it is effective and mutually reinforcing but also that government interventions are consistent with the EC legal framework, and do not distort competition or produce undesirable impacts for other countries (including a temporary framework for state aid tackling the effects of the credit squeeze on the real economy). In turn, the ECB injected large amount of liquidity into the system as well as cutting interest rates while the Commission put forward proposals for revised rules for the financial sector, on issues such as capital requirements, deposit guarantee schemes, accounting and regulation of credit rating agencies. Subsequently, the EC moved on the broader economic front to formulate an equally well coordinated and comprehensive policy package to put the real economy on the path of sustainable recovery. Based on a proposal by the Commission, the European Council on 12 December 2008 gave its approval to an economic recovery plan that combines short-term measures, including a targeted and temporary fiscal stimulus, to boost demand and help restore confidence with supply-side investment to yield higher growth in the long term. The package amounts to a total of €200 billion, equivalent to 1.5% of the European GDP.

28. In addition to its own decisive response and given the global character of the crisis, the EC has consistently called for and provided leadership for concerted global action to reform the international financial system, strengthen the international crisis management capacity, and address the global current account imbalances as well as to stimulate effectively the global economy in the short term. The crisis has opened a window of opportunity to restructure the global governance system, including the Bretton Woods institutions, so that they reflect the geopolitical realities of the 21st century. Last but not least, recourse to protectionism must be avoided. The right response to the current bleak economic outlook is to create new opportunities for trade. In the EC's views, the crisis we are experiencing only makes stronger the case for keeping markets open and more specifically, for a rapid and balanced agreement on the DDA.

III. KEY DEVELOPMENTS IN THE EC'S TRADE POLICY (2007-08)

(1) INTRODUCTION

29. The Communication "Global Europe: competing in the world" adopted by the Commission in October 2006 marked the launch of the EC Global Europe strategy as an important step forward in the European trade policy. It argued that trade policy can make a key contribution to jobs and growth in Europe by ensuring that its economy remains open and competitive in international trade.

30. This agenda has already translated itself into concrete initiatives in virtually all areas of trade policy: the EC remains fully committed to WTO, including through active participation in DDA negotiations; free trade agreements negotiations are on-going with South Korea, ASEAN countries, and India; the market access strategy has been reviewed based on a new partnership with Member States and industry; an in-depth exercise has been launched with the United States to tackle transatlantic obstacles to trade and investment; a vision for the EC relationship with China has been set out, and as a result a new partnership and cooperation agreement is being negotiated and a High Level Trade Mechanism is in place; a list of priority countries for intellectual property rights (IPR) enforcement has been published and new IPR dialogues have been set up with these countries; the negotiation of the Anti-Counterfeit Trade Agreement, in which the EC intends to play a key role, will set a new international standard for IPR enforcement; finally, a comprehensive review of the single market has been proposed to widen its regulatory reach outside the borders of the EC and ensure European citizens share the benefits of globalization through better standards, lower prices and greater choice. At the same time, in parallel with this competitiveness-based "Global Europe" approach to trade policy, the EC has continued to use trade policy as an active tool to support development in partner countries and to promote coherence and mutual supportiveness between trade policy and other areas of EU policy.

(2) WTO

31. Considering our position as the world's largest exporter, the second largest importer of goods, the first trading power in services and the major source and host of world direct investments, the EU has a significant interest and also responsibility in maintaining and strengthening a set of transparent and balanced rules for global trade. These considerations are at the heart of the EC's commitment to the WTO and the current negotiations on the Doha Development Agenda and the EC has therefore continued to support the WTO as its primary trade policy vehicle since the last TPR in 2007. An improved set of multilateral rules and tariff reduction commitments should boost stability and business confidence and act as a deterrent against protectionism - a contribution that is only more significant in the current context of a global financial and economic crisis.

32. This commitment to multilateralism was clearly demonstrated in our negotiation activity since the last report. Since the suspension of talks in 2006, the EC has repeatedly underlined the benefits of a new agreement. A failure to conclude the Doha Round would be significantly detrimental to the current global economic uncertainty and could challenge the credibility of the multilateral trading system. The EC has therefore remained flexible to ensure an agreement is reached. The EC has played a constructive and proactive role in all areas of negotiation. Though the EC does have some remaining areas of difficulty, we accept current negotiating texts as the future frame for moving negotiations forward.

33. The EC has actively contributed to progress in Non-Agricultural Market Access (NAMA) negotiations. The EC seeks meaningful liberalization across all non-agricultural products, with particular focus on those sectors where high tariffs and non-tariff barriers prevail. Liberalization in

non-agricultural products is key for the development dimension of the round since the large majority of exports from developing countries are manufactured products. An ambitious outcome in NAMA is beneficial also for South-South trade, as 70% of the duties paid in this sector by developing countries (DCs) are paid to other DCs. The EC considers that WTO Members should contribute to this initiative in accordance with their capacity: the most substantial contribution should be made by developed countries, but the more advanced emerging economies among the developing countries should also make a meaningful contribution, given both their increasingly important role in the world trading system and the importance of improved access to their markets for the development of South-South trade to the benefit of other developing countries. Other developing countries should be able to benefit from appropriate flexibility in response to their particular development needs and challenges. The EC considers a good formula vital, and as a complement it supports sectoral liberalization. In 2002, the EC tabled a proposal on tariff reductions for all WTO members on textiles, clothing, and footwear, and has more recently sponsored sectoral initiatives for chemicals, machinery and, gems and jewellery. With regard to non-tariff barriers, a clear priority for the EC, a whole series of proposals for the elimination of export taxes, as well as for the elimination of non-tariff barriers for electric and electronic products, textiles, clothing and footwear have been tabled. The EC has been very successful with its proposal for a horizontal mechanism to redress non-tariff barriers without escalating to a dispute settlement procedure, so much so that today over 100 WTO Members – mainly DCs – support it.

34. The EC pursues a gradual liberalization of the global trade in services, as liberalization of trade in services makes a very important contribution to economic performance, long term investment and development. At the multilateral negotiations, the EC seeks the consolidation of existing liberalization as well as new market access for services providers. The EC's approach is respectful of national public policy priorities such as public services or cultural diversity and takes into account developing and least developed members' priorities. Services liberalization is essential to ensuring an overall balance with the two other central negotiating areas (Agriculture and NAMA). Since the last EC TPR, the EC has been heavily involved in the negotiations and has continued to push for meaningful progress in this key economic sector. The EC was a driving force behind the 'signalling conference' held in Geneva in July 2008 in the framework of the DDA negotiations.

35. The EC has played a leading role in the agricultural negotiations with the firm belief that further liberalization of trade in agricultural products is an important contribution to sustainable growth of the global economy. The EC's negotiating position in the Doha Round is based on the reformed Common Agricultural Policy. Conditional on meaningful offers by our negotiating partners and a balanced outcome in all areas of the negotiations, the EC has in particular shown its willingness to make substantial cuts in its agricultural tariffs based on a banded system for tariff cuts that will cut highest tariffs the most, to reduce trade distorting subsidies by 70 % and possibly more, and to eliminate export refunds by the end of 2013 in tandem with the parallel elimination of other forms of export subsidies and establishment of disciplines on all export measures with equivalent effect. Furthermore, the EC seeks to facilitate the protection of geographical indications through the establishment of a meaningful multilateral register and the extension of additional protection of geographical indications for wines and spirits to geographical indications for all products. The EC in the course of 2008 also worked hard with the MFN banana exporting countries with the aim of concluding a comprehensive agreement on bananas, thus putting an end to this long standing area of dispute. Discussions drew upon the "good offices" process conducted by Director General Lamy in 2008 . Regrettably, it was not possible to conclude an Agreement in the context of the Ministerial negotiations in July 2008, but the EC remains committed to finding a lasting solution, acceptable to all interested parties, as soon as possible.

36. The EC has also participated regularly in negotiations on Trade Facilitation and would hope to find an agreeable solution that provides enhanced technical assistance and capacity-building in this area and has been active in suggesting solutions acceptable to developing countries on the rules governing the aid. The EC will be working to update the rule-book that standardizes on a uniformly high level customs and border agency rules and practice relating to GATT Articles V, VIII and X for all WTO members. This streamlining may offer some of the biggest gains from the Doha Round, as it can dramatically reduce the cost of trading across borders.

37. The EC's approach to the DDA has been to complement further market opening with stronger rules and disciplines. The EC has been an active participant in the Negotiating Group on Rules. The EC favours amendments of the Anti-Dumping Agreement so as to clarify existing rules and prevent protectionist abuse. Equally, the EC seeks to strengthen current rules of the Agreement on Subsidies and Countervailing Duties and disciplines on fisheries subsidies. Furthermore, the EC has continued to support the further clarification of existing rules on regional trade agreements.

38. The EC maintains its strong commitment to environmental protection and the fight against climate change in its trade policy, including through its work in the Committee on Trade and Environment and its Special Session; the EC promotes the liberalization of trade in environmental goods and services and seeks a clarification of the relationship between WTO and Multilateral Environmental Agreements (MEAs).

39. The WTO Ministerial Meeting in Geneva in July 2008 ended without agreement despite progress on several areas including market access commitments. The EC worked intensively at the July ministerial, and contributed to make progress on many of the 20 gateway issues. The EC stepped up efforts to consolidate progress made in July, but unfortunately a final agreement could not be reached in 2008. The EC will continue working tirelessly towards an early resumption of talks.

40. In parallel with its committed participation in the DDA negotiations, the EC has paid full attention and has been engaging actively in all other negotiating and non-negotiating work within the various WTO bodies and committees.

41. In a rapidly changing environment that poses ever new challenges, the importance of full compliance and effective implementation of all WTO rules and agreements, including the plurilateral accords, cannot be overemphasized. In this regard, the EC has been working towards this end at home as well as in the relevant WTO committees. In the recent period, increased efforts have particularly gone into addressing emerging issues in areas such as TBT, SPS, TRIPS, and trade and environment.

42. In the same vein, 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. Where the EC has been the defendant, it has followed up on Dispute Settlement Understanding (DSU) Panel and Appellate Body rulings in a timely fashion, in full awareness of its systemic responsibility as the largest trader in the international system. The EC remains committed to reviewing the procedural rules of the Dispute Settlement Body in the Special Session of the Dispute Settlement Body, seeking clarity on a number of issues such as panel composition, sequencing, post-retaliation, transparency, third party right, *amicus curae* and timeframes.

43. In line with our commitment to move towards universality of WTO membership and with the aim of ensuring that countries join the WTO on balanced terms, the EC has been closely and constructively involved in the on-going WTO accession processes, notably those of its neighbouring countries and countries from the Western Balkans (which are also potential candidates for accession to the EC), but also the accession processes of the LDCs.

(3) CREATING THE RIGHT ENVIRONMENT FOR TRADE

Market Access Strategy

44. The Market Access Strategy is an essential component of the Global Europe Strategy and a significant contribution to the Lisbon Agenda for growth and jobs. It was initially launched in 1996 with the purpose to provide a framework for removing tariff and non tariff barriers to trade in goods, services, intellectual property and investment as well as to supply EC exporters with information on market access conditions in third countries. In April 2007, a renewed Market Access Strategy was adopted and it was implemented as "Market Access Partnership", which is built on a stronger partnership between Commission services, Member States and business to deliver market access. Under this renewed framework, several measures have been taken: establishment of a reinforced Market Access Advisory Committee; setting-up of Working Groups in Brussels and of Market Access Teams in key export markets; continuation of the free on-line Market Access Database, including information on trade barriers and a new Complaint Register for trade barrier reporting; and new communication tools for increasing transparency.

Protecting intellectual property rights

45. Innovation is a vital tool for maintaining competitiveness, growth and employment in the EC. That is why the Commission has identified investing in knowledge and innovation as one of four key priorities in the 2008 to 2010 cycle in the renewed Lisbon strategy. A strong industrial property rights system is a driving force for innovation, stimulating R&D investment and facilitating the transfer of knowledge from the laboratory to the marketplace. In this regard, on 16 July 2008 the Commission adopted a Communication on an industrial property strategy for Europe. The Communication provides a horizontal strategy across the field of different industrial property rights and includes initiatives on enforcement, innovation support for small and medium-sized enterprises, and the quality of industrial property rights. It proposes two main courses of action: firstly, helping SMEs to better exploit their property rights, and secondly, better protecting rights by stepping up the fight against counterfeiting and piracy. It complements the 2007 Communication on the patent system, which set out a way forward towards the adoption of a Community patent and an integrated EU-wide jurisdiction for patents. These Communications were supported by a Council Resolution of 25 September 2008 on a comprehensive EU anti-counterfeiting and anti-piracy plan, which requests the Commission to take actions.

46. As regards the enforcement of intellectual property rights, the strategy and the actions aim to: i) implement customs initiatives to combat counterfeiting and piracy at the borders and outside the EC; ii) increase awareness and strengthen cooperation between EC Member States and with stakeholders; iii) improve cross-border enforcement; iv) enforce IPR in third countries, through closer cooperation and regular dialogue; and v) contribute to the creation of the plurilateral anti-counterfeiting trade agreement (ACTA). In this context, a European counterfeiting and piracy observatory is to be set up.

47. The EC actively promotes the implementation of effective standards for IP protection and enforcement world-wide. The EC continues its pursuit of the full implementation of the standards set out by the WTO TRIPs Agreement. In parallel, the EC negotiates and implements bilateral agreements with partner countries, which include substantial IP provisions. The EC also provides technical cooperation to a significant number of developing countries in this field. In line with the above-mentioned new strategy, the EC is currently negotiating a proposed anti-counterfeiting trade agreement (ACTA). This agreement aims to provide a high-level international framework that improves the enforcement of IPR. This goal is pursued through three primary components of ACTA:

(i) international co-operation; (ii) enforcement practices; and (iii) legal framework. The three components represent EC's belief that cooperation amongst our trading partners is a key element in combating the proliferation of IPR infringements such as counterfeiting and piracy as is the establishment of enforcement laws and practices that promote strong intellectual property protection.

Trade in energy and raw materials

48. Securing reliable and undistorted access to raw materials is increasingly becoming an important factor for the EC's competitiveness and hence, crucial to the success of the Lisbon Partnership for growth and jobs. As enshrined in Global Europe, the goal of the EC's trade policy is an open global market completely free of all distortions on trade in energy and raw materials. To this end, the Commission proposed the launch of the European Raw Materials Initiative in November 2008. This initiative aims at setting up an integrated raw materials strategy based on three pillars: (i) ensure access to raw materials from international markets under the same conditions as any other country; (ii) set the right framework conditions within the EC in order to foster sustainable supply of raw materials from European sources; and (iii) boost overall resource efficiency and promote recycling to reduce the EC's consumption of primary raw materials and decrease the relative import dependence.

(4) SECTORAL POLICIES

Agriculture

49. The 2003/04 reforms marked a new phase in the European agricultural sector, introducing decoupled direct payments via the Single Payment Scheme and strengthening the Rural Development policy. Under the Single Payment Scheme aid is no longer linked to production (decoupling); farmers receive the same amount of aid regardless of what they produce; as a consequence, production is adjusted to suit market demand. The Single Payment Scheme is designed to guarantee stable incomes for farmers. In addition to the Single Payment Scheme, farmers may still receive aid under other specific support schemes (direct payments) linked to the area under crops or to production, depending on whether the Member State concerned decided to implement such schemes. These other aid schemes have only a minor impact on EC agricultural expenditure. In general, to receive direct payments, farmers must meet certain standards concerning public, animal and plant health, as well as the environment and animal welfare. Where farmers fail to meet those standards, direct payments are reduced or even withdrawn completely for the year concerned. Finally, farmers may receive support within the framework of the 'rural development policy' which supports protection of the environment and rural landscapes; it aims at enhancing growth, jobs and innovation in rural areas. The EC's rural development policy is about meeting challenges facing rural areas, and unlocking their potential by maintaining the countryside and offering the people who live and work there with sound economic and social environment.

50. The CAP reform process continued further with reforms in the sugar (2006), fruits and vegetables (2007), cotton (2006 and 2008), and in the wine sectors (2008). All these changes reinforce the market orientation of the Common Agricultural Policy and increase the global competitiveness of EC agriculture. The EC is among the top agricultural exporters in the world, exporting mainly high value products. It is also the world's biggest agricultural importer, remaining by far the largest market for developing countries.

51. On 20 November 2007 the Commission adopted the Communication "Preparing the Health Check of the CAP reform". The aim of the 'Health-Check' was not to launch a new major reform, but to assess the implementation of the 2003 CAP reform, and to introduce those adjustments to the

reform process that were deemed necessary in order to further simplify and modernize the policy. In May 2008, the Commission proposed a series of regulations, which formed the basis for a compromise agreed by the EU Council of Ministers (Agriculture) on 20 November 2008. Among a range of measures, the Health Check, as agreed by the EC Agriculture Ministers, abolishes arable set-aside, gradually increases milk quotas ensuring that they are not extended beyond 2015, and converts market intervention into a genuine safety net. With the exception of some animal premia, the remaining coupled payments of earlier reforms will be decoupled and also included in the Single Payment Scheme. Furthermore, Member States agreed to reduce the direct payments to farmers and to transfer the money saved this way to the Rural Development Fund. These changes will allow an even better response to the new challenges and opportunities, including climate change, the need for better water management, the protection of biodiversity, and the production of green energy.

Manufacturing

52. The manufacturing sector is an integral part of the EC economy and an engine for its growth. In 2005, it generated €6,323 billion in turnover, of which 15% were exports, and it employed 34.6 million people. Specific policies in this sector focus on creating better framework conditions for manufacturing industries in the EC so that they attract investment and job creation, and ensure that business can compete openly and fairly. In respect of EC strict competition policy, measures involving state-aid would only be approved if consistent with the requirements of a level-playing field where competitive companies succeed.

53. In parallel with efforts on the external front to open up international markets, the current priority areas of the EC enterprise and industrial policy on the internal front include: promoting entrepreneurship, for example through better access to funding and support networks; flexible regulatory framework that facilitates access to the single market; simplification of the regulatory and administrative environment; promoting competitive performance by encouraging businesses to adapt to structural change and maintaining a high and consistent level of productivity growth; promoting innovation; and improving skills. Increasing attention also goes into fostering consistency with energy and environmental policies.

54. EC tariffs for industrial products are among the lowest in the world. The EC average level of customs duty protection amounts to around 3.9% on industrial goods, 2.4% in trade-weighted terms (taking into account MFN rates).¹ However, the effective average industrial tariff is much lower because imports from many of the EC's suppliers of industrial products enter the EC preferential rates under the terms of bilateral agreements, the Generalised System of Preference (GSP) or tariff suspension regimes. Furthermore, low non-tariff barriers also contribute significantly to making the EC economy one of the most open to trade.

Services

55. Services are the largest economic sector in the EC, accounting overall for close to 70% of its GDP and for a similar – and rising – proportion of employment. The EC Treaty establishes the central principles governing the internal market for services: the freedom for EC companies to establish themselves in other Member States, and the freedom to provide services on the territory of another Member State other than the one in which they are established. In so far as the market integration for services is still less than complete within the EC, significant efforts have been underway to remove the remaining regulatory and administrative obstacles to trade in services between Member States within the framework provided by the Directive on Services in the Internal Market (the "Services Directive" No. 2006/123/EC) adopted in December 2006 and other sector-specific legislation and

¹ World Tariff Profiles 2008, WTO (2008).

initiatives. Since the last TPR of the EC, notable progress has been achieved particularly in the financial services, telecommunications and postal services.

56. The EC holds firmly the position of the world's leading exporter and importer of commercial services. In 2007, it accounted for over a quarter of global services exports as well as imports. The latter reflects the degree of openness of its trade regime in services. The EC and its Member States have undertaken major scheduled commitments under the GATS in practically all major service categories. The EC and its Member States have also entered into commitments on the protocols for the telecommunication and financial services sectors. MFN exemptions are maintained in compliance with Article II.

57. In recent years, further trade openness in services beyond the multilateral commitments made in the WTO has been provided through bilateral negotiations with different countries and regions. These have been based on a platform that combines trade in services and establishment in both services and non-services sectors under one set of provisions and often some provisions on further liberalization in the telecommunications, financial services or postal and courier services, which enable trade liberalization while preserving each partner's right to regulate its market.

(5) BILATERAL AND REGIONAL TRADE RELATIONS

58. In parallel to its firm commitment to the multilateral system, the EC has pursued ambitious complementary trade liberalization at both regional and bilateral levels. EC has consistently defined its own RTAs in ways that ensure they complement the multilateral trading system, and that make them a stepping stone rather than a stumbling block for further multilateral trade opening. In accordance with its Global Europe strategy, the EC has decided to aim at a new generation of WTO-compatible FTAs that extend beyond present agreements and build towards future multilateral negotiations. The Global Europe Communication made the case for launching new competitiveness-driven, comprehensive FTAs pursuing far-reaching trade liberalization. The EC thus seeks FTAs which are WTO compatible, comprehensive in scope and deep in terms of level of commitment, in both goods and services. Particular emphasis is placed on tackling regulatory and non-tariff obstacles to trade. FTAs also address areas such as intellectual property rights, investment and government procurement. They are, moreover, designed to promote sustainable development, and therefore include high environmental and labour standards. Apart from trade agreements that fall under the Global Europe Strategy, bilateral and regional agreements with less developed countries and regions seek to respond to their development needs, to support their sustainable development and their integration into the global trading system.

Regional trade agreements

59. Negotiations on RTAs between the EC and the Republic of Korea and members of ASEAN were launched in May 2007. Negotiations with India were launched in June 2007. Several rounds of negotiations have taken place, aiming to conclude fully-fledged FTAs, covering trade in goods and services, rules, as well as legal and institutional issues. Negotiations on EC- Korea have made substantial headway and may conclude in the upcoming months. Meanwhile, EC-India and EC-ASEAN negotiations continue to make progress but at a slower pace.

60. The EC launched negotiations for a region-to-region Association Agreement with the Andean Community (CAN) and with Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) in 2007. These agreements comprise of three components: political dialogue, cooperation and trade. They aim to reinforce the political and economic stability of each region, foster sustainable development, enhance regional integration and establish an ambitious,

WTO-compatible free trade area. Negotiations with the CAN were opened in June 2007, but were interrupted after three rounds in June 2008 due to apparent divergences among the CAN members on certain trade issues. In turn, negotiations with Central American countries continue making progress with a view to concluding negotiations in 2009. Negotiations for an EC-Mercosur Association Agreement are currently at a standstill, pending the satisfactory conclusion of the DDA negotiations.

61. The EC and the African, Caribbean and Pacific countries (ACP) have been working together in order to put in place Economic Partnership Agreements (EPAs). These development friendly agreements create a new WTO-compatible basis for EC-ACP trade relations, following the expiration of the Cotonou trade preferences and their waiver in December 2007. EPAs aim at progressively removing barriers to trade and enhancing cooperation in all areas related to trade, in support of development and poverty eradication in the ACP countries. They are intended to provide a transparent and predictable framework for trade in goods and services to facilitate regional trade as well as enhanced investment flows. Accompanying trade-related assistance will help to mitigate adjustment costs and strengthen the competitiveness of the ACP. Since fostering regional integration is at the heart of the ACP's own development strategy, the EC has been negotiating region-to-region agreements. By December 2007, negotiations were concluded on a comprehensive EPA with the Caribbean region as well as on a number of interim agreements covering trade in goods with other ACP regions and countries. The CARIFORUM-EC EPA was signed on 15 October 2008 and it represents a milestone as regards North-South trade and development agreements covering services, investment and trade-related rules. Negotiations towards full EPAs with the other regions are on-going.

62. Trade relations between the EC and the neighbouring Mediterranean countries are governed by the Euro-Mediterranean Partnership. The objective of a fully fledged Euro-Mediterranean regional FTA by 2010 remains the key trade component of the Euro-Mediterranean economic relations. The EC has concluded Association Agreements with every Mediterranean country involved in the Euro-Mediterranean Partnership, except for Syria, with whom the Agreement is expected to be concluded in 2009. Since the last EC TPR, there have been on-going negotiations in the fields of services and establishment, agriculture and dispute settlement. The Seventh Euromed Trade Ministerial conference in July 2008 gave new impetus to further strengthening trade and investment relations up to and beyond 2010. The EC launched negotiations for a Framework Agreement with Libya on 13 November 2008. This agreement represents a milestone in EC-Libya relations. It includes negotiations for an FTA covering trade in goods, trade in services and establishment, as well as regulatory cooperation. The EC continues to negotiate a comprehensive FTA with the States of the Gulf Cooperation Council, on a regional basis. Significant progress has been made on a good number of chapters, pending the final resolution of some outstanding issues.

63. Turkey is linked to the EC through a customs union since 1995 and it is a candidate country since 1999. Turkey also participates in the Euro-Mediterranean Partnership. The EC's relations with the Western Balkans are governed by the Stabilisation and Association Process. There are two Stabilisation and Association Agreements (SAA) in force, with the former Yugoslav Republic of Macedonia and Croatia. SAAs were signed as well with Albania, Montenegro, Serbia, and Bosnia and Herzegovina. As part of the broader SAA, FTAs have entered into force with Albania, Montenegro, and Bosnia and Herzegovina, which place particular focus on liberalizing trade in goods, aligning rules with EC practice and protecting intellectual property.

64. Russia is one of the EC's key trading partners, trade relations with which have been governed by a Partnership and Cooperation Agreement since 1997. Negotiations for a new Agreement were launched at the EU-Russia summit in June 2008 and the first round of negotiations took place in July 2008. This agreement envisages strengthening and deepening trade and economic relations, as

soon as Russia becomes a WTO Member. To this end, the EC continues to strongly support Russia in its accession process. On 18 February 2008, the EC launched FTA negotiations with Ukraine. This FTA will form part of the New Enhanced Agreement which aims for closer economic and political cooperation between both neighbouring economies. The EC is linked to Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, and Uzbekistan through Cooperation agreements. Two feasibility studies have been completed on a future free trade agreement with Georgia and with Armenia, and another one has been launched for an FTA with Moldova.

Other important bilateral activity

65. The US remains to be EC's largest trading and investment partner. Both economies continue to strengthen economic ties both at the WTO and through bilateral channels. At the EC-US Summit on 30 April 2007, the Framework for Advancing Transatlantic Economic Integration between the United States and the EC was signed. This framework included the establishment of the Transatlantic Economic Council (TEC) which oversees, guides and accelerates the implementation of work designed to closer integrate the EC and the United States economies and identify key areas for further convergence. This initiative has offered a useful platform for regular cooperation in a number of areas, namely barriers to investment, innovation and technological development, intellectual property and other regulatory issues. EC-Canada relations have gone through a particularly intensive phase over 2007 and 2008, notably with regard to the collaborative work, now completed, on a joint study assessing the impact of a closer economic partnership. In October 2008, it was agreed to undertake a review of the form and content of a possible new bilateral economic agreement. In parallel, substantial progress has been made on an ambitious EC-Canada air transport agreement, designed to produce significant economic growth and create new jobs by expanding investment opportunities in the sector and reinforcing regulatory cooperation. The new agreement was initialled in November 2008.

66. China continues to be the second largest trading partner for the EC. In line with the objectives set out in Global Europe, negotiations on a comprehensive Partnership and Cooperation Agreement (PCA) started in January 2007. The High Level Economic and Trade Dialogue Mechanism was launched in April 2008 with a view to strengthening dialogue between the European Commission and the State Council of China. This mechanism aims at addressing issues of mutual concern, especially in the areas of investment, market access and intellectual property rights protection, and other strategic issues related to trade. Japan is a strategic partner of the EC. Bilateral meetings are based on the 2001 Action Plan, which sets out four main objectives for cooperation, including fostering trade. Furthermore, the EC and Japan actively participate in each others' reform processes through the Regulatory Reform Dialogue.

Autonomous preferences

67. As described above, 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 agreement with the EC, the EC's Generalised System of Preferences (GSP) offers generous access to 176 developing countries and territories to the EC's market on an autonomous basis. A new Regulation was adopted on 22 July 2008, extending the GSP scheme for the period from 1 January 2009 to 31 December 2011.

(6) SUSTAINABILITY AND DEVELOPMENT

(i) Trade and sustainable development

68. In the EC, mainstreaming sustainability with its social and environmental dimension in all relevant policies is a basic requirement set out in the Treaty, guided since 2006 by the renewed EU Sustainable Development Strategy. Given the wide ranging effects that trade policies and agreements

can have on the economy, employment, social cohesion, and environment, the EC is concerned with ensuring that all its trade measures are supportive of sustainable development both at home and in our partner countries.

69. One basic tool to ensure coherence between trade liberalization and sustainable development developed by the EC, are the trade Sustainability Impact Assessments (SIAs). These studies, carried out by independent contractors once trade negotiations are already on-going, assess the potential economic, social and environmental impacts of trade agreements in the EC as well as its negotiating partners. They use a broad set of indicators and involve wide consultation of stakeholders, such as private sector associations, trade unions, NGOs and civil society at large. Their purpose is to inform policy makers on the optimal form of trade opening to be undertaken, as well as on possible accompanying measures to help maximise the positive effects and/or mitigate any negative consequences of the future agreements. The SIAs are thus not intended to question the desirability of trade liberalization per se, but rather to enable that it is done in a sustainable way. The EC currently applies SIAs to all major multilateral, regional or bilateral trade negotiations. Over the period 2007-08 the budget for the SIA programme amounted to more than €1.5 million.

70. The EC grants additional autonomous trade preferences under the GSP+ arrangement as an incentive to vulnerable developing countries to ratify and effectively implement internationally agreed standards on sustainable development and good governance. Building on this, the EC has included provisions and commitments on implementing social and environmental standards and creating mechanisms for wider stakeholder involvement in its contractual bilateral agreements, be they PCAs, FTAs or EPAs and irrespective of whether the partners are developed countries or not. In parallel, the EC continues to be devoted to multilateral action to ensure that trade rules are supportive of sustainable development. The EC's interest in multilateral solutions in this regard has been demonstrated, *inter alia*, in its ambitious stance in the DDA negotiations on Trade and Environment and on the social sustainability side in its support for appropriate special and differential treatment for developing countries across the key negotiating areas of the DDA as well as its calls for increased cooperation between the WTO and the ILO.

71. Over the last years, climate change has emerged as the single most important sustainable development challenge facing policy makers, requiring also a careful consideration of the interaction between climate and trade policies with a view to ensuring that they reinforce each other. The EC has been in the frontline in the fight against climate change both at the domestic level as well as on the international stage. Domestically, the EC has developed a robust policy with some of the most aggressive carbon emissions reduction targets underpinned by a strengthened Emissions Trading System (EU ETS). In parallel, on an international level, the EC is a leading player in the climate change negotiations under the United Nations Framework Convention on Climate Change (UNFCCC) to agree on a new post-Kyoto climate regime.

72. There is a high awareness within the EC on the need to safeguard and support such direct efforts to mitigate and adapt to climate change with complementary trade policies. At the global level, the most important contribution of trade policy could be the liberalization of trade in environmental goods and services, which is why the EC has been particularly persistent in seeking a concrete and substantive result under this part of the DDA negotiations. While prioritizing the multilateral path, the EC has also been pursuing early liberalization of environmental goods and services in its FTAs under negotiation. Further trade policy tools that may be significant with regard to climate change objectives and which the EC is examining closely include certification of natural resource based products and voluntary/private labeling.

(ii) Trade and development

73. The EC has continued to be guided by the 2005 European Consensus on Development and to pay great attention to integrating development concerns in its trade policy at the multilateral and regional/bilateral level as well as in our autonomous trade initiatives. The EC and its Member States are actively engaged in the provision of Aid for Trade. In international discussions as well as through its own practice of trade agreements and development cooperation, the EC has also been a leading advocate of the importance of making trade a central tenant of development strategies, and of enhancing coherence between trade and other policies for sustainable development.

74. At the multilateral level, in the context of the DDA, the EC has continued to engage constructively with developing countries to reach suitable solutions to their particular realities and needs, and consistent with the principle of differentiation. EC proposals across all negotiating areas have consistently considered the development aspect and often include explicit provisions for special and differential treatment. Beyond the DDA and the WTO, the EC has participated actively in discussions on trade and development in other international fora such as the United Nations and UNCTAD.

75. In its bilateral relations, the EC has consistently taken due consideration of development aspects. EU seeks to respond to the needs of developing countries, to support their sustainable development and their integration into the global trading system. 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 this context, the EC continues to be fully committed to put trade at the service of development. The EPAs are a case in point. Making trade work for development means weighing the needs of every developing economy carefully, and tailoring policies that reflect different vulnerabilities - and different actual and potential strengths. Progressive market opening and stronger multilateral rules can support development and also stimulate domestic reform process, including diversification and creation of new trade opportunities.

76. The EC's GSP scheme has continued to be the most comprehensive in scope of all developed-countries autonomous preference regimes, covering 6,400 products originating in 176 developing countries and economies in transition. Beyond the standard GSP, an even more generous "GSP+" arrangement has been available since 2006 to developing countries that qualify as vulnerable, provided that they also ratify and effectively implement internationally agreed standards in the areas of human and labour rights, environment and good governance. Meanwhile, all LDCs have continued to be included in the "Everything but Arms" initiative (EBA), the EC's duty free and quota free (DFQF) market access scheme for LDCs. With the current coverage of the EBA, the EC is already fully implementing the goal of DFQF market access for products from the LDCs established at the Hong Kong Ministerial in December 2005. Rice and sugar imports from LDCs, which are currently still subject to duty-free tariff quotas, will be fully liberalized by October 2009.

77. In 2007, the value of preferential imports under these three GSP tracks continued on an upward trend. The overall worth of imported goods under the scheme totalled €57 billion, which is an increase of 12% over 2006 and represents a nominal duty saving for exporters in beneficiary countries of €2.5 billion. GSP+ beneficiaries saw a rise in their exports to the EC of 10% in 2007 on top of a 15% rise in 2006. GSP+ preferences are also of real economic value to the beneficiary countries: in 2007 there was €4.7 billion worth of trade under this scheme, with a nominal duty loss (compared to standard GSP rates) for the EU of over €357 million.

78. For the 2009-2011 period, a new GSP regulation was adopted on 22 July 2008. While this regulation ensures a continuity of the guiding principles, it introduces a number of technical adjustments, either to simplify the language or to take account of evolutions in relevant trade data over the most recent period. The net effect of these adjustments made in January 2009 represents additional preferences to beneficiaries of an approximate net value of at least €160 million in terms of nominal duty loss to the EC.

79. The EC and its Member States have been among the leading players within the Aid for Trade agenda and moving decisively to put Aid for Trade into practice. Based on the recommendations of the WTO Aid for Trade Task Force, the EC adopted a joint Aid for Trade Strategy in 15 October 2007, through which it intends to honour its pledge on increasing Trade Related Assistance (TRA) made at the Hong Kong WTO Ministerial, as well as achieve broader improvements in both the quality and quantity of its Aid for Trade. The EU has put in place a range of specific activities to implement the Strategy, including as regards active participation in work in WTO and OECD to improve monitoring of global Aid for Trade flows and effectiveness.

80. The European Commission, using Community funds, is the world's largest donor of trade-related assistance, having provided €40 million of such support in 2006. The Member States in this field contributed an additional €640 million. Total EU TRA in 2006 therefore was €1.6 billion. The EU is on track to meeting its Hong Kong pledge to provide €2 billion in such assistance by 2010 (€1 billion each by the Commission and Member States). The EU is also the largest provider world-wide of Aid for Trade, providing €7.3 billion in 2006 (€2.6 billion by the Commission, €4.7 billion by its Member States). Provisional data available at the time of writing of this report indicates that TRA provided by the European Commission was already above €1 billion in 2007 while total Aid for Trade provided by the Commission increased to more than €3.26 billion. It should be stressed that these increases, delivered via existing channels of development cooperation, did not come at the expense of other sectors but rather in the context of a growing overall Official Development Assistance (ODA). In terms of activities financed in the trade area, the EC assisted developing countries across the whole spectrum of trade policy and regulation and trade development categories, while making sure that the distribution of available funds corresponded as close as possible to their own priorities and demands. For instance, a substantial and growing part of TRA was allocated for technical assistance to help beneficiaries meet European technical and phytosanitary standards.

81. On the multilateral side of Aid for Trade, the EC and several Member States have been closely engaged in work on enhancing the Integrated Framework on Trade Related Technical Assistance for the LDCs. With the enhancement process now largely completed, they remain involved as important donors, in some cases as donor facilitators on the ground and by participating in the Enhanced Integrated Framework (EIF) governing body. Furthermore, there is a commitment to using the EIF as a guiding tool for bilateral assistance, in accordance with the joint Aid for Trade Strategy.

82. Finally, the European Commission has also been regularly improving and updating its Export Helpdesk. This is an online, user-friendly service to facilitate market access for developing countries to the EC. The database includes relevant information required by exporters interested in supplying the EC markets, such as, *inter alia*, import requirements, import tariffs, customs documents, rules of origin and trade statistics. It also serves as an interface between importers and exporters. The statistics on the use of this free on-line information service demonstrates its growing importance. From 2004 (the year of its launch) to 2008, the number of daily hits increased from 1,500 to more than 10,000 hits.

IV. LOOKING FORWARD

83. The EC's highest trade priority remains the conclusion of the Doha Round. It is unquestionable that an ambitious, balanced and comprehensive outcome will deliver substantial new trade opportunities for all WTO members. This would be the right response to the global economic crisis which only strengthens the case for keeping markets open for trade and avoiding reversals to a protectionist stance.

84. The EC will continue to play its leadership role in promoting trade liberalization and developing a trading system of benefit to all. In this regard, the EC will continue to participate actively in the work of the WTO, while pursuing regional trade agreements which are catalyst for multilateral liberalization, encouraging sustainable development and supporting the advancement and integration of developing countries in the multilateral scene. This is at the heart of the "Global Europe" policy framework.

85. The EC is determined to continue upholding the multilateral trading system, which is a global public good that will help us lay the framework for long-term economic prosperity and stability. The EC believes that the transparency pillar is of utmost importance for the good functioning of the WTO, while the dispute settlement pillar remains central for ensuring stability to the global trading system.
